



**PEFA**



# Public Expenditure and Financial Accountability (PEFA) Assessment 2017

June 2018

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

**Based on PEFA 2016 Methodology**

**June 29, 2018**



## GEORGIA

### Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

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

PEFA Secretariat

July 6, 2018

## **Currency and Indicative Exchange Rates**

### **Local Currency Unit: Georgian Lari (GEL)**

**1 US\$ = GEL 2.4010**

### **Fiscal Year**

**January 1 – December 31**

#### Preface

This PEFA assessment was conducted in two stages. The Government first undertook a self-assessment. This was followed up by the World Bank with a verification mission. As Georgia has undertaken continuous PFM reforms over the past decade, supported by the EC, GIZ, DFID, the World Bank and IMF, it is now an appropriate time to take stock of overall progress.

The verification assessment team comprised: Patrick Piker Umah Tete (Task leader); Mariam Dolidze (Co-Task leader); Pierre Prosper Messali; Djamshid Iriskulov, Sandro Nozadze and Tamuna Namicheishvili (all World Bank); Guillaume Brule (PEFA Secretariat) and John Short (Consultant).

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# Abbreviations and Acronyms

|                |   |
|----------------|---|
| <b>ASCYUDA</b> | Automated System for Customs Data   |
| <b>BDD</b>     | Basic Data and Directions   |
| <b>BFC</b>     | Budget Finance Committee  |
| <b>BPN</b>     | Business press news   |
| <b>CSO</b>     | Civil Society Organization  |
| <b>COFOG</b>   | Classification of the Functions of Government                                       |
| <b>DAP</b>     | Different Acquisition Procedure   |
| <b>DFID</b>    | Department for International Development (UK)                                       |
| <b>DMFAS</b>   | Debt Management and Financial Analysis System                                       |
| <b>DSA</b>     | Debt Sustainability Analysis  |
| <b>E-</b>      | Electronic-   |
| <b>EC</b>      | European Commission   |
| <b>EDMS</b>    | Electronic Debt Management System   |
| <b>EU</b>      | European Commission   |
| <b>GDP</b>     | Gross Domestic Product  |
| <b>Ge-GP</b>   | Georgia Government Procurement  |
| <b>GEL</b>     | Georgian Lari   |
| <b>GFS</b>     | Government Finance Statistics   |
| <b>GFSM</b>    | Government Finance Statistics Manual  |
| <b>CHU</b>     | Central Harmonization Unit  |
| <b>GIZ</b>     | Gesellschaft für Internationale Zusammenarbeit German Corporation for International |
| <b>GP</b>      | Government Procurement  |
| <b>GRS</b>     | Georgia Revenue Services  |
| <b>IBP</b>     | International Budget Partnership  |
| <b>IFI</b>     | International Financial Institution   |
| <b>IMF</b>     | International Monetary Fund   |
| <b>IPPF</b>    | International Professional Practices Framework                                      |
| <b>IPSAS</b>   | International Public Sector Accounting Standards                                    |
| <b>ISSAI</b>   | International Standards of Supreme Audit Institutions                               |
| <b>IT</b>      | Information Technology  |
| <b>KFW</b>     | Kreditanstalt für Wiederaufbau (German Development Bank)                            |
| <b>MOF</b>     | Ministry of Finance   |
| <b>PEFA</b>    | Public Expenditure and Financial Accountability                                     |
| <b>LEPL</b>    | Legal Entity of Public Law  |
| <b>MEP</b>     | Most Economical Procurement   |
| <b>NA</b>      | Not Applicable  |
| <b>NAT</b>     | No Auction Tender   |
| <b>NBG</b>     | National Bank of Georgia  |
| <b>NGO</b>     | Non-Governmental Organization   |
| <b>N(N)LE</b>  | Non-entrepreneurial (Non-commercial) Legal Entity                                   |
| <b>PBO</b>     | Parliament Budget Office  |
| <b>PFM</b>     | Public Financial Management   |
| <b>PFMIS</b>   | Public Financial Management Information System                                      |
| <b>PPP</b>     | Public–Private partnership  |
| <b>RTGS</b>    | Real time gross settlement system   |
| <b>SAO</b>     | State Audit Office  |
| <b>SPA</b>     | State Property Agency (PI—12)   |
| <b>SPA</b>     | State Procurement Agency (PI-24)  |
| <b>TSA</b>     | Treasury Single Account   |
| <b>WB</b>      | World Bank  |

## Executive summary

1. The purpose of this PEFA assessment is to provide an objective analysis of the present performance of the Public Finance Management (PFM) system in the Republic of Georgia against the PEFA indicators. This assessment provides an update of progress in PFM in Georgia since the last assessment in 2013 and establishes a new baseline using the 2016 PEFA methodology.

2. The assessment covered expenditures by central government, budgetary units and revenues collected by the Georgia Revenue Services. There are no extrabudgetary units and local governments were included in terms of indicator 7 relating to transfers to local government. The verification assessment team was together in Georgia from February 25 to March 3, 2018 (time of fieldwork for the assessment). An inter-agency working group assessed measures implemented in the field of PFM by PEFA performance indicator and prepared the preliminary version of the self-assessment report by November 1, 2016. The financial years covered for indicators that required assessing three years are 2014 to 2016.

3. Overall, the results of the PEFA assessment show that public financial management systems in Georgia are strong and improved as the PFM reform action plan has been implemented. The aggregate expenditure side of the budget performs according to plan. There is an impressive array of information regarding the finances of the budgetary central government. Information is included in the budget on a timely basis. As a result, the budget documents include most of the basic, and much of the supplementary information, required to support a transparent budget process. Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is very good. However, a comprehensive and inclusive process is lacking in managing the public investment program which impacts negatively in the strategic allocation of resources and efficiency. Once the debt management strategy, which is not yet finalized, is approved, there will be a strong focus on managing debt. Good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. There is an effective budget calendar, which provides budgetary units adequate time to prepare their budgets as well as the legislature to carry out its scrutiny function.

4. Fiscal strategy can be improved by preparing estimates of the policy changes on revenue and expenditure. Reporting on fiscal outcomes could be improved by adopting time-based fiscal targets. Revenue administration is strong, but some constraints remain, particularly the stock of arrears. The Georgian Treasury consolidates cash balances in the Treasury single account on a daily basis. A cash flow forecast is prepared annually for the year to come and is updated at least monthly on the basis of actual inflows and outflows. Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases.

5. The payroll and personnel systems are strong. Procurement databases include data on what has been procured, value of procurement, and who has been awarded contracts. However, the appeals process is not wholly independent as 3 members of the appeals board are from State Procurement Agency whose chairman is the same chairman of the dispute review board, with a prevailing vote. Internal controls on nonsalary expenditure have strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. The internal audit function is still strengthening as its coverage does not reach all budgetary units. Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Accounts reconciliation and financial data integrity are areas of strengths. The situation with respect to the annual financial annual reports is mixed. The consolidated financial



reports for central government budgetary units are prepared annually and are comparable with the approved budget. However, the State's consolidated annual financial statements are not submitted for external audit, but those of individual budgetary units are. IPSAS are the disclosed accounting standards applied to all budgetary units' financial reporting. Nevertheless, less than 50% of the total number of IPSAS standards was adopted by fiscal year 2016 and only 9 standards were implemented. During 2017, 16 standards are being implemented out of a total of 40. Continuing the implementation will improve fiscal discipline. External audit is an area of significant strength but legislative scrutiny requires strengthening which would improve the strategic allocation of resources to priority areas.

6. An overriding feature of PFM in Georgia has been the development and good use of information technology (IT) in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. The application of IT has been developed in-country based on business processes in each of the subject areas (redefined as necessary) and not on the reconfiguration of business practices to suit particular software. This adoption of IT solutions combined with the internet as a vehicle for its implementation by competent and trained personnel (with appropriate control) has been fundamental to the development of strengths in PFM. The integration of IT, internet and personnel has resulted in PFM's positive effectiveness and efficiency.

### **Aggregate fiscal discipline**

7. Aggregate fiscal discipline is achieved through control over spending during budget execution, as well as realistic revenue forecasts. Strong revenue administration ensures that revenues are efficiently collected. The planned budget on an aggregate basis is not circumvented by the use of virement and supplementary budgets. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments is effective which has limited expenditure arrears. The strong external audit function enhances fiscal discipline, but only at the individual budgetary units as the consolidated financial statement is not yet audited.

### **Strategic allocation of resources**

8. The Chart of Accounts caters for a multi-dimensional analysis of expenditure. There is a strong link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that are consistent with a strategic allocation of resources. The overall fiscal framework could be improved by analysis and reporting of changes in circumstances relating to fiscal strategy and implications of policy changes. The management of investment can also be improved. These additions would better the strategic allocation of resources.

### **Efficient use of resources for service delivery**

9. The current weaknesses in competitive bidding in the procurement system with respect to the appeals and dispute process could have adverse implications for the efficiency in service delivery. The strengths in the accountability mechanisms make external audits effective as counter checks on inefficient use of resources. However, weaknesses in the production of consolidated annual financial statements limit the impact of audits. These are offset, however, by the strength of the annual budget execution reports which reports on the realization of annual targets for outputs and objectives. Publishing of performance targets and outcomes also assists the efficient use of resources at service delivery units. On the revenue side, operational efficiency is compromised by the accumulation of tax arrears. Lack of effective tax debt collection undermines credibility

of tax assessments and the principle of equal treatment of taxpayers. The continued arrears write-off of uncollectable arrears would afford the opportunity to clean up tax arrears and make them current.

### **Performance changes since previous assessment**

10. While the PEFA assessment has been carried out using the 2016 methodology, it has been possible to score against the 2011 PEFA methodology, which was used in the previous PEFA assessment of the Republic of Georgia in 2013. Across the 28 individual indicators compared, there has been an improvement in 9 indicators, deterioration in 1 and no change in 18 indicators. This overall improvement in scoring has been from a relatively high base achieved in 2013.

11. The comparison of the two PEFA assessments shows that the following indicators have improved:

#### **Fiscal Discipline**

- Composition of expenditure outturn compared to original approved budget (variance in composition);
- Aggregate revenue outturn compared to original approved budget; and
- Oversight of aggregate fiscal risk from other public sector entities (monitoring of public corporations).

#### **Strategic Allocation of Resources**

- Multi-year perspective in fiscal planning, expenditure policy and budgeting (costed sector strategies).

#### **Efficient use of Resources for Service Delivery**

- Effectiveness of payroll controls (payroll audits);
- Effectiveness of internal audit (coverage and quality);
- Timeliness and regularity of accounts reconciliation (bank reconciliation);
- Scope, nature and follow-up of external audit (scope/nature); and
- Legislative scrutiny of external audit reports.

The main area of backsliding is the timeliness of submissions of annual financial statements which impacts on all the key fiscal and budgetary outcomes.

12. These improvements can be attributed to strong management of the PFM reform program which Georgia has undertaken and plans to update on the basis of the new assessment. Since 2007 impressive progress has been made at the Revenue Service; important reforms were implemented at the Treasury Service; and the Treasury single account was extended, which now includes local governments and all public entities. In addition, the web-based Public Financial Management Information System (PFMIS) was launched. The State Audit Office has transformed from the traditional control-inspection function to the new function of modern financial, compliance and performance audit in line with international best practice. The legal and methodological basis for internal audit and control has been established and is being rolled out throughout the Government. Since its establishment, the Academy of the Ministry of Finance has been developed into the key provider of training related to the PFM reforms and initiatives. Ongoing reforms include new approaches in the instruments and practices of parliamentary scrutiny of the PFM system. The importance of independent fiscal institutions and the role of the Budget Office of the parliament are also understood and remain in the

agenda of PFM reform.<sup>1</sup> This assessment of the reform program confirms the breadth and depth of the reforms as well as their holistic and intertwined features. It also reflects the continued nature of the reform agenda, building upon achievements from previous reform activities across the broad spectrum of the PFM agenda. Work has already commenced on improving investment management as a result of the initial draft of this PEFA report.

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<sup>1</sup> As indicated in [Georgia PFM reform cited in bibliography](#)

**Table 1: Overview of the scores of the PEFA indicators**

| Summary Assessment 2017 ratings                                 |   |                |                   |    |    |    |               |
|---|---|----------------|-------------------|----|----|----|---------------|
| PFM Performance Indicator                                       |   | Scoring Method | Dimension Ratings |    |    |    | Overall Score |
|   |   |                | 1.                | 2. | 3. | 4. |               |
| <b>Pillar I: Budget reliability</b>                             |   |                |                   |    |    |    |               |
| PI-1  | Aggregate expenditure outturn                           |                | A                 |    |    |    | A             |
| PI-2  | Expenditure composition outturn                         | M1             | A                 | A  | A  |    | A             |
| PI-3  | Revenue outturn   | M2             | A                 | B  |    |    | B+            |
| <b>Pillar II: Transparency of public finances</b>               |   |                |                   |    |    |    |               |
| PI-4  | Budget classification                                   |                | A                 |    |    |    | A             |
| PI-5  | Budget documentation                                    |                | B                 |    |    |    | B             |
| PI-6  | Central government operations outside financial reports | M2             | A                 | A  | NA |    | A             |
| PI-7  | Transfers to subnational governments                    | M2             | A                 | A  |    |    | A             |
| PI-8  | Performance information for service delivery            | M2             | A                 | A  | A  | A  | A             |
| PI-9  | Public access to fiscal information                     |                | A                 |    |    |    | A             |
| <b>Pillar III: Management of assets and liabilities</b>         |   |                |                   |    |    |    |               |
| PI-10   | Fiscal risk reporting                                   | M2             | B                 | C  | B  |    | B             |
| PI-11   | Public investment management                            | M2             | C                 | C  | C  | C  | C             |
| PI-12   | Public asset management                                 | M2             | B                 | C  | C  |    | C+            |
| PI-13   | Debt management   | M2             | A                 | A  | D  |    | B             |
| <b>Pillar IV: Policy-based fiscal strategy and budgeting</b>    |   |                |                   |    |    |    |               |
| PI-14   | Macroeconomic and fiscal forecasting                    | M2             | A                 | B  | A  |    | A             |
| PI-15   | Fiscal strategy   | M2             | D                 | B  | D  |    | D+            |
| PI-16   | Medium-term perspective in expenditure budgeting        | M2             | A                 | A  | A  | D  | B+            |
| PI-17   | Budget preparation process                              | M2             | A                 | A  | A  |    | A             |
| PI-18   | Legislative scrutiny of budgets                         | M1             | A                 | A  | A  | A  | A             |
| <b>Pillar V: Predictability and control in budget execution</b> |   |                |                   |    |    |    |               |
| PI-19   | Revenue administration                                  | M2             | A                 | A  | A  | D  | B+            |
| PI-20   | Accounting for revenue                                  | M1             | A                 | A  | A  |    | A             |
| PI-21   | Predictability of in-year resource allocation           | M2             | A                 | A  | A  | A  | A             |
| PI-22   | Expenditure arrears                                     | M1             | A                 | C  |    |    | C+            |
| PI-23   | Payroll controls  | M1             | A                 | A  | A  | A  | A             |
| PI-24   | Procurement   | M2             | A                 | A  | A  | D  | B+            |
| PI-25   | Internal controls on nonsalary expenditure              | M2             | A                 | A  | A  |    | A             |
| PI-26   | Internal audit  | M1             | A                 | B  | A  | A  | B+            |
| <b>Pillar VI: Accounting and reporting</b>                      |   |                |                   |    |    |    |               |
| PI-27   | Financial data integrity                                | M2             | A                 | A  | A  | A  | A             |
| PI-28   | In-year budget reports                                  | M1             | A                 | B  | A  |    | B+            |
| PI-29   | Annual financial reports                                | M1             | B                 | D* | C  |    | D+            |
| <b>Pillar VII: External scrutiny and audit</b>                  |   |                |                   |    |    |    |               |
| PI-30   | External audit  | M1             | A                 | A  | B  | A  | B+            |
| PI-31   | Legislative scrutiny of audit reports                   | M2             | C                 | C  | C  | A  | C+            |

# 1. Introduction

## 1.1 Rationale and purpose

13. The purpose of this PEFA assessment is to review the progress of the Public Finance Management (PFM) Reform in Georgia by measuring the results since the previous PEFA assessment of 2013. This assessment facilitates the continued development of the Government's common vision and goals in respect of public finance system reform. This reform program is viewed as a continuous activity by the Government with ongoing monitoring and updating as a result of periodic assessments such as PEFA, TADAT and INTOSAI assessment tools.

## 1.2 Assessment management and quality assurance

### **BOX 1.1: Assessment Management and Quality Assurance Arrangements**

#### **PEFA Assessment Management Organization**

- Oversight Team — Chair & Members: Mercy Miyang Tembon, Country Director, World Bank; and Giorgi Kakauridze, Deputy Minister, Ministry of Finance, Georgia.
- Assessment Manager: Daniel Boyce, Practice Manager, Governance Global Practice, World Bank.
- Assessment Team Leader and Team Members: Mediha Agar, Outgoing Task Leader and Senior Public Sector Specialist, World Bank; Patrick Piker Umah Tete, Incoming Task Leader and Senior Financial Management Specialist, World Bank; Guillaume Brule, Senior Public Sector Specialist, PEFA Secretariat; Djamshid Iriskulov, Financial Management Specialist, World Bank; Pierre Prosper Messali, Senior Public Sector Specialist, World Bank; Sandro Nozadze, Procurement Specialist, World Bank; Mariam Dolidze, Co-Task Leader and Senior Economist, World Bank; Tamuna Namicheishvili, Program Assistant, World Bank; and John Short, Consultant.

#### **Review of Concept Note and/or Terms of Reference**

- Concept Note was circulated to Georgian Government and other peer reviewers on February 29, 2018.
- Invited reviewers: Eka Guntsadze, Head of Budget Department, Ministry of Finance; Irakli Khmaladze, Project Manager, EU; Jens Kromann Kristensen, PEFA Secretariat; Elene Tskhakaia, GIZ; John Otieno Ogallo, World Bank.
- Reviewers who provided comments: Irakli Khmaladze, Project Manager, EU (March 2, 2018); Jens Kromann Kristensen; PEFA Secretariat (March 2, 2018); Natia Gulua, MOF – (March 2, 2018); Elene Tskhakaya, GIZ, (March 2, 2018); John Ogallo, WB (March 3, 2018); and Antonio Blasco, WB (March 2, 2018).
- Date of final concept note sent to PEFA Secretariat was March 13, 2018.

#### **Review of the Assessment Report**

- Validation Report draft circulated on May 7, 2018 to the Government of Georgia and May 9, 2018 to peer reviewers.
- Invited reviewers and dates when they provided comments: Irakli Khmaladze, Project Manager, EU (May 25, 2018); Eka Guntsadze, Head of Budget Department, Ministry of Finance (May 21, 2018); Elene Tskhakaia, GIZ (May 25, 2018); John Otieno Ogallo, World Bank (May 26, 2018); Antonio Leonardo Blasco, World Bank (May 27, 2018) and Julia Dhimitri, PEFA Secretariat (May 30, 2018).

#### **PEFA Check**

- The two stages of the PEFA have been complied with: the Concept Note and the response to comments on the draft report.

14. A substantial number of government officials participated in the assessment, readily providing most of the documentation used for the assessment, as well as their views and insights on all the subjects. Some development partners (IMF and GIZ) participated in the assessment only in their capacities as members of the team and thus reviewers of the Concept Note. The European Commission, which funded the validation process, was informed on the process and its representative participated in some meetings. The World Bank participated both in the management and review process and also in active membership on the assessment team. The private sector, through the business association, was consulted during the assessment field visit to provide its views on PFM and ensured triangulation.

### 1.3 Assessment methodology

15. **Coverage of the Assessment:** The assessment covers the central government, comprising 64 budgetary institutions (Sectoral Ministries, State Procurement Agency, State Audit Office, Budget Office of the Parliament of Georgia, National Bank of Georgia, as well as service providers such as public registries).

16. **The validation team** confirmed fiscal years 2014 to 2016 as the relevant time period. The validation took place from February 25 to March 3, 2018.

17. **Sources of Information:** The list of information for each of the indicators is found in Annex 3.2. A full list of persons met is provided in Annex 3.1.

18. **Other methodological issues for the preparation of the report:** The assessment was carried out using the 2016 PEFA Framework. All 31 indicators (and their 94 dimensions) were assessed and followed the methodology without deviation in terms of coverage and application. The Government had previously carried out a self-assessment using the 2016 methodology; the World Bank led assessment was used to validate Government's self-assessment<sup>2</sup>. Both sets of scores are reported in Chapter 3. The assessment team also scored using the 2011 PEFA methodology (28 government performance indicators with 71 dimensions) so that a comparison could be made with the result for the Government indicators scored for 2013 in the PEFA assessment report of March 2013, which used this methodology. A comparison between the 2013 and 2017 scores is included as part of Annex 1. The comparison did not include the three former donor practice indicators as no equivalent is retained in the 2016 PEFA Framework.

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<sup>2</sup> There was no formal PEFA training carried out before the self-assessment. The self-assessment was carried out as part of the assessors' day-to-day work program.

## 2. Country Background Information

This section of the report provides some relevant background information on the Republic of Georgia, to allow sufficient understanding of the broader context to PFM reforms as well as the core characteristics of the PFM system in the country.

### 2.1 Country economic situation

19. According to the latest census and National Statistics Office of Georgia, the 2017 population of Georgia is 3,726,400<sup>3</sup>. According to 2017 data, GDP per capita is 10,231.4 GEL<sup>4</sup>, and Geostat reports the average monthly wage in 2016 was 940.0 GEL<sup>5</sup>. According to the LEPL Social Service Agency of the Ministry of Labor, Health and Social Affairs of Georgia, 476,000 people are socially assisted.<sup>6</sup>

20. **Economic Growth.** In 2017, GDP real growth was 5.0%, one of the highest rates in the region. The majority of the neighboring trading partner countries have been recovering from a crisis in 2015-2016. The recovery had a positive impact on Georgia's economy through trade, remittances and tourism. In 2017, nominal gross domestic product was 38,042.2 million GEL, 11.8% higher than the previous year. In 2017, the private sector was still the leading driver of economic growth together with significantly improved net exports arising mainly from recovery in the external environment and improved competitiveness of Georgian products. As a result, exports of goods increased by 24% and proceeds from services, mainly tourism, increased by 20%. In 2017, turnover of the business sector increased 11.7%, but preliminary results showed that the number of people employed in the business sector declined by around 7,000<sup>7</sup>. However, the cost of labor continued to increase as the level of real wages went up, which indicates improvements in labor productivity in the private sector albeit with limited job creation.

21. **Inflation.** In 2017, the National Bank's inflation target was 4.0%. However, an upward trend in inflation to 6.0% occurred due to increased excise tax on oil and higher world prices.

22. **Exchange Rate.** In 2017, the Georgian Lari appreciated by 2.1% against the US dollar<sup>8</sup>. This appreciation of the national currency was mainly caused by an improved foreign demand and increased remittances and tourism associated with the developments in major trading partner countries. During this same period the Lari depreciated by 11.1% against the Euro. The nominal effective exchange rate of GEL, which is the average exchange rate of GEL against the trade-weighted exchange rate of the major trading partners, depreciated by 1.2%.

23. **Foreign Trade.** In 2017 turnover in foreign trade in Georgian goods was 10,710.6 million US dollars, 13.8% higher than the previous year. Exports grew to 2,728.0 million US dollars (an increase of 29.1%), and imports were 7,982.6 million US dollars (an increase of 9.4%).

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<sup>8</sup> Comparing exchange rates in the first and the last day of 2017.

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24. **Remittances.** Since the second half of 2016 remittances changed positively. In 2017 net remittance increased by 22.3% compared to the previous year. They included increases of 19.1% from Russia, 98.3% from Israel, 11.4% from the US, 19.4% from Turkey, 16.6% from Greece and 18.1% from Italy.

25. **Foreign Direct Investment.** According to the preliminary data, the volume of direct foreign investments in Georgia increased by 16.2% in 2017 to 1,862 million US dollars. The largest foreign investors in Georgia are Azerbaijan (482 million US dollars) and Turkey (279 million US dollars).

26. **Economic Indicators.** Table 2.1 below shows that per capita income in real terms has been growing each year. GDP real growth increased to 5.0% in 2017 while inflation between 2014-2017 was highest in 2017 at 6.0%. Total foreign reserves have increased since 2014. Both public and foreign debt are stable and low in comparison to most countries.

**TABLE 2.1: Selected Economic Indicators**

|   | 2014     | 2015     | 2016     | 2017     |
|---|----------|----------|----------|----------|
| <b>GDP (million GEL)</b>                              | 29,150.5 | 31,755.6 | 34,028.5 | 38,042.2 |
| <b>GDP per capita (US dollars)</b>                    | 3,676.2  | 3,766.6  | 3,864.6  | 4,078.5  |
| <b>GDP real growth (%)</b>                            | 4.6%     | 2.9%     | 2.8%     | 5.0%     |
| <b>CPI, annual growth (%)</b>                         | 3.1%     | 4.0%     | 2.1%     | 6.0%     |
| <b>Public Debt (% of GDP)</b>                         | 35.6%    | 41.4%    | 44.6%    | 44.6%    |
| <b>Foreign trade turnover (Annual Percent Change)</b> | -25.9%   | -30.7    | -31.0    | 13.8     |
| <b>Current account balance (%)</b>                    | -10.6%   | -11.7%   | -12.6%   | -8.7%    |
| <b>General Government External Debt (% of GDP)</b>    | 26.8%    | 32.5%    | 34.3%    | 34.9%    |
| <b>Total reserves (months of import value)</b>        | 3.2      | 3.3      | 3.3      | 4.3      |

Source: Ministry of Finance

## Significant Economic Challenges and Ongoing Reforms

27. Over the past decades the economy of Georgia has undergone significant change. Developments with the trade partners as well as the fact that dollarization is high, have had a significant impact on the Georgian economy. Georgia does not have a special natural resource that could greatly affect its economy. Therefore, the success of the Georgian economy is dependent on the country's institutional development and structural reforms. As a result of reforms implemented over the last decade, Georgia has been able to establish uncomplicated regulations for simplicity of doing business, low tax rates and favorable tax regime, access to simple e-services, and structures motivated by private sector development. To achieve this, the most important task was to create a public sector free from corruption, to eradicate vicious practices existing after the collapse of the Soviet Union and to create a distinctive example in the region. The Government is committed to continue its reform program, particularly in the area of public financial management, to continue the improvement in resource allocation to strategic priorities and to maintain fiscal discipline. The combination of a strong PFM system and an energized private sector are seen as key stimulators of economic growth and low inflation.

28. In the medium-term Georgia's development plan will pursue four main directions: (i) *Education Reform*, whose main objective is to fill the gap between the employment market and the qualifications and competencies of citizens and to focus on preparation of occupations and skills that are deficient but demanded in the labor market. In this regard, it is especially important to implement vocational education reform in order to enable the population to retrain in areas where the demand on employment is high and qualified workers are few. However, at the same time it is important to increase the quality of general education and carry out the



planned reforms for this purpose. The general education shall ensure appropriate general knowledge of the graduates, which will be followed by the further stages of education that will enable young people to make the right choices in career planning. (ii) *Economic Development Reform*, where additional improvements of relevant institutional reforms and tax regime are necessary for further increase of attractiveness of investment and business environment. (iii) *Spatial Arrangement Reform*, that includes the construction of major infrastructure to maximize the use of the country's tourism potential and transit site between Europe and Asia. (iv) *Open Government Reform*, that will introduce inclusive decision-making principles to enable all interested parties to be involved in the process. This will also involve further development and improvement of "One Window Principle" and increased access to *e-services* for simplicity of doing business.

29. The reforms noted above aim at providing high quality infrastructure, strengthening human capital, creating open and competitive trade environment, establishing effective and well-developed financial system, and promoting a competitive business environment with entrepreneurship and innovation. These reforms are important to accelerate the growth of the country's economic development and to achieve the goal of increasing the income of the population.

## 2.2 Fiscal and budgetary trends

30. Table 2.2 shows that revenue to GDP is around 28% from 2014 to 2017 and growing marginally but the forecast declines slightly by 2021. Indirect taxes are the main revenue generator followed by direct taxes. There is no separate social contribution regime in place. Expenditures over the period to 2017 average around 25% of GDP and are forecasted to decline to around 21% in 2021. There is thus a significant operating surplus. After investment (net growth in nonfinancial assets) there is an overall deficit in the region of 1% of GDP which is financed by a combination of domestic and foreign borrowing.

**TABLE 2.2: Aggregate Fiscal Data (% of GDP)**

| Item                                       | 2014<br>Actual | 2015<br>Actual | 2016<br>Actual | 2017<br>Actual | 2018<br>Forecast | 2019<br>Forecast | 2020<br>Forecast | 2021<br>Forecast |
|--|----------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|
| <b>Revenues</b>                            | 27.9%          | 28.2%          | 28.5%          | 28.7%          | 28.0%            | 27.9%            | 27.7%            | 27.4%            |
| <b>Taxes</b>                               | 24.8%          | 25.2%          | 25.9%          | 25.7%          | 25.4%            | 25.5%            | 25.5%            | 25.4%            |
| <b>Indirect taxes</b>                      | 14.4%          | 14.0%          | 13.0%          | 14.7%          | 15.0%            | 14.9%            | 14.8%            | 14.6%            |
| <b>Direct taxes</b>                        | 10.4%          | 11.2%          | 12.9%          | 9.7%           | 10.4%            | 10.5%            | 10.7%            | 10.8%            |
| <b>Social contributions</b>                | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%             | 0.0%             | 0.0%             | 0.0%             |
| <b>Grants</b>                              | 1.0%           | 1.0%           | 0.9%           | 0.8%           | 0.9%             | 0.8%             | 0.7%             | 0.7%             |
| <b>Other revenues</b>                      | 2.1%           | 2.0%           | 1.7%           | 2.2%           | 1.7%             | 1.6%             | 1.5%             | 1.3%             |
| <b>Expenses</b>                            | 25.3%          | 24.8%          | 25.9%          | 25.4%          | 23.6%            | 22.5%            | 21.5%            | 20.7%            |
| <b>Operating balance</b>                   | 2.6%           | 3.4%           | 2.6%           | 3.3%           | 4.4%             | 5.3%             | 6.2%             | 6.8%             |
| <b>Net increase of nonfinancial assets</b> | 4.6%           | 4.5%           | 4.0%           | 4.2%           | 5.9%             | 6.8%             | 7.3%             | 7.6%             |
| <b>Increase</b>                            | 5.0%           | 5.6%           | 5.1%           | 4.5%           | 6.3%             | 7.1%             | 7.6%             | 7.9%             |
| <b>Decrease</b>                            | -0.4%          | -1.1%          | -1.1%          | -0.4%          | -0.4%            | -0.3%            | -0.3%            | -0.3%            |
| <b>Total balance</b>                       | -2.0%          | -1.1%          | -1.4%          | -0.9%          | -1.5%            | -1.4%            | -1.1%            | -0.8%            |
| <b>Net increase of financial assets</b>    | 0.7%           | 1.4%           | 1.4%           | 2.1%           | 1.8%             | 1.6%             | 1.7%             | 1.6%             |
| <b>Increase</b>                            | 0.9%           | 1.6%           | 1.6%           | 3.5%           | 2.0%             | 1.8%             | 1.8%             | 1.7%             |
| <b>Decrease</b>                            | -0.2%          | -0.2%          | -0.2%          | -0.2%          | -0.2%            | -0.2%            | -0.2%            | -0.1%            |
| <b>Net increase in liabilities</b>         | 3.4%           | 2.9%           | 3.1%           | 2.9%           | 3.4%             | 3.1%             | 3.1%             | 2.4%             |

| Item  | 2014 Actual | 2015 Actual | 2016 Actual | 2017 Actual | 2018 Forecast | 2019 Forecast | 2020 Forecast | 2021 Forecast |
|---|-------------|-------------|-------------|-------------|---------------|---------------|---------------|---------------|
| <b>Domestic</b>                                 | 1.7%        | 0.8%        | 0.9%        | 0.8%        | 0.8%          | 0.9%          | 0.6%          | 0.6%          |
| <b>Monetary authorities</b>                     | -0.1%       | -0.1%       | -0.1%       | -0.1%       | -0.1%         | -0.1%         | -0.1%         | -0.1%         |
| <b>Other liabilities</b>                        | 1.9%        | 1.0%        | 1.1%        | 1.1%        | 1.0%          | 1.0%          | 0.7%          | 0.8%          |
| <b>Other credit indebtedness</b>                | -0.1%       | -0.1%       | -0.1%       | -0.1%       | -0.1%         | -0.1%         | -0.1%         | -0.1%         |
| <b>Foreign</b>                                  | 1.7%        | 2.1%        | 2.2%        | 2.1%        | 2.6%          | 2.3%          | 2.5%          | 1.8%          |
| <b>Inflows</b>                                  | 3.4%        | 3.3%        | 3.2%        | 2.2%        | 4.2%          | 4.1%          | 4.0%          | 5.8%          |
| <b>Outflows</b>                                 | -1.7%       | -1.2%       | -1.0%       | -0.1%       | -1.6%         | -1.8%         | -1.5%         | -4.0%         |
| <b>Change of balance of deposits (+ growth)</b> | 0.7%        | 0.5%        | 0.3%        | 0.0%        | 0.1%          | 0.1%          | 0.3%          | 0.0%          |
| <b>National Bank</b>                            | 0.3%        | 0.8%        | 0.4%        | -0.1%       | 0.1%          | 0.1%          | 0.3%          | 0.0%          |
| <b>Commercial banks</b>                         | 0.4%        | -0.4%       | -0.2%       | 0.0%        | 0.0%          | 0.0%          | 0.0%          | 0.0%          |

Source: Ministry of Finance

31. Table 2.3 shows the distribution of actual expenditure by function. Social protection consumes around a quarter of the total expenditure while spending on economic activity, education, public order and safety, and general public services, each consumes more than 10% of total expenditure over 2014-2017. Healthcare increased to 10% in 2017. These changes in the share of expenditures reflect government priorities.

**TABLE 2.3 Functional Classification of Consolidated Actual Expenditures (current, capital) (% of total)**

| Code       | Item                             | 2014 Actual | 2015 Actual | 2016 Actual | 2017 Actual |
|------------|----------------------------------|-------------|-------------|-------------|-------------|
| <b>701</b> | General public service           | 11%         | 13%         | 12%         | 13%         |
| <b>702</b> | Defense                          | 7%          | 6%          | 6%          | 7%          |
| <b>703</b> | Public order and safety          | 11%         | 12%         | 11%         | 10%         |
| <b>704</b> | Economic activity                | 15%         | 13%         | 14%         | 13%         |
| <b>705</b> | Environmental protection         | 2%          | 1%          | 1%          | 1%          |
| <b>706</b> | Housing and utility services     | 4%          | 4%          | 4%          | 4%          |
| <b>707</b> | Healthcare                       | 8%          | 9%          | 9%          | 10%         |
| <b>708</b> | Recreation, culture and religion | 4%          | 6%          | 5%          | 4%          |
| <b>709</b> | Education                        | 11%         | 13%         | 14%         | 13%         |
| <b>710</b> | Social protection                | 27%         | 23%         | 23%         | 25%         |
|            | <i>Total</i>                     | <i>100%</i> | <i>100%</i> | <i>100%</i> | <i>100%</i> |

Source: Ministry of Finance

32. In terms of economic classifications, Table 2.4 shows that social security transfers are the single largest expenditure by far, increasing from 35% in 2014 to 37% in 2017. This is followed by labor remuneration, which declined from 27% in 2014 to 17% in 2017.

**TABLE 2.4 Economic Classification of Consolidated Actual Expenditures (% of total)**

|                           | 2014 | 2015 | 2016 | 2017 |
|---------------------------|------|------|------|------|
| Expenditures              | 100% | 100% | 100% | 100% |
| Labor remuneration        | 27%  | 23%  | 22%  | 17%  |
| Goods and services        | 18%  | 17%  | 18%  | 16%  |
| Interest                  | 3%   | 4%   | 4%   | 5%   |
| Subsidies                 | 8%   | 8%   | 7%   | 10%  |
| Grants                    | 0%   | 0%   | 0%   | 0%   |
| Social security transfers | 35%  | 35%  | 36%  | 37%  |
| Capital expenditures      | 8%   | 12%  | 12%  | 15%  |

Source: Ministry of Finance<sup>9</sup>

## 2.3 Legal and regulatory arrangements for PFM

33. The legal basis for Georgia's public finance management is determined by the Constitution of Georgia, including the principles of fiscal governance and fiscal rules, basic principles for preparing, reporting and controlling the budget and responsible persons. Basic Principles of Fiscal Governance and Fiscal Rules are approved by Organic Law on Economic Freedom of Georgia. Since 2009 the basic law of the budget system is the Budgetary Code of Georgia, which has unified various existing legislative acts and has identified the budget process for all levels of government in a single system with unified process and principles (Law on Georgia's Budget System). This law encapsulated all the areas of public financial management such as budget formulation and execution, debt issues, revenue sharing with municipalities, financial reporting, internal control, accounting and auditing. There are different sections for the State government, autonomous governments and municipalities. Decisions on and delivery on investment is the responsibility of the implementing agencies in the context of the overall budget formulation and budget execution process.

34. The Budgetary Code has established general norms of the budget system as well as specific regulations for public budget, republican budgets of autonomous republics and budgets of Municipalities. Issues regarding the management of public debt, issuance of State guarantees and transfer of debt are regulated by the Constitution of Georgia and the Law on Public Debt (1998). There is the Tax Code of Georgia and Law of Georgia on Revenue Service as well as various related laws that regulate taxation. The Georgian law on State Internal Financial Control (Law of Georgia #5447 dated December 9, 2011) covers internal audit. The State Audit Office is independent as stipulated under Article 97 (2) of the Constitution of Georgia and has operational, financial, functional and organisational independence in accordance with Article 3 of the Law of Georgia on State Audit Office. The State Procurement Agency was established on January 1, 2012, by Decree 829 which has been amended since its enactment.

## 2.4 Institutional arrangements for PFM

35. Institutions involved in Georgia's budget process are in line with internationally accepted practice. The Government of Georgia, the Ministry of Finance, the legislative body and the State Audit Office share their functions at different stages of the budget process. The Ministry of Finance and the Government of Georgia

<sup>9</sup> These data in Table 2.2 to 2.4 are from the same source as in Chapter 3 but with a slightly different presentation.

have been implementing public finance management reforms for more than 10 years, which have led to institutional the strengthening. Government will continue with these reforms to address the systemic gaps.

36. Tables 2.5 and 2.6 show the structure of government based on number of entities and expenditure. There are no extrabudgetary units as all agencies (LEPL and N(N)LE) related to ministries are included in the budget. Central government has 2815 budgetary units out of which 2,085 are schools, spending agencies are 57 and other budgetary units are 673. There is no Social Security Fund.

**TABLE 2.5 Structure of Public Sector - Number of Entities**

| Year: 2016  | Public Sector                |                      |                       |                                  |                               |
|---|------------------------------|----------------------|-----------------------|----------------------------------|-------------------------------|
|   | Government Sub-sector        |                      | Social Security Funds | Public Corporation Sub-sector    |                               |
|   | Budgetary Unit <sup>10</sup> | Extrabudgetary Units |                       | Nonfinancial Public Corporations | Financial Public Corporations |
| Central   | 2,815                        | 0                    | 0                     | 175                              | 1                             |
| Including Spending Agencies                               | 57                           | 0                    |                       | 91                               |                               |
| Including Budgetary Units                                 | 673                          |                      |                       |                                  |                               |
| Including public schools                                  | 2,085                        |                      |                       |                                  |                               |
| 1 <sup>st</sup> tier subnational (State) (municipalities) | 67                           |                      |                       |                                  |                               |
| Lower tier (s) of subnational - (Budgetary Units)         | 2,713                        |                      |                       |                                  |                               |
| Including kindergartens                                   | 1,538                        |                      |                       |                                  |                               |

Source: Ministry of Finance

**TABLE 2.6 Structure of Public Sector - Actual Expenditure**

| GEL m  | Central Government |                      |                       |                  |
|--|--------------------|----------------------|-----------------------|------------------|
| Year: 2016   | Budgetary Unit     | Extrabudgetary Units | Social Security Funds | Total Aggregated |
| Revenue  | 8,580.0            | 0                    | 0                     | 8,580.0          |
| Expenditure  | 8,498.6            | 0                    | 0                     | 8,498.6          |
| Transfers to (-) and from (+) other units of general gov't | -903.7             | 0                    | 0                     | -903.7           |
| Total Expenditure  | 9,402.3            | 0                    | 0                     | 9,402.3          |
| Liabilities  | 1,063.1            | 0                    | 0                     | 1,063.1          |
| Financial Assets   | 396.2              | 0                    | 0                     | 396.2            |
| Nonfinancial assets  | 876.6              | 0                    | 0                     | 876.6            |

Source Ministry of Finance

<sup>10</sup> All agencies (LEPL and N(N)LE) related to ministries are included in the budget. There are 2,300 of which 2,081 are schools. These are central government entities and are accountable to the 59 budget entities and thus are not independent. There is no Social Security Fund.

Institutional arrangements for PFM consist of several important institutions, as follows:

### **Ministry of Finance of Georgia**

37. For the purpose of preparation of the Government's Basic Data and Directions Document (BDD) and determination of the medium-term policy, the Ministry of Finance of Georgia is responsible for:

- Major macroeconomic forecasts and measurements of economic development of the country;
- Forecast and planning of budget revenues;
- Preparation of analytical materials and forecast calculations.

38. In addition, functions in the MOF are structurally distributed to the relevant divisions and fiscal policy is planned and implemented through their coordinated work. Relevant divisions of the MOF include:

- *Division of Macroeconomic Analysis and Fiscal Policy Planning*, which determines estimated indicators of major macroeconomic parameters, forecasts and plans the budget revenues, analyzes the country's macroeconomic risks and elaborates recommendations on fiscal policy. Coordinates the elaboration of medium and long-term strategies of the Country's development.
- *The Tax Policy Division*, which determines the main directions of the tax and customs policy.
- *Division of Public Debt and Foreign Financing*, which handles the accountability for the public debt and manages foreign financing including grants from donors, credits and loans.
- *The Budget Division*, which coordinates the development of the Basic Direction and Data Document (BDD) and prepares proposals and analytical materials for determining medium-term policy. Prepares annual draft budget and drafts of required legislative and normative acts. Coordinates the process of budget performance and prepares budget execution reports.
- *Central Harmonization Unit*, which became functional in 2010. The center is a department of the State Internal Control of the Ministry of Finance. Under Article 2 of the Georgian law on State Internal Financial Control, the center ensures the assessment, coordination and harmonization of internal audit, financial management and control systems amongst budgetary units.
- *The Fiscal Risk Management Division*, which analyzes the fiscal risk assessment that may arise from the ongoing events in the economy, or as a result of indirect obligations taken by the State, as well as the analysis of expected results in the development of various alternative scenarios.

### **State Property Agency**

39. The State Property Agency is responsible for the disposal of State assets (privatization) and supervision of State Owned Enterprises.

### **State Procurement Agency**

40. All public procurement is administered by the State Procurement Agency.

## **Parliament of Georgia and the Finance and Budget Committee**

41. The Finance and Budget Committee carries out assessment of the expected outcomes of measures to be implemented in finance-budget, cash-credit, tax-customs and currency systems and prepares relevant conclusions, certificates, recommendations and solutions; it also discusses the draft budget, develops the conclusion, and organizes its review and agreement with other committees.

42. At the plenary sitting of the Parliament on the discussion of draft budget law, the Parliament conducts hearings of the reports of the State Audit Office, the National Bank of Georgia and its Finance and Budget Committee.

43. The Budget Office has been established in the Parliament for years but it is currently being reformed as an independent fiscal institution that will carry out alternative and independent calculations and investigations to analyze the correctness and expediency of the fiscal policy. The primary goal of the Budget Office is to promote the strengthening of parliamentary supervision over public finance management through independent and impartial analysis, study, and evaluation and recommendations on the fiscal policy.

## **State Audit Office**

44. The State Audit Office is the supreme body of the State financial and economic control, which carries out audit, develops proposals and recommendations on measures to be taken, including measures for elimination and prevention of violations and deficiencies, as well as about the improvement of relevant administrative and legal acts.

45. The main objective of the Office is to protect the legitimacy and efficiency of the use of State funds, as well as other material assets of the State, to protect national wealth and property of the State, autonomous republics and local self-government units.

## **Georgia Revenue Services**

46. All taxes are administered by Georgia Revenue Services.

## **National Statistics Office of Georgia**

47. The goal of the National Statistics Office of Georgia is to provide official statistics reflecting the state of the social, demographic, economic and natural environment of the country on the basis of internationally recognized principles of statistics. The macroeconomic and fiscal parameters are agreed with the International Monetary Fund.

## **National Bank of Georgia**

48. The National Bank of Georgia leads the country's monetary policy to ensure stability of prices and stimulates the stable functioning of the financial sector. It ensures stability and transparency of the financial system and promotes sustainable economic growth in the country. It develops and implements the monetary and credit policy according to the main directions defined by the Parliament of Georgia. The National Bank also supervises the financial sector and ensures the function of the monetary - credit system. The National Bank is independent in its activities from Government.

## **2.5 Other important features of PFM and its operating environment**

49. The Budget Code provides for a centralized PFM system built around a Treasury single account and a PFMS which incorporates salary and other expenses as well as commitment controls. This covers both central and local government. There are no earmarked revenues or extrabudgetary units in Georgia except for sharing of some parts of income tax between central and local government. External control is exercised by the State Audit Office which reports to Parliament. All of these have been in place for some time, but are continuously improved by ongoing PFM reforms. The Budget Code provides for public hearings on the budget formulation and Parliamentary hearings and debate and also for hearings and debate on audit reports.

### 3. Assessment of PFM Performance

#### PILLAR ONE: Budget Reliability

##### PI-1. Aggregate expenditure outturn

51. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports for the last three years of available data. Coverage is budgetary central government. The assessment is based on the budget and actual expenditure for the fiscal years 2014, 2015 and 2016.

| Indicator/Dimension |                               |                 |            |  |
|---------------------|-------------------------------|-----------------|------------|--|
|                     |                               | 2017 Score      |            | Brief justification for score                                      |
|                     |                               | Self-Assessment | Validation |  |
| PI-1:               | Aggregate expenditure outturn | A               | A          |  |
| 1.1                 | Aggregate expenditure outturn | A               | A          | In all 3 years the deviation was less than 5% (1.2% 0.3% and 1.2%) |

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

| Table 1.1: Total approved budget and actual expenditure GEL m |         |         |         |
|---|---------|---------|---------|
|   | 2014    | 2015    | 2016    |
| Approved budget   | 8,273.7 | 8,809.6 | 9,293.6 |
| Actual expenditure  | 8,177.8 | 8,838.2 | 9,404.2 |
| % Outturn   | 98.8%   | 100.3%  | 101.2%  |

Source: Ministry of Finance

53. Table 1.1 shows that outturn on the actual expenditure (current and capital) versus the budget was as follows: in 2014 – 98.8%, in 2015 – 100.3%, and in 2016 – 101.2%. Based on this result, assessment of the indicator corresponds to "A" as was the case in the previous 2013 PEFA assessment.

##### PI-2. Expenditure composition outturn

54. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. The assessment is based on the budget and actual expenditure for the fiscal years 2014, 2015 and 2016. Coverage is budgetary central government.



| Indicator/Dimension                                  | Minimum Requirements (Scoring Method M1) |            |  |
|--|--|------------|--|
|  | 2017 Score                               |            | Brief justification for score  |
|  | Self-Assessment                          | Validation |  |
| PI-2: Expenditure composition outturn                | A  | A          |  |
| 2.1 Expenditure composition outturn by function      | A  | A          | In all 3 years the deviation was less than 5% (2.9% 2.5% and 3.4%)   |
| 2.2 Expenditure composition outturn by economic type | A  | A          | In all 3 years the deviation was less than 5% (3.1% 4.0% and 3.8%)   |
| 2.3 Expenditure from contingency reserves            | A  | A          | Actual expenditure charged to the contingency fund vote 1.0% in 2014, 1.7% in 2015 and 1.9% in 2016 and cannot exceed 2% of the budget by law. |

### 2.1 Expenditure composition outturn

55. Actual and budgeted expenditure by function are presented in the annex. The deviation in expenditure structure according to the functional classification is 2.9% in 2014, 2.5% in 2015, and 3.4% in 2016. Score: A.

### 2.2 Expenditure composition outturn by economic type

56. Actual and budgeted expenditure by economic classification (excluding contingency) are presented in the annex. The rate of deviation in expenditure structure by economic classification is 3.1% in 2014, 4.0% in 2015, and 3.8% in 2016. Score: A.

### 2.3 Expenditure from contingency reserves

57. Under the law on the State budget, the reserve fund of the Government and reserve fund of the President of Georgia are considered within the total public expenditures. According to Article 28 of the Budget Code of Georgia, volume of reserve funds of the Government and the President of Georgia shall not exceed 2% of the total amount of budget allocations envisaged by the annual budget. The reserve fund allocated was 1.0% in 2014, 1.7% in 2015 and 1.9% in 2016. Score: A.

## PI-3. Revenue outturn

58. This indicator measures the change in revenue between the original approved budget and end of year outturn. The assessment is based on the budget and actual revenue from fiscal years 2014, 2015 and 2016. Coverage is budgetary central government.

| Indicator/Dimension             | Minimum Requirements (Scoring Method M2) |            |  |
|---------------------------------|--|------------|--|
|                                 | 2017 Score                               |            | Brief justification for score  |
|                                 | Self-Assessment                          | Validation |  |
| PI-3: Revenue outturn           | B+                                       | B+         |  |
| 3.1 Aggregate revenue outturn   | A  | A          | Aggregate deviation was between 97% and 106% being less than 102% in each year.  |
| 3.2 Revenue composition outturn | B  | B          | Variance in revenue collection was less than 10 % in two of the three years. In 2014, 5.5%, 5.0% in 2015 and in 2016 it reached 13.3%. |

### 3.1 Aggregate revenue outturn

59. Actual and budgeted revenue by broad type are presented in the annex. The initial budgeted forecast of the 2014 State budget revenues (7,319.0 million GEL) was calculated with consideration of the economic growth (5.0%) and the average inflation (3.5%). Consequently, actual 2014 State budget revenue was 101.6% of the forecast. The initial budgeted indicator of the 2015 State budget revenue (8,090.0 million GEL) was calculated with consideration of economic growth (5.0%) and average inflation (4.0%). Consequently, actual 2015 State budget revenues were 101.0% of the forecast. The initial budgeted indicator of the 2016 State budget revenues (8,555.0 million GEL) was calculated with consideration of economic growth (3.0%) and average inflation (5.5%). Actual State budget revenue was 100.3% of the forecast.

| Year | Actual as % of forecast revenue |
|------|---------------------------------|
| 2014 | 101.6%                          |
| 2015 | 101.0%                          |
| 2016 | 100.3%                          |

60. As the deviation between actual revenues collected was less than two percent in each of the three years this dimension is scored, A.

### 3.2 Revenue composition outturn

61. The deviation rate in revenue structure in 2014 was 5.5%, 5.0% in 2015 and in 2016 it reached 13.3%.

62. In both 2014 and 2015 the deviation is low between main tax types (taxes on income, profit and capital gains and taxes on goods and services) which together amount for some 93% per cent of total revenue. The deviation is generated by hard-to-forecast items (such as grants, sales of goods and property, and fines). The high rate of deviation in 2016 is related to the amendments made in tax administration. From 2016 a single treasury code for tax payments was introduced and all taxes paid before deadline of the declaration are recorded on one code (other taxes) until they are reconciled against assessments and then transferred into relevant type of taxes after the expiration of the declaration period. In the process of planning the 2016 budget, the tax forecasts were made according to the types with consideration of tendencies of the previous years. However, as a result of the reform, distribution of actual taxes was beset with difficulty in the transference into the correct codes. Accordingly, indicated high deviation is associated with the transition period related to the reform. In 2017 this problem has been resolved and the deviation has been returned to previous levels.

63. As the deviation was greater than 5% and less than 10% in two of the three years this dimension scores B.

| <b>Table 3.2 Deviation in Revenue Performance Structure</b> |                  |
|---|------------------|
| <b>Year</b>   | <b>Deviation</b> |
| 2014  | 5.5%             |
| 2015  | 5.0%             |
| 2016  | 13.3%            |

# PILLAR TWO: Transparency of Public Finances

## PI-4. Budget classification

64. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. Time period is at time of assessment. The coverage is budgetary central government.

| Indicator/Dimension         | 2017 Score      |            | Brief justification for score  |
|-----------------------------|-----------------|------------|--|
|                             | Self-Assessment | Validation |  |
| PI-4: Budget classification | A               | A          | Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification is derived from the administrative classification in Georgia. |

65. The budget classification is defined in the Budget Code of Georgia<sup>11</sup>. It is defined in more detail by the order of the Minister of Finance.<sup>12</sup> The classification includes:

- economic and functional classifications used at all levels of the budget system for public accounting and which comply with the Government Finance Statistics Manual 2001 (GFSM 2001<sup>13</sup>) and Classification of the Functions of Government (COFOG). These standards have been used for the State budget since 2008, and since 2009 for local self-governments. Economic and functional classifications include revenues, expenditures, operations with nonfinancial assets and nonfinancial assets, operations with financial assets and liabilities. The economic classification is coded in accordance with GFS through a 5-digit sequence that allows identification of the expense (or revenue) at a finer level of detail than the one recommended by GFS.
- an administrative classification that is ensured by the program classification coded with a 5-digit segment and that allows identification of the detail of expenses (or revenues) at least at the level required by GFS<sup>14</sup>. In the case of Georgia, the detail is captured at the cost center level (i.e. the third GFS level and under).

66. According to the 2001 Government Financial Statistics Manual, the budget classification must include the economic classification of operations related to revenues, expenditures, nonfinancial assets, financial assets and liabilities. An example of GFS-compliant economic coding system is given below:

<sup>11</sup> Budget Code of Georgia, Article 8.

<sup>12</sup> Order N672 of the Minister of Finance of Georgia, August 25, 2010.

<sup>13</sup> As per the request of the Ministry of Finance, the International Monetary Fund is in charge of providing technical support in the move toward the new standard of budget classification, the 2014 GFSM.

<sup>14</sup> GFS includes three levels (Ministry, Directorate and below)

## Example of GFS-Compliant Coding System in Georgia

*e.g. expenditure coding is in line with GFS*

*Expenses - code 2:*

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

*Nonfinancial assets (net acquisitions) – code 31*

*Financial assets (net acquisitions) – code 32*

*Net incurrence of liabilities – code 33*

*e.g. expenditure coding*

*5-digit economic code: 2.2.3.12.1.*

- expenditure: 2*
- goods and services: 2*
- office costs: 3*
- utilities: 12*
- electricity: 1*

67. While program classification is not a GFS requirement (and not a COFOG one), Georgia has developed a comprehensive program budgeting system with a specific classification. It is a combination of priorities, programs (4-digit) and sub-programs (6-digit) and the classification is determined by the annual budget. This classification substitutes the GFS organizational classification and provides, at least, the same level of detail as the GFS second and third levels. The program classification enables to capture the information at every cost center level (which is more detailed than GFS requirement). An example is provided below:

### Example of Program classification coding that substitutes GFS-compliant organizational classification

*Ministry of Education and Science - coded 32-00 (1<sup>st</sup> GFS level)*

*Program for Tertiary Education (2<sup>nd</sup> level) - coded 32-04*

*sub-program 32-04-01 – National Examination (3<sup>rd</sup> GFS level)*

*sub-program 32-04-02 – State Scholarships*

*sub-program 32-04-02 – Targeted support to Tertiary Education*

*sub-program 32-04-04 – Supporting Foreign Exchange Programs*

*sub-sub-program 32-04-01-01 – National Center of Examination (cost center; 3<sup>rd</sup> GFS level)*

68. It is to be noted that each cost center (sub-program or sub-sub-program implementer) is identified as such in the expenditure IT system (*e-treasury and e-budget*) so that the related expenses can be traced back and monitored.

69. The functional classification is COFOG-compliant with the 10 following functions: General public services, Defense, Public order and safety, Economic affairs, Environmental Protection, Housing and Community amenities, Health, Recreation, culture and religion, Education, and Social protection. Score: A.

## PI-5. Budget documentation

70. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. Time period is the last budget submitted to the legislature (2017) and the coverage is budgetary central government.

| Indicator/Dimension        | 2017 Score      |            | Brief justification for score  |
|----------------------------|-----------------|------------|--|
|                            | Self-Assessment | Validation |  |
| PI-5: Budget documentation | A               | B          | Budget documentation fulfills nine elements, including the four basic elements and five additional elements. |

### 5.1. Budget documentation

71. As shown below, the budget documentation meets 9 out of 12 criteria.

| N                     | Criteria   | Achievement (yes / no) | Relevant justification / comment   |
|-----------------------|--|------------------------|--|
| <b>Basic elements</b> |  |                        |  |
| 1                     | Forecast of the fiscal deficit or surplus or accrual operating result.   | Yes                    | Budget documentation includes information on fiscal data, including fiscal balance, for the last three years, expected for the current year, forecasted +3 years. <sup>15</sup>  |
| 2                     | Previous year's budget outturn, presented in the same format as the budget proposal. In this element, 'same format as the budget proposal' means that figures should be presented and comparable at the same aggregate level or the same level of relevant detail as in the budget proposal. | Yes                    | The budget law presents, in chapter VI, a table for which each budget line has a column with the data for the current fiscal year, in addition to a column for the last fiscal year and a column for the budgeted year. <sup>16</sup>  |
| 3                     | Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.  | Yes                    | The budget law presents, in chapter VI, a table for which each budget line has a column with the data for the current fiscal year, in addition to a column for the last fiscal year and a column for the budgeted year.  |
| 4                     | Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a   | Yes                    | Information about revenues and expenditures is presented according to all main articles of budget classification for all three years (past, current and planned). Aggregate revenue and expenditure indicators are presented according to the main categories of budget classification the medium-term period (past, current, planned and 3 years forecast); <sup>17</sup> |

<sup>15</sup> [http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16\\_1-BDD.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_1-BDD.pdf)

<sup>16</sup> <http://mof.ge/5027>;

<sup>17</sup> [http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/TAVI\\_I.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/TAVI_I.pdf)

| N                          | Criteria  | Achievement (yes / no) | Relevant justification / comment   |
|----------------------------|---|------------------------|--|
|                            | detailed breakdown of revenue and expenditure estimates.  |                        |  |
| <b>Additional elements</b> |   |                        |  |
| 5                          | Deficit financing, describing its anticipated composition.  | Yes                    | Both local and foreign sources of deficits financing are presented in the budget documentation, including information on foreign debt according to the project names in case of donors and investment projects, as well as information about the structure of domestic debt <sup>18</sup> .  |
| 6                          | Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.  | Yes                    | The budget documentation contains three tables of macroeconomic forecast (one for each scenario- basic, optimistic, and pessimistic). Macroeconomic indicators are presented from 2013 to 2020. The macroeconomic indicators are GDP, GDP growth, inflation, interest rates, exchange rates, etc. <sup>19</sup> .  |
| 7                          | Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.  | Yes                    | Information about the total forecasted volume of the debt is presented in the budget. Internal and external debt structure is presented by creditors / types. Budget appendices also include forecasts of the overall volume of the debt (internal and external separately) for the past, current, to be planned and to be planned +4 years periods <sup>20</sup> .  |
| 8                          | Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.  | No                     | The 2017 budget project included information regarding the changes of financial assets for the current and past years as well as the one to be planned. However, the information regarding total financial assets was not presented in the 2017 budget.  |
| 9                          | Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on. | Yes                    | The fiscal risk report is prepared, which provides information on macroeconomic risks, analysis of debt sustainability and information on current fiscal risks from State enterprises. Information on fiscal risks is published, where information is given about the conditional obligation of the State, which includes a large part of the conditional obligations. It includes information for most PPP projects <sup>21</sup> . |
| 10                         | Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major  | No                     | The draft of the budget, its annexes, definitions and related / supporting documentation, including the country's "Basic Data and Directions" document comprises detailed and comprehensive information on new government initiatives, priorities of budgetary institutions and programs and measures to be implemented by them; Description of programs / sub-programs / measures, as well as expected results.                     |

<sup>18</sup> [http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/TAVI\\_IV.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/TAVI_IV.pdf); <http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/vali.pdf>; <http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/DSA-Final.pdf>;

<sup>19</sup> <http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/SFR-2016-Total-bind.pdf>; [http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16\\_1-BDD.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16_1-BDD.pdf); [http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16\\_3-BDD.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16_3-BDD.pdf); [http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16\\_2%20BDD.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/2017-BD-Tables-sen-16_2%20BDD.pdf).

<sup>20</sup> [http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/TAVI\\_IV.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/TAVI_IV.pdf); <http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/vali.pdf>; <http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/DSA-Final.pdf>;

<sup>21</sup> <http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/SFR-2016-Total-bind.pdf>

| N  | Criteria   | Achievement (yes / no) | Relevant justification / comment  |
|----|--|------------------------|---|
|    | changes to expenditure programs.   |                        | <p>The Basic Data and Directions Document (BDD) is used as the budget circular at the beginning of the budget process. It is then revised and attached to the budget documentation. It describes Government's priorities and new initiatives. However, it does not provide an estimate of the budget impact of the initiatives.</p> <p>The explanatory note of the budget reflects partial information on new initiatives and their impact on revenues and expenditure. In the explanatory note for budget 2017, for example, the impact of three tax measures is measured (increase in excise duty for tobacco, motor vehicles, and oil products).</p> <p>All major changes in revenue and expenditure policies are explained in the budget documentation but there is estimate of their budgetary impact, but only for part of them.<sup>22</sup></p> |
| 11 | Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium-term forecast should include as a minimum, medium-term projections of expenditure, revenue, and fiscal balance. | Yes                    | The BDD document includes medium-term fiscal forecasts, which contain projections for the main headings of revenue and main economic headings of expenditure, as well as the fiscal balance, for the budgeted years and the next 3 years.   |
| 12 | Quantification of tax expenditures.  | No                     | In 2015, a project report on VAT and profit tax benefits was prepared with the assistance of an international expert. This initiative did not take place in 2016 for budget 2017.   |

72. Based on the analysis and supporting evidence, the score for this indicator is B. However, a quantification of tax expenditures is under study; in particular, data on certain types of tax (VAT, profit tax) benefits has been collected and analyzed. It is planned to develop relevant regulations for the purpose of collecting and calculating data in order to reflect them in the budget documentation. A guide with appropriate regulations will be developed as a result of studying the practice of reflecting projects envisaged in the budget on financial assets.

## PI-6. Central government operations outside financial reports

73. This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. The assessment of this indicator is based on the information and reports available for fiscal year 2016. The coverage is central government. The Georgian legislation and the basic principles of the budget system do not provide for nonbudgetary / extrabudgetary entities outside the budget structure.

<sup>22</sup> <http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/BDD-gadamushavebuli.pdf>;  
<http://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/ganmartebiti.pdf>.



| Indicator/Dimension  | Minimum Requirements (Scoring Method M2) |            |   |
|--|--|------------|---|
|  | 2017 Score                               |            | Brief justification for score                       |
|  | Self-Assessment                          | Validation |   |
| PI-6 Central government operations outside financial reports | A  | A          |   |
| 6.1 Expenditure outside financial reports                    | A  | A          | All expenditures are included in financial reports. |
| 6.2 Revenue outside financial reports                        | A  | A          | All revenues are included in financial reports.     |
| 6.3 Financial reports of extrabudgetary units                | A  | NA         | There are no extrabudgetary units.                  |

### 6.1 Expenditure outside financial reports

74. In accordance with the principle of comprehensiveness of the budget system of Georgia, all revenues, expenditures and balance changes in the budget are fully reflected in the relevant budgets. This includes all bodies as legislation does not consider the existence of nonbudgetary funds. Score: A.

### 6.2 Revenue outside financial reports

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

### 6.3 Financial reports of extrabudgetary units

76. Information on the performance of budgets of legal entities of public law and non-profit (non-commercial) legal entities<sup>23</sup> is reflected in quarterly (3, 6 and 9 months)<sup>24</sup> and annual budget statements (quarterly and annual budget statements are prepared "On Approval of Forms of the State Budget Performance Report and the Terms of its Submission", in accordance with the Order №112 of the Minister of Finance of April 11, 2012). Score: Not Applicable.

## PI-7. Transfers to subnational governments

77. This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. The assessment of this indicator is based on fiscal year 2016. The coverage is central government and the subnational governments who have direct financial relationship with central government.

<sup>23</sup> These are not extrabudgetary entities but budgetary spending units and included in this dimension to illustrate the reporting procedures. In other countries such entities are often extrabudgetary units.

<sup>24</sup>[http://mof.ge/images/File/biuj2016\\_3tve/TAVI\\_VI.pdf](http://mof.ge/images/File/biuj2016_3tve/TAVI_VI.pdf);  
[http://mof.ge/images/File/biuj2016\\_9tv/TAVI%20VII.pdf](http://mof.ge/images/File/biuj2016_9tv/TAVI%20VII.pdf);

[http://mof.ge/images/File/biuj2016\\_6tve/TAVI\\_VII.pdf](http://mof.ge/images/File/biuj2016_6tve/TAVI_VII.pdf);

| Indicator/Dimension                        | Minimum Requirements (Scoring Method M2 AV) |            |  |
|--|---|------------|--|
|  | 2017 Score                                  |            | Brief justification for score  |
|  | Self-Assessment                             | Validation |  |
| PI-7: Transfers to subnational governments | A   | A          |  |
| 7.1 Systems for allocating transfers       | A   | A          | The horizontal allocation of some 92% of transfers to subnational governments from central government is determined by transparent, rule-based systems.                    |
| 7.2 Timeliness of information on transfers | A   | A          | Local self-government bodies are provided with detailed information on the annual volume of transfers not less than 6 weeks prior to the completion of the planned budget. |

### 7.1 Systems for allocating transfers

78. The Budget Code includes the following types of transfers to the Autonomous Republics and Local Self-Government Units:

- **Equalization transfer** is the amount defined by the special formula and allocated from the State budget of Georgia for the municipal budget. It aims to equate different financial opportunities of municipalities with consideration of their economic potential. In addition, the municipality uses the revenue received by equalization transfer at its own discretion to implement its own powers. The rule of calculation of equalization transfer is determined by the budget code and order of the Minister of Finance of Georgia<sup>25</sup>. For the purposes of the equalization transfer formula, the Minister of Finance of Georgia annually determines the total amount of expenditures and nonfinancial assets of municipalities that cannot be less than 4% of GDP of the year to be planned. According to the formula the size of the equalization transfer for each municipality depends on the forecast of potential revenues, by taking into account the tendency of the past years.
- The size of the Equalization Transfer made to each Local Authority Budget is calculated with the following equation:  $T=E-R$ .

79. Whereby:

T – Transfer to be allocated to the Local Authority Budget;

E – Total amount of increase of expenditures and nonfinancial assets of a local self-government body, which is calculated based on statistical data (number of population, number of children under 6 years of age, number of adolescents from 6 up to 18 years of age, number of population with the social and economic status indicator (rating point) less than threshold value established by the Government, the area of a local self-government body concerned and the length of local roads) and equalization coefficients, with a distinction made between self-governing towns and municipalities; and

<sup>25</sup>Decree N904 of the Minister of Finance of Georgia of December 30, 2009 on Approval of the Equalization transfer Calculation Instruction.

R – Budget revenues of local self-government body (except for grants), which is calculated for each self-government body based on the forecast for the current year and the trend shown by actual indicators for last 3 years.

- **Special transfer** is allocated from the State budget of Georgia for municipal budget or the budget of Autonomous Republic in order to eliminate the effects of natural disasters, ecological and other disasters, hostilities, epidemics and other emergency situations (damages), as well as to assist municipalities in the implementation of other activities. This transfer is allocated only if the reserve fund of the respective municipality budget is not enough for financing the measures envisaged to eliminate the aforementioned events.

- **Capital Transfer** allocated to municipalities according to the rule approved by Government Degree #23 implies that:

- Special commission is created which among others includes Deputy Minister of Finance, Budget Department representative of the MOF, Deputy Minister of Regional Development and representatives of respective department dealing with coordination with municipalities from MRDI;
- Municipalities submit proposal of different capital projects to the commission;
- Criteria for selecting the projects is defined by the decree<sup>26</sup>;
- Municipalities are obliged to co-finance the projects at least by 5%;
- Commission allocates available funds per specific projects and money is transferred to the municipality according to the contract amount and actual performance.

80. **Targeted transfer** will be transferred from one budget to another budget for the financial security of delegated authority. The relevant amounts under each category of transfer in 2014 - 2016 were:

| <b>Table 7.1 Transfers from Central to Lower Tier Governments</b>   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
|   | <b>GEL m</b>       |                    |                    |
|   | <b>2014 actual</b> | <b>2015 actual</b> | <b>2016 actual</b> |
| Equalization Transfer   | 776.1              | 834.2              | 599.3              |
| Targeted Transfer for delegated functions   | 11.1               | 11.4               | 11.7               |
| Special Transfer  | 49.1               | 124.6              | 49.3               |
| Capital Transfer  | 219.2              | 272.1              | 243.4              |
| Including transfers distributed by the commission according to the Government decree N23 for financing capital projects | 215.4              | 224.1              | 233.0              |
| Total Sum   | 1,055.6            | 1,242.4            | 903.7              |
| Amount of transfers distributed by a specific rule  | 991.5              | 1,058.3            | 823.3              |
| % of the transfer distributed based on an automatic specific rule   | 93.9%              | 85.1%              | 92.1%              |

Source Ministry of Finance

<sup>26</sup> Government of Georgia Decree #23 On approval of the Selection procedures and criteria of Local Self-government and Regional projects' to be financed from the Fund of Projects to be implemented in the Regions of Georgia, prescribed by the state budget of Georgia

81. Based on the above, the dimension score is A.

## 7.2 Timeliness of information on transfers

82. The Budget Code of Georgia defines relevant procedures for allocation of funds from the State budget to local self-government entities. The Ministry of Finance of Georgia provides local self-government entities with macroeconomic parameters by July 15 of each year. Local self-governing entities then begin to prepare relevant, budget proposals. The Ministry of Finance of Georgia, not later than October 5, informs the local self-government bodies about the projections of revenues received from the transfers and taxes to be allocated from the State budget to the relevant budget.<sup>27</sup>

83. No later than November 15, the Councilor / Mayor of the relevant local self-governing unit submit the draft of the budget of the local self-governing unit to the representative body - City Council for review. No later than December 10, the Councilor / Mayor of the local self-governing unit submit the budget to the representative body - City Council for final approval. These requirements are followed in practice. Score: A.

## PI-8. Performance information for service delivery

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

| Indicator/Dimension                                | Minimum Requirements (Scoring Method M2 AV) |            | Brief justification for score  |
|--|---|------------|--|
|  | 2017 Score                                  |            |  |
|  | Self - Assessment                           | Validation |  |
| PI-8: Performance information for service delivery | A   | A          |  |
| 8.1 Performance plans for service delivery         | A   | A          | Information is annually prepared and published according to program objectives of most ministries (75%). It includes performance indicators, programs about intermediate and final results and outcomes. |
| 8.2. Performance achieved for service delivery     | A   | A          | Information about intermediate and final results of the programs /sub-programs implemented by most ministries (i.e. 75%  |

<sup>27</sup>For local self-governing units - Article 79 of the Budget Code of Georgia

| Indicator/Dimension                               | Minimum Requirements (Scoring Method M2 AV) |   |   |
|---|---|---|---|
|   | 2017 Score                                  |   |   |
|   | Brief justification for score               |   |   |
|   |   |   | in value) within the priorities and about their Performance Assessment Indicators are published annually in the Annual Budget Reports.  |
| 8.3. Resources received by service delivery units | A   | A | The information on the resources received by the service providers is collected and recorded in case of programs implemented by not less than 2 major ministries based on the sources of funding. This information is prepared at least annually. |
| 8.4. Performance evaluation for service delivery  | B   | A | Assessment of efficiency and effectiveness of service delivery has been prepared and published in respect of activities of <u>most</u> ministries (i.e. 75% in value) in the period of at least the previous three years.                         |

85. Program-based budgeting has been introduced in 2009 and since then its quality has been gradually improving. The State budget (national) and local budgets are prepared in the program budget format. The preparation of the program budget is based on outputs to be produced (results) and its format includes assessment indicators (basic and targeted indicators, probability of failure and possible risks) of expected interim and final outcomes by programs / sub-programs as defined in the framework of priorities defined in the Government Program and the country's Basic Data and Directions Document (BDD). Annex<sup>28</sup> of the program-based budget is attached to the draft of the State budget, which is submitted to the Government and the Parliament of Georgia.

### 8.1 Performance plans for service delivery

86. The current budget framework with programs, sub-programs, and cost centers allows for information about service delivery planned by the spending units. The presentation of programs together with their objectives at each level, expected interim and final outputs and outcomes measured with performance indicators (basic and targeted indicators, probability of error and possible risks) provides relevant information for service delivery's evaluation, even though improvement is needed to refine the indicators. The annex of the program-based budget of the State budget includes all this detailed information.

87. In addition, since 2015 five ministries, and since 2016 all ministries prepare detailed interim (4 years) action plans accompanied by relevant estimates in line with the annual budget and the BDD. As per the PEFA scoring, the criteria that are required for meeting the A rating must apply to 75% of ministries in value ("most

<sup>28</sup><http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/programuli-29.11.2016.pdf>

ministries”). The table below shows that ministries where these features apply represent 96% of the total expenditures of all line ministries.

| Table 8.1 Ministry coverage of Performance Plans              |                |                    |                            |                    |                 |                  |
|---|----------------|--------------------|----------------------------|--------------------|-----------------|------------------|
| Ministries  | Budget (GEL m) | Program objectives | Key performance indicators |                    | Planned outputs | Planned outcomes |
|   |                |                    | Output indicators          | Outcome indicators |                 |                  |
| Ministry of Regional Development                              | 950            | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Labor, Health and Social Security                 | 3162           | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Education and Sciences                            | 978            | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Finance   | 90             | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Economy and sustainable development               | 95             | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Justice   | 71             | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Defense   | 670            | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Interior Affairs                                  | 595            | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Energy  | 135            | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Agriculture                                       | 321            | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Foreign Affairs                                   | 110            | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Culture   | 97             | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of IDPS  | 85             | Y                  | Y                          | Y                  | Y               | Y                |
| Ministry of Environment                                       | 42             | Y                  | Y                          | Y                  | Y               | Y                |
| <b>Total of the ministries compliant with the requirement</b> | <b>7401</b>    |                    |                            |                    |                 |                  |
| <b>Total expenditure of all ministries</b>                    | <b>7745</b>    |                    |                            |                    |                 |                  |
| <b>Percentage</b>   | <b>96%</b>     |                    |                            |                    |                 |                  |

Source Ministry of Finance

88. Based on the above, this dimension score is an A.

## 8.2 Performance achieved for service delivery

89. The Government publishes an annual report on interim and final outputs and outcomes of programs and sub-programs of all line ministries. Information on the performance of programs is also prepared on a quarterly<sup>29</sup> (3, 6 and 9 months) and annual basis and are available on the website of the Ministry of Finance of Georgia.

90. The annual budget performance report outlines the performance of planned outputs and outcomes with indicators. It provides for comparison between planned and achieved outputs/outcomes. Explanation for main divergences or inconsistencies is expected to be documented, even though it is not always done (but nevertheless the procedure is designed for that purpose). This annual report of the State budget performance is provided to the Government no later than 3 months after the end of the fiscal year which then submits it to the Parliament. Upon receipt the Parliament sends the report to the State Audit Office to get its review back no later than 5 months after the end of the fiscal year.

91. The annual budget performance reports are available on the website of the Ministry of Finance of Georgia.<sup>30</sup>

<sup>29</sup><http://mof.ge/4951>

<sup>30</sup><http://mof.ge/4564>; <http://ncdc.ge/>

92. The state audit reports on annual budget performance cover important issues such as medium-term budget planning, budget preparation and approval, resource management, internal financial control and accounting-reporting. The focus is on implementation of programs of specific spending institutions, and on planned and achieved results and indicators. Score: A.

### 8.3 Resources received by service delivery units

93. In accordance with the Budget Code of Georgia, the budget shall be consolidated with all revenues and expenditures generated or operated by all budgetary units under the Treasury single account (TSA) managed by the State Treasury. Revenues, expenditures and balance changes (including the own revenues allowed by the legislation) of all budgetary units, including those that supply services, are fully recorded through the TSA.

94. Since 2015, all budget units and public legal entities and as well as non-commercial legal entities subjected to their control have been unified in the TSA, except public schools. Kindergartens and pre-school institutions are included in municipality budgets as individual LELPs and expenditure on them is available in their budget execution reports<sup>31</sup>.

95. Two large line ministries provide comprehensive reports, prepared at least annually and compiling information on service delivery by their frontline units as indicated below. These are included in the budget execution reports.

96. As a priority of the Government, the quality of Public Health Care and Social Security is measured through the major programs implemented by the Ministry of Labor, Health and Social Affairs. Statistical information about labor, health and social security programs is available on the website of LEPL Social Service Agency and L. Sakvarelidze National Center for Disease Control and Public Health.<sup>32</sup> Statistics data comprise information about the number of beneficiaries (the total number of beneficiaries according to gender and age, as well as according to the regions), financial assistance, transferred amount, number of visits, program suppliers, service centers, etc. The above information is compiled in the website of the ministry on a report-format and typically updated monthly with statistical information of previous periods also available on the website. Beside these national programs, data is also collected and recorded at the level of each hospital (cost center). The information is compiled in an annual report.

97. Another priority is Education, Science and Professional Training. Its performance is measured within the program budget framework of the Ministry of Education and Science. Secondary schools are financed in accordance with the legislation of Georgia in order to support development of the general education system. Their funding is calculated based on a financial norm and a corresponding standard ratio per student, with consideration of the number of pupils, number of pupils with special educational needs, teachers' workload, additional teachers with relevant status defined by the scheme, administrative costs, school maintenance and other expenses required for school development. Information on financing secondary schools is prepared and available on the website of the Ministry of Finance of Georgia. Semi-annual and annual budgets include information on revenues, expenditures and balance changes of the public schools existing on the territory of the resource centers, according to financing sources (including budgetary funds and other own revenues / expenditures permitted by legislation). The very detailed level of disaggregation of the budget classification (see PI-4) and the disclosure of all data related to service delivery through this classification on at least a semi-

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<sup>31</sup> See table 2.5

<sup>32</sup>[http://ssa.gov.ge/index.php?lang\\_id=GEO&sec\\_id=610](http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=610)

annual basis provide robust, compiled information about service delivery at frontline service unit level (e.g., secondary schools). Score: A.

**8.4. Performance evaluation for service delivery**

98. Budget legislation states that the State Audit Office shall prepare reports and make recommendations on service delivery performance at State budget level. Audit activities of the State Audit Office are expected to strengthen its role as a key advisor in this process through consideration of the main challenges of ongoing reforms in the public finance management system. Thus, the State Audit Office's conclusions and reports regarding the State budget, in addition to the improvement of public finance management at the level of specific agencies, are focused on identifying systemic deficiencies and issuing relevant recommendations.

99. The State Audit Office prepares a report on the annual performance of the State budget of previous year, which aims to assess the accuracy and completeness of the information on the State budget performance. In order to facilitate the improvement of the efficiency of the public financial management system, these reports examine the systemic deficiencies revealed through program implementation and issue recommendations.

100. In 2014-2016, the State Audit Office conducted 21 performance audits of programs implemented by 8 ministries (Ministry of Labor, Health and Social Affairs, Ministry of Education and Science, Ministry of Finance, Ministry of Agriculture, Ministry of Internal Affairs, Ministry of Economy and Sustainable Development, Ministry of Environment and Natural Resources Protection, Ministry of Regional Development and Infrastructure).

101. As per the PEFA scoring, the criteria that are required for meeting the A rating must apply to 75 percent of all ministries in value (“most ministries”). The table below shows that ministries where these features apply represent 80 percent of the total expenditures of all line ministries.

| <b>Table 8.4 Performance Audits</b>                                      |                       |                          |
|--|-----------------------|--------------------------|
| <b>Ministries</b>  | <b>Budget (GEL m)</b> | <b>Performance audit</b> |
| Ministry of Regional Development   | 950                   | Y                        |
| Ministry of Labor, Health and Social Security                            | 3162                  | Y                        |
| Ministry of Education and Sciences                                       | 978                   | Y                        |
| Ministry of Finance  | 90                    | Y                        |
| Ministry of Economy and sustainable development                          | 95                    | Y                        |
| Ministry of Interior Affairs   | 595                   | Y                        |
| Ministry of Agriculture  | 321                   | Y                        |
| Ministry of Environment  | 42                    | Y                        |
| Other 9 ministries   | 1512                  | N                        |
| <b>Total of the ministries where a performance audit was implemented</b> | <b>6233</b>           |                          |
| <b>Total expenditure of all ministries</b>                               | <b>7745</b>           |                          |
| <b>Percentage</b>  | <b>80%</b>            |                          |

Source State Audit Office

102. Based on the above, the score of this dimension is an A.



## PI-9. Public access to fiscal information

103. This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. The time period is the last completed fiscal year and the coverage is budgetary central government

| Indicator/Dimension                       | 2017 Score      |            | Brief justification for score                                      |
|---|-----------------|------------|--|
|   | Self-Assessment | Validation |  |
| PI-9: Public access to fiscal information | A               | A          | The Government provides access to all types of listed information. |

104. Fiscal information is available on various websites that are governed by the relevant State agencies, including the Ministry of Finance<sup>33</sup>, State Treasury<sup>34</sup>, State Audit Office of Georgia<sup>35</sup>, State Procurement Agency<sup>36</sup> and Legislature<sup>37</sup>. The National Bank of Georgia<sup>38</sup> publishes comprehensive financial information, including monthly updated statistics on State external debt, net demands of central and local governments and Treasury securities. The relevant ministries and central authorities also publish their annual budgets on their respective websites.

105. Georgia has considerably improved in the Open Budget Survey published by the International Budget Partnership, rising to a ranking of 5<sup>th</sup> worldwide in the 2017 survey with a score of 82 out of 100. Earlier Georgia was ranked 16<sup>th</sup> in 2012 and 43<sup>rd</sup> in 2006.

106. The following types of budgetary information are made publicly available:

- **Annual executive budget proposal documentation**<sup>39</sup> - The executive budget proposal, together with the supporting documentation and within the timeframe established by the law is available on the website of the Ministry of Finance on the dates of submission of the proposal to the Government and the legislature by the Ministry of Finance.
- **Enacted budget**<sup>40</sup> - The annual budget law approved by the Legislature is made available to the public from the date of its approval by the Legislature on the website of the Ministry of Finance.
- **In-year budget execution reports.** Quarterly reports (at 3, 6 and 9 months)<sup>41</sup> are submitted to the Legislature together with the supporting documentation and materials within one month from the completion of the quarter. The reports are available to the public on the website of the Ministry of Finance immediately after submission to the Legislature.

<sup>33</sup>Website of the Ministry of Finance of Georgia <http://mof.ge/>

<sup>34</sup>Website of the State Treasury <http://treasury.ge/>

<sup>35</sup>Website of the State Audit Office of Georgia <http://sao.ge/>

<sup>36</sup> Website of the Public Procurement Agency <http://procurement.gov.ge/>

<sup>37</sup>Website of the Legislature of Georgia <http://www.legislature.ge/ge/>

<sup>38</sup>The website of the National Bank of Georgia in English is available at the following address: <https://www.nbg.gov.ge/index.php?m=2&lng=eng>

<sup>39</sup><http://mof.ge/5027>

<sup>40</sup><http://mof.ge/5027>; <http://mof.ge/4913>; <http://mof.ge/4742>; <http://mof.ge/4596>;

<sup>41</sup><http://mof.ge/4953>; <http://mof.ge/4955>; <http://mof.ge/4999>;

- **Annual budget execution report**<sup>42</sup> - The annual budget execution report covers the execution of revenues, expenditures and balances of the State budget, the budgets of the Autonomous Republics and local self-governing units. It is available to the public on the website of the Ministry of Finance immediately after its submission to the legislative body.<sup>43</sup>
- **Audited annual financial report**, incorporating or accompanied by the external auditor's report<sup>44</sup>- The State Audit Office audits the Annual budget execution report, as defined above, as well as the expenditures of budget allocations in accordance with the rules prescribed by the legislation. Under Article 31 (1) of the Law of Georgia on State Audit Office, Article 190 (2) of the Rules of Procedure of the Legislature of Georgia and Article 19 and Article 57 of the Budget Code of Georgia, the State Audit Office prepares the audit report and notifies the Government on completion of the report within 45 days after receiving the annual budget execution report from the Government. The State Audit Office submits its report to the Legislature and at the same time publishes it on its website. The Legislature also publishes the report on its website (45 days after reception). The budget execution audit report for the 2016 budget was published on June 12, 2017, i.e. within 6 months of the end of FY 2016<sup>45</sup> (PEFA criteria is 12 months).

#### Additional elements:

- **Pre-budget statement**<sup>46</sup> - The preparation of the annual executive budget proposal starts with the preparation of the country's Basic Data and Directions (BDD) Document from March 1 of each year. The country's BDD Document is a major plan for development of the country, reflecting information on medium-term macroeconomic and fiscal forecasts (4 years ahead, current and previous years), as well as information on programs with the main priorities and directions of development, and ceilings of budget allocations for spending institutions. It covers the Central, Autonomous Republics and Local Authorities of Georgia. The document is updated annually. The Government approves the country's BDD Document up to July 10 of each year and publishes it immediately after (more than 5 months before the start of the fiscal year instead of 4 months required by PEFA scoring)
- **Other external audit reports**- The State Audit Office prepares a report on spending execution in line ministries. It also issues various reports on Public sector performance<sup>47</sup>. It finally issues the annual report on the activity of the Audit Office. All reports of the State Audit Office are available on its website as soon as they are issued<sup>48</sup>.
- **Summary of the Budget proposal or enacted budget. Citizen's guide to the State budget law**<sup>49</sup> - The Ministry of Finance prepares an annual **Citizen's guide to the State budget law**<sup>50</sup> since 2012. This document is prepared for both the draft budget and the approved budget: the draft Citizen Budget is updated as soon as the approved Budget is published and is made available immediately on the website of the Ministry of Finance. Since 2016 the report is also published (paperback) with the support of the

<sup>42</sup><http://mof.ge/5037> ;

<sup>43</sup> The government will produce consolidated financial statements in line with the International Public Sector Accounting Standards (IPSAS) for the 2020 budget. Then, the State Audit Office will audit them and will issue an audit opinion on them

<sup>44</sup><http://sao.ge/files/auditi/moxseneba-2016-biujetis-shesrulebis-cliuri-angarishis-shesaxe.pdf>; <http://sao.ge/files/auditi/2015-clis-sax-biujet-shesrulebis-wliuri-angarishi.pdf>; <http://sao.ge/files/auditi/2014-biujetis-cliuri-shesrulebis-shesaxe-moxseneba-new.pdf>;

<sup>45</sup> <https://sao.ge/about-us/annual-performance-report/annual-report-2016> (report in Georgian)

<sup>46</sup><http://mof.ge/5075>;

<sup>47</sup> Example of some performance reports in 2016: “Assurance of Acceptable Quality Education for Students at the Higher Education Institutions” (10/2016); “Social Use of Timber Resources” (10/2016); “Ensuring Determination of Priorities and Selection of Projects in Local Self-Governing Units” (10/2016).

<sup>48</sup><http://sao.ge/audit/audit-reports>

<sup>49</sup>[http://mof.ge/images/File/gzamkvlevi/GEO\\_C\\_G.pdf](http://mof.ge/images/File/gzamkvlevi/GEO_C_G.pdf); <http://mof.ge/images/File/gzamkvlevi/ENG.pdf>;

<sup>50</sup>[http://mof.ge/images/File/gzamkvlevi/GEO\\_C\\_G.pdf](http://mof.ge/images/File/gzamkvlevi/GEO_C_G.pdf); <http://mof.ge/images/File/gzamkvlevi/ENG.pdf>;

Donor Technical Assistance and was sent to spending institutions, as well as to donor Organizations and non-governmental organizations. The last guide for the budget 2017 was published in paperback in February 2018 (but the disclosure on the website was made the same day of the approved budget).

- **Macroeconomic forecasts**<sup>51</sup>- Information on medium-term macroeconomic forecasts is part of the annual BDD Document that is updated regularly until its final endorsement (July 10 of each year) and is made immediately available on the website of the Ministry of Finance at each update stage.

107. Efficient mechanisms of public involvement in the budget planning process are being developed and implemented with the support of donors. Such development is a complex and laborious process based on the complex budgetary process. Through the Ministry of Finance's website, the public will have the easy access to information about programs planned to be carried out under the annual budget, and the ability to express opinion and participate in the budget planning process. Score: A.

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<sup>51</sup><http://mof.ge/5075>

# PILLAR THREE: Management of Assets and Liabilities

## PI-10. Fiscal risk reporting

108. This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macro-economic situations, financial positions of subnational governments, public corporations, and contingent liabilities from central government's own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The assessment is based on the information available for the most recent fiscal year 2016. Coverage for dimension 10.1 is central government-controlled public corporations. Coverage for dimension 10.2 is subnational government entities that have direct fiscal relations with the central government; for Dimension 10.3 it is central government.

| Indicator/Dimension                                | Minimum Requirements (Scoring Method M2 AV) |            | Brief justification for score   |
|--|---|------------|---|
|  | 2017 Score                                  |            |   |
|  | Self-Assessment                             | Validation |   |
| PI-10: Fiscal risk reporting                       | B   | B          |   |
| 10.1 Monitoring of public corporations             | B   | B          | Audited annual financial statements for <b>most</b> public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by the central government annually. The Government's fiscal risk report addresses individual public corporations. |
| 10.2 Monitoring of subnational government          | B   | C          | Annual financial statements for subnational governments are published by the end of April but are not audited on an annual basis.   |
| 10.3 Contingent liabilities and other fiscal risks | B   | B          | Central government entities and agencies quantify most significant contingent liabilities in their financial reports.   |

## 10.1 Monitoring of public corporations

109. A single register of State corporations has been drawn up based on the information provided by State structures, the LEPL National Statistics Office of Georgia, and various other administrative sources.<sup>52</sup> The register lists the State enterprises with over 50% of their shares owned by the State and annual turnover of over GEL 200,000, or disbursed payroll fund of more than GEL 15,000. Based on these criteria, a total of 266 enterprises were identified of which 175 are owned by central government and 91 by local authorities. Of the 175 enterprises owned by central government, the State owns 100% of shares in 106 enterprises, 50-100% of shares in 33 enterprises, and less than 50% shares in 36. Responsibility for the supervision of these 175 enterprises owned by central government is distributed as follows:

| Table 10.1 Management of Public Corporations |   |
|--|---|
| Number                                       | Managed by  |
| 137  | Ministry of Economy and Sustainable Development of Georgia;   |
| 19   | Incorporated with equity participation of JSC Partnership Fund (including 28 subsidiary companies). Out of them 4 public corporations are managed by the Ministry of Energy of Georgia (Partnership Fund is the founder); |
| 4  | LELPs   |
| 3  | Ministry of Regional Development and Infrastructure of Georgia  |
| 4  | Ministry of Energy of Georgia   |
| 2  | Ministry of Energy of Georgia   |
| 3  | Ministry of Agriculture of Georgia (including the Agriculture Scientific Research Centre LEPL and Ministry of Agriculture Project Management Agency – LEPL)   |
| 1  | Ministry of Sports and Youth of Georgia   |
| 1  | Ministry of Labor, Health and Social Security of Georgia  |
| 1  | Ministry of Penitentiary System and Probation of Georgia.   |

Source: National Statistics Office

110. The list of public corporations also includes small, dormant companies. The Ministry of Economy and Sustainable Development of Georgia carries out measures to optimize them. The number of such public corporations was 1,315 in 2009, reduced to 341 in 2013, and currently is 137.

111. There is a section in the fiscal risk report that covers all the important State enterprises individually amounting to more than 75% of the turnover of all State enterprises<sup>53</sup>. The fiscal risks report includes information about macroeconomic risks, debt sustainability and risks of State enterprises. No information is prepared about public-private partnership agreements and similar vehicles that may result in fiscal risks. For macroeconomic risks analysis possible positive or negative economic and political factors are assessed on the basis of which the three scenarios of macroeconomic development are processed: basic, optimistic and pessimistic. The draft budget is drawn up based on the basic scenario. The pessimistic scenario is used in case of economic slowdown, and the optimistic scenario is used in case of economic development acceleration.

<sup>52</sup> Analysis of Macroeconomic Risks in the Fiscal Sector for 2016-2020

<sup>53</sup>Fiscal Risk Report is published and available on the website of the Ministry of Finance of Georgia <http://www.mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf>

112. Public corporations are not allocated loans from the State budget and they do not receive guarantees. However, the central government on-lends resources provided by International Financial Institutions (IFIs) to finance road infrastructure, water supply, energy transmission and agriculture projects. Fiscal risk may arise if a public corporation fails to repay the loan. The latter issue is regulated in the requirements endorsed by the Ministry of Finance. On-lending in 2015 as well as debt service volumes have been in compliance with the pre-defined budget indicators. Fiscal risks from guarantees and commitments provided by the government in respect of public corporations arise to the extent that calls under them have not been anticipated in budgets and BDD forecasts. To date the fiscal risks of such commitments have not materialized.

113. A number of organizations submit audited comprehensive information on financial statements. The largest of these are included in the Partnership Fund which covers over 75% of public corporations by value. The individual audit reports of the largest of these are published within six months of the end of the preceding financial year<sup>54</sup>. There is also a consolidated audit report of the Partnership Fund Financial Statement which is published within 9 months of the end of the financial year. Score: B.

## 10.2 Monitoring of subnational government

114. Reports on the performance of local budgets (revenues, expenditures and sources of financing) are prepared by cash method and are submitted by end April of the following year to the Mayor's Office. Local government reports are included in the indicators of the State finance statistics. Local budgets prepare their financial reports in accordance with the Decree No.1321 of December 28, 2007 of the Minister of Finance of Georgia on the "instructions on the Accounting reports of organizations financed through the budgets of the autonomous republics and budgets of local self-government units" and the Order N 364 of April 16, 2008, of the Minister of Finance of Georgia on the "forms of Accounting reports of organizations financed through the budgets of the autonomous republics and budgets of local self-government units". Accounting reports of local budgets include data on assets, liabilities and capital, as well as revenue and expenses. In addition, under the Local Self-Government Code, the following is implemented in order to ensure legality and effectiveness of the activities of the municipal authorities in accordance with the legislation of Georgia:

- State audit - by the State Audit Office;
- Independent audit – by invited auditor;
- Internal audit - by entities implementing internal audit that are identified by the regulation of city assembly / city hall.

115. The independent auditor's report and its conclusion are submitted to the City Assembly, and then it is sent to the State Audit Office and published. In addition, according to the legislation, the State Audit Office submits the report to the Parliament once every two years about the audits conducted for the revenues and expenditures of the budgets of the local self-government units. However, there is no consolidated overview report. Score: C.

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<sup>54</sup> For example, Railway of Georgia JSC; Georgian Oil and Gas Corporation JSC; Gas Transportation Company of Georgia ltd; Georgian State Electricity System JSC; Electricity System Commercial Operator JSC

### 10.3 Contingent liabilities and other fiscal risks

116. Information on conditional liabilities and guarantees is recorded and reflected in the Consolidated Financial Statements prepared at State budget level annually, in line with IPSAS 19 - provisions, contingent liabilities and contingent assets – and in accordance with the requirements instructions on the Accounting and Financial Statements of Budgetary Organizations approved by the Order №429 of the Minister of Finance of Georgia of December 31, 2014. In order to record conditional liabilities and guarantees, the instruction includes relevant balance sheets, reference articles - "conditional liabilities" and "bank guarantees". In addition, disclosure of information on conditional liabilities and guarantees is required by explanatory notes in the financial statements.

117. The document on "Macroeconomic Risk Analysis of the Fiscal Sector" is attached to the draft law of the State budget of Georgia. Information on most major and implicit fiscal risks is prepared is available. These include different types of contingent liabilities such as macro-economic failure and all of them are discussed in the annex of the Macroeconomic Risk Analysis of the Fiscal Sector Report. Georgia does not have deposit insurance nor pension funds and has no State guaranteed loans. There are major contingencies such as on-lending operations to public corporations and power purchasing agreements (PPAs) and they are also covered in the annex. The central government and local government do not have PPPs as there is no formal PPP framework under which they could engage so far.

118. Annually MOF has a specific fund (budget code 56 07) for performing on Court decisions and other liabilities in the State budget. The fund works like the reserve fund and resources are allocated to Ministry of Justice mainly after a case which materialized, so government decrees are made per case to allocate resources from the fund to the government unit in charge of repaying (in most cases Ministry of Justice). Also, this fund is used to cover the charges taken by the national bureau of enforcement, which is automatically deducted from Treasury account and no additional decisions need to be made. The fund is traditionally 20 million GEL and has always covered the materialized liabilities. The Ministry of Finance negotiates with Ministry of Justice before preparing the draft law so that known cases are catered for. Score: B.

### PI-11. Public investment management

119. This indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The assessment is based on the fiscal year 2016 and covers central government.<sup>55</sup>

| Indicator/Dimension                 | Minimum Requirements (Scoring Method M2 AV) |            |                               |
|-------------------------------------|---|------------|-------------------------------|
|                                     | 2017 Score                                  |            | Brief justification for score |
|                                     | Self-Assessment                             | Validation |                               |
| PI-11: Public investment management | C+  | C          |                               |

<sup>55</sup> Georgia PER Diagnostics of Public Investment Management System June 2014 provides useful background information that is still relevant.

| Indicator/Dimension                            | Minimum Requirements (Scoring Method M2 AV) |            |   |
|--|---|------------|---|
|  | 2017 Score                                  |            | Brief justification for score   |
|  | Self-Assessment                             | Validation |   |
| 11.1 Economic analysis of investment proposals | C   | C          | Economic analyses are conducted to assess <i>some</i> major investment projects.  |
| 11.2 Investment project selection              | C   | C          | Prior to their inclusion in the budget, <i>some</i> of the major investment projects are prioritized by a central entity.   |
| 11.3 Investment project costing                | C   | C          | Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents.  |
| 11.4 Investment project monitoring             | B   | C          | The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually but only at a superficial level. |

120. An investment projects management guide was developed in 2016 and was approved by the Decree No.191 of April 22, 2016 of the Government for the purpose of establishment of mechanisms for developing and implementing Single Cycle Management of capital / investment projects. Detailed methodology for Investment Projects Management (Decree No.165 of July 22, 2016 of the Minister of Finance of Georgia) was approved on the basis of this guide. Examination of the budget law 2017 shows that 5 major spending entities: ministry of infrastructure (680m); ministry of education (82m); ministry of refugees (52m); ministry of defense (41m) and ministry of interior (31m) constitute about 10% of spending.

### 11.1 Economic analysis of investment proposals

121. Economic analysis is carried out for some of the major investment projects which are mainly financed by donor organizations. For example, the ministry of infrastructure carries out economic analysis for their donor funded capital projects. However, while an Economic Analysis Document is prepared for all the projects, there is no set of standardized procedures. Only some of these appraisal documents are available on the website of Implementers. However according to the performance audit<sup>56</sup> of capital projects for the chosen capital projects that were reviewed, formal appraisal, which is aimed to select the best option among several possible alternatives of the project implementation, are not carried out. Deficiencies were revealed during the detailed planning stage.

122. There is a capital investment annex to the budget. The following ministries are covered: Ministry of Infrastructure and Regional Development, Ministry of Education and Science, Ministry of Energy and Natural

<sup>56</sup> Published Date: 13:05:2016



Resource, Ministry of Health and Social affairs, Ministry of Agriculture, as well as other donor funded projects. The annex information covers: total cost of multi-year projects, current and planned disbursement, other nonfinancial information on each project such as project description, implementing entity, expected and intermediate and final results based on analysis of the individual projects. Analysis of the annex data shows that some 65% of the total investment during the period is funded by donors such as the World Bank, EU, and KFW. Without access to and review of the full project documentation and assuming not all, but a majority, of these will have some economic analysis, which will fall within the 25% to 50% range for a C score<sup>57</sup>.

### **11.2 Investment project selection**

123. Some major investment projects are prioritized in line with its strategic objectives by the State agency before their consideration in the State budget. However according to the performance audit of capital projects, the capital project development strategy is generally absent as line ministries do not have methodology, which defines clearly the capital projects selection criteria and procedures. Score: C.

### **11.3 Investment project costing**

124. Investment / Capital Projects in the budget documentation are provided for the year to be planned and for the next 3 years. The current and capital expenditures are not separated and the recurrent cost implications for the years beyond the budget year are not factored into the forward estimates. Score: C.

### **11.4 Investment project monitoring**

125. Information about the expenditures on investment projects and about the progress of the projects is prepared and reflected in the annual budget report as an annex of capital projects and is available on the website of the Ministry of Finance of Georgia. The annual execution reports have performance indicators related to the implementation of capital projects. However according to the performance audit of capital projects the information about planned and implemented capital projects are not complete and precise, which is caused by the deficiencies related to the definition of capital projects and by incorrect classification of projects as a capital item<sup>58</sup>. Additionally, given that the existing practice of project implementation is not uniform, in some cases, significant deviations from the accepted practice are observed. The form and frequency of the projects monitoring reports, which should be submitted to the project implementing agencies by the project supervisors, are not defined. Consequently, information about the ongoing projects progress is not consolidated. Score: C.

## **PI-12. Public asset management**

126. This indicator assesses the management and monitoring of government assets and transparency of asset disposals. The assessment is based on the fiscal year 2016. Coverage for dimension 12.2 is budgetary central government and dimension 12.3: central government for financial assets and central government for nonfinancial assets.

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<sup>57</sup> See link to the annex to attach to the evidence (budget was approved on November 29, 2016): <https://mof.ge/images/File/biujetis-kanoni2017/damtkebuli/kapitaluri-29.11.2016.pdf>

<sup>58</sup> Projects, such as training and capacity building.

| Indicator/Dimension                 | Minimum Requirements (Scoring Method M2 AV) |            |   |
|-------------------------------------|---|------------|---|
|                                     | 2017  |            | Brief justification for score   |
|                                     | Self-Assessment                             | Validation |   |
| PI-12: Public asset management      | B   | C+         |   |
| 12.1 Financial asset monitoring     | B   | B          | The government maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.   |
| 12.2 Nonfinancial asset monitoring  | C   | C          | The government maintains a register of its holdings of fixed assets, and collects partial information on their usage and age.   |
| 12.3 Transparency of asset disposal | B   | C          | Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The State Property Agency provides detailed information on every transaction. However, disposal of the remaining assets is implemented by the spending line agencies in non-centralized manner and detailed information on what is being disposed is not available in the format of a report. |

### 12.1 Financial asset monitoring

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

128. Annual financial statements submitted by organizations that are funded by the State budget include information on financial assets. Consolidated financial statements are prepared at the State budget level by the Treasury Service based on the financial statements presented by the spending institutions. These are published on the official website of the Treasury Service - [www.treasury.gov.ge](http://www.treasury.gov.ge) - by July 1 of the following year after the end of the reporting year in order to ensure the accountability and transparency. Financial assets are mainly estimated at the acceptance (initial) value, and in rare cases at fair (market) value. Score: B.

## 12.2 Nonfinancial asset monitoring

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

130. For determination of the value of nonfinancial assets the cost of acquisition is mainly used, in some cases - for example, the fair (market) value is used e.g. for realization purposes, which does not provide comprehensive and accurate information on values. Financial data on nonfinancial assets (initial cost, accrued depreciation, residual value, etc.) at the State budget level is presented in annual consolidated financial statements prepared on the basis of the financial statements presented by the spending institutions in accordance with the Government Finance Statistics Manual 2001 (GFSM 2001). The table below shows the classification of nonfinancial assets and their management according to the GFSM 2001 methodology.

| Table 12.2 Non –financial assets records |                                      |  |  |
|--|--------------------------------------|--|--|
| Categories of nonfinancial assets        | Subcategories of nonfinancial assets | Where is the information stored?         | Note   |
| <b>Basic assets</b>                      | Buildings and Facilities             | In financial statements of organizations | Comparably perfect. However, nonfinancial assets may be assessed at a value, which does not correspond to its real (market) value                          |
|  | Machinery and equipment              |  |  |
|  | Other basic assets                   |  |  |
| <b>Material supplies</b>                 |                                      | In financial statements of organizations | The initial values are used for assessing material supplies  |
| <b>Values</b>                            | Precious stones and metals           | In financial statements of organizations | As a rule, it does not include cultural heritage assets (works of art, monuments, etc.) which do not have the values specified in the respective registers |
|  | Art specimens                        |  |  |
|  | Other values                         |  |  |
| <b>Non-produced assets</b>               | Land                                 | In financial statements of organizations | Partially involves land, not including minerals, energy resources, etc.  |
|  | Fossil                               |  |  |
|  | Other natural assets                 |  |  |
|  | Non-produced intangible assets       |  |  |

131. A published table by the Treasury (<http://treasury.gov.ge/5607> - the Treasury website) lists nonfinancial assets by categories indicating initial cost, depreciation, various sources of use and accumulation, residual value – all published on July 1 each year starting from 2013. Therefore, the use and accumulation of the assets are indicated per each category. The age of nonfinancial assets is not available but can be deduced from when they have been entered in the table. Also, treasury has full information about the asset owners by spending entities (as this information is compiled from the financial statement of each entity); however, they are not required to make this information public. Score: C.

## 12.3 Transparency of asset disposal

132. Asset disposal is under the responsibility of the National Agency of State Property with is an autonomous agency reporting initially to the Ministry of Economy and Sustainable Development. The Agency prepares an annual action plan and budget and reports annually on its achievements against the plan in its budget execution report. These plans and reports are part of the budget preparation and execution documentation that is presented to Parliament.

133. The Agency has established rules and procedures for the disposal of assets and this is available on its website. The agency sells the largest part of State property in the form of electronic auctions. To do this it requires widespread dissemination of information and availability of the information to any interested person. Auction publicity is ensured through electronic auctions and electronic and non-electronic media outlets. To this end, the Agency has a special service to provide information to the interested person. It prints news cards, carries out the public relations campaigns and provides information to the interested person about the Agency and the facilities subject to privatization. Information about significant facilities subject to privatization is publicly available through media outlets such as Inter Press News and Business Professional Network. The information is also published on the official Facebook page of the Agency, which has a large number of followers. It publishes details of disposed assets on its website. The agency is actively working on the creation of the single electronic program - "State Property Management Portal", which will have the function of further informing interested parties on the ongoing privatization processes.

134. The disposal of nonfinancial and financial assets in 2016 was respectively 246m GEL and 89m GEL which is broken down by disposals. The State Property Agency (SPA) has disposed around 1,000 units of nonfinancial assets worth of 75m GEL in 2016 (or 30% of all nonfinancial disposals) and very detailed information on every transaction is available online at [www.privatization.ge](http://www.privatization.ge). There are the SPA's periodic reports that briefly summarize their activities. Disposal of the remaining assets is implemented by the spending line agencies in a non-centralized manner and detailed information on what is being disposed is not available in the format of a consolidated report, but will be recorded as revenue from sales in budget execution reports without each item being specified. Score: C.

### PI-13. Debt management

135. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records and controls are in place to ensure efficient and effective arrangements. The assessment is evaluated, for dimension 13.1 at time of assessment. For dimension 13.2, it is based on the last completed fiscal year, 2016 and for dimension 13.3, at time of assessment, with reference to the last three completed fiscal years.

| Indicator/Dimension                                 | Minimum Requirements (Scoring Method M2) |            | Brief justification for score  |
|---|--|------------|--|
|   | 2017 Score                               |            |  |
|   | Self-Assessment                          | Validation |  |
| PI-13: Debt management                              | B  | B          |  |
| 13.1 Recording and reporting of debt and guarantees | A  | A          | Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly. |
| 13.2 Approval of debt and guarantees                | A  | A          | Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on   |

| Indicator/Dimension           | Minimum Requirements (Scoring Method M2) |            |   |
|-------------------------------|--|------------|---|
|                               | 2017 Score                               |            | Brief justification for score   |
|                               | Self-Assessment                          | Validation |   |
|                               |  |            | behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature. |
| 13.3 Debt management strategy | D  | D          | At the time of the Self-Assessment and its validation, the Debt Management Strategy of Georgia 2016-2019 is being developed to reflect the measures and actions to be taken to ensure the implementation of effective debt management policy.   |

136. The Law of Georgia on Public Debt regulates the relations regarding the public debt of Georgia and the authority of issuing the State guarantees on domestic and foreign credits and establishes the basic principles of public debt repayment. According to the provisions of the Ministry of Finance of Georgia, all actions related to foreign and domestic debt management are carried out by the Public Debt and Foreign Financing Department of the Ministry of Finance.

### 13.1 Recording and reporting of debt and guarantees

137. The Ministry of Finance of Georgia maintains complete, updated and reconciled information on State external debt (bilateral and multilateral loans, euro bonds issued by the Government), on debt transfer and State guarantees (State guarantee issued on KFW loan in 1994 and remaining payout that amounts to 1.9 million euro) in two different systems (DMFAS version 6.1.1 and Access database). State internal debts (Treasury Bills, Treasury Bonds, State Bonds and related transactions) are registered in the E-Debt Management System (eDMS). The auction results are registered on the same day, and the settlement is fixed on the following day through the e-treasury system after confirmation of payment.

138. Loan agreements are registered promptly. After receiving information on the notification of payment from the creditors, transactions (charges and debit services) are recorded in the database on the same day.

139. Following the Law of Georgia on Public Debt (Article 7), the Ministry of Finance provides information to the National Bank of Georgia (NBG) on public debt and the loans on which the State guarantees are issued. On a monthly basis, the Ministry of Finance provides information on public debt statistics (balance, disbursements, grants, etc.) to Parliament, Government and NBG. The public debt statistics are also available

on the website of the Ministry of Finance.<sup>59</sup> On a monthly basis, the Treasury Service receives the current statistical data of the public debt and forecasts of future payments of the public debt from the department responsible for debt. The State Audit Office and other institutions may obtain statistical data in accordance with the internal and external debt requirement.

140. The State budget performance report, submitted to the Parliament includes information on public debt. This information includes the balance of public debt, changes in liabilities, disbursement and the aggregated data of payments for the debt service, both for internal and external debt, which is divided in accordance with the types of donors and instruments. The budget performance report also provides information on the planned and achieved results. Since 2015, the budget performance report included the Debt Sustainability Analysis (DSA) and additional information on the State debt. Score: A.

### 13.2 Approval of debt and guarantees

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

142. Under the Law of Georgia on Public Debt, the Ministry of Finance of Georgia (through the Minister), with the consent of the Government (through Parliament)<sup>60</sup> and through consultations with NBG, has the single and exclusive right and responsibility to manage and conclude agreements on the debt in national and other convertible currency, as well as to issue State guarantees for credits to the financial institutions of Georgia and other countries in national and other convertible currencies, which are allocated to Georgian economic agents regardless of ownership and economic activity (Article 2.2). The Ministry of Finance of Georgia carries out external debt services, makes decisions about attracting foreign loans, negotiates with foreign creditors, signs the relevant documents on loan, and records the uses of the borrowed funds (Article 2.3). In addition, the Ministry of Finance of Georgia ensures the management of domestic debt through organizing its coverage and recording, determining and paying interest rates, as well as through conducting other operations (Article 13).

143. In case of external debt, the Ministry of Finance of Georgia, together with the Ministry of Economy and Sustainable Development of Georgia, NBG and other interested agencies and organizations:

- Reviews agreements on the terms and conditions of the Public External Debt and studies the possibilities and conditions of financing on the international financial markets;
- Analyzes the possibilities and conditions of refinancing the public external debts and ensures that the net balance of the debt, following the remaining debt does not exceed the State external debt limits (marginal amount) set by the Law on the Annual State budget at the end of the year;
- Elaborates the normative acts in accordance with the law and submits them to the Government and the Parliament to fulfill the obligations derived from the right to manage the public external debt.

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<sup>59</sup><http://mof.gov.ge/4804>; <http://mof.gov.ge/en/4805>;

<sup>60</sup> Except for Eurobonds

144. In case of Eurobonds, the process is the same, although the ratification of the parliament is not necessary. The government defines the regulatory norms for the issuance of Eurobonds and grants the Ministry of Finance of Georgia the authority to release the Eurobonds and to sign all relevant documents.

145. Financial conditions of loans from foreign sources are selected and reviewed by the State Debt Formation and Regulation Commission of the Ministry of Finance of Georgia; selected financial conditions are submitted to the Government for approval. The Commission also discusses matters related to the public internal debt. External and domestic debt parameters are defined in the draft state budget to ensure the maintenance of public debt sustainability in a medium-term and are part of the budget approval process. Score: A.

### **13.3 Debt management strategy**

146. At the time of the Self-Assessment and its validation, the Debt Management Strategy of Georgia was being developed. This strategy is intended to reflect the measures and actions to be taken by the Government to ensure the implementation of effective debt management policy. The main objectives of the strategy are to ensure that the borrowing needs of the government within the minimum price and adequate risks are funded, and to provide strategic directions in areas that include refinancing, interest rate and currency risk. A Power Point presentation on General Government Debt Management Strategy 2018-2020 covers the following:

147. Objectives and Scope of Debt Management Strategy

- Macroeconomic Overview
- General Government Debt Portfolio Description
- General Government Debt Portfolio Analysis
- Borrowing Sources
- Cost and Risk Analysis of 4 Alternative Strategies and Strategy Targets (Guidelines)

148. Since this strategy is not yet approved and does not operate, the indicator is scored as a D.



## PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

### PI-14. Macroeconomic and fiscal forecasting

149. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government’s capacity to estimate the fiscal impact of potential changes in economic circumstances. The time period is the last three completed fiscal years. The coverage is for dimension 14.1: Whole Economy and for Dimensions 14.2 and 14.3: central government.

| Indicator/Dimension                         | Minimum Requirements (Scoring Method M2 AV) |            |  |
|---|---|------------|--|
|   | 2017 Score                                  |            | Brief justification for score  |
|   | Self-Assessment                             | Validation |  |
| PI-14: Macroeconomic and fiscal forecasting | A   | A          |  |
| 14.1: Macroeconomic forecasts               | A   | A          | The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the three following fiscal years. The projections have been reviewed by the Parliament Budget Office (PBO). |
| 14.2 Fiscal forecasts                       | A   | B          | The government prepares forecasts of the main fiscal indicators, including revenues (by type), disaggregated expenditure, and the budget balance, for the budget year and three following fiscal years. These forecasts, together with the underlying assumptions are included in budget documentation submitted to the legislature.   |
| 14.3 Macroeconomic sensitivity analysis     | A   | A          | The government prepares the scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.  |



## 14.1: Macroeconomic forecasts

150. Comprehensive medium-term macroeconomic forecasts and underlying assumptions are prepared by the Ministry of Finance to inform the budget planning process. Forecasts and underlying assumptions are generated for the key variables of the national accounts (including GDP growth, inflation, interest rates, and the exchange rate), external sector, monetary sectors and public sector.

151. The framework covers a data series of the last two years, the current year, the year to be planned and the next three years (7 years in total). The forecasts are updated at least annually at the stage of annual budget processing and in addition forecasts are updated if the State budget law is amended within the year. Fiscal forecasts are being reviewed by the Parliament Budget Office, which is an independent body and carries out functions of fiscal council<sup>61</sup>. During 2016, draft 2017 State budget law package, including fiscal forecasts (2017-2020) has been reviewed and assessed twice: in October (first submission of the 2017 budget law to the parliament) and in December (third submission) by the PBO<sup>62</sup>. PBO prepares its own forecast which is usually consistent with the MOF projections. Score: A.

## 14.2 Fiscal forecasts

152. Fiscal forecasts in Georgia are prepared on the basis of macroeconomic parameters for the planning year and for the next three years. The country's Basic Data and Directions Document (BDD) reflect both the revenue and expenditure forecasts and links to the priorities of the country. In 2016, the MOF has prepared a fiscal forecast for the budget year 2017 and the three following fiscal years based on updated macroeconomic projections and that reflects government-approved expenditure and revenue policy settings. The MOF generates detailed forecasts for the general government accounts which includes: (i) revenue decomposition by direct and indirect taxes, grants and non-tax revenues (ii) spending decomposition by categories (iii) change in financial and nonfinancial assets and liabilities; (iv) fiscal balance; and (v) identifies underlying assumptions (including rates, coverage, and projected growth).

153. The updated expenditure and revenue estimates of 2017 budget and subsequent three years were based on the policy decisions made in 2016. Therefore, all necessary adjustments to the inflation and growth figures were incorporated in the fiscal forecasts 2017-2020. Also, a number of major changes to the fiscal policy were initiated during 2016. For example, the impact of fiscal consolidation measures on public service wages and administrative costs was taking into account; tax revenue estimates were adjusted to take into account excise rate increase and profit tax rate cuts entering in force from January 2017. However, variations between the approved fiscal forecast 2017-2020 and the projections included in the previous year's approved budget (2016-2019), are not explained explicitly and the published explanatory note, which is attached to the budget law<sup>63</sup>, includes partial costing of measures affecting the planning year (2017), but not the medium-term projections.

154. It should be acknowledged that starting from late 2017 the government has introduced a new annex to the budget law 2018 (annex on Forecast Reconciliation), which requires explicit reporting of the differences between the estimates/projections reported in the macrofiscal framework of 2017-2020 and macrofiscal

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<sup>61</sup><http://pbo.parliament.ge/about-us/what-we-do> ; charter:  
<http://pbo.parliament.ge/images/Charter%20for%20the%20Parliamentary%20Budget%20Office%20of%20Georgia.pdf>

<sup>62</sup> <http://pbo.parliament.ge/ge/component/k2/itemlist/category/81>

<sup>63</sup> <https://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/ganmartebiti.pdf>

framework of 2018-2021. However, these explanations were not available at the time of the assessment. Score: B.

### 14.3 Macroeconomic sensitivity analysis

155. The published budget law 2017 package included three scenarios of major macroeconomic indicators: baseline, optimistic and pessimistic.<sup>64</sup> The baseline scenario is based on the expected economic development, the probability of which is the highest in the medium-term. Therefore, the fiscal framework is drawn up on the basis of the above-mentioned scenario. The pessimistic scenario is created for an impediment of economic development, while the optimistic scenario assumes an acceleration of economic activities. For an effective management of macroeconomic risks, it is important to predict what fiscal responses the government will have in case of deviation from the basic scenario.

156. Analysis of macroeconomic risks of the fiscal sector is prepared for 2016-2020.<sup>65</sup> The goal of the document is to identify macroeconomic risks and assess their fiscal outcomes in order to predict fiscal policy responses in case of negative and positive deviations. In the process of macroeconomic risk assessment, all available positive or negative economic and political factors affecting the macroeconomic indicators are considered.

157. The debt sustainability analysis of the Government has been developed for 2017-2024, the major goal of which is to assess the government's ability to serve the obligations within the medium and long terms, and which includes the assessment of various possible risk factors and their impact on the government debt portfolio. It helps the government to identify the outcomes of negative factors in advance and to elaborate the relevant action plan. Score: A.

### PI-15. Fiscal strategy

158. This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. The time period for dimension 15.1 is the last three completed fiscal years and for dimensions 15.2 and 15.3: the last completed fiscal year. Coverage is central government.

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<sup>64</sup> <http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf>;  
[http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16\\_1-BDD.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_1-BDD.pdf);  
[http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16\\_3-BDD.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_3-BDD.pdf);  
[http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16\\_2%20BDD.pdf](http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_2%20BDD.pdf)

<sup>65</sup> <http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf>

| Indicator/Dimension                    | Minimum Requirements (Scoring Method M2 AV) |            |  |
|--|---|------------|--|
|  | 2017 Score                                  |            | Brief justification for score  |
|  | Self-Assessment                             | Validation |  |
| PI-15: Fiscal Strategy                 | B   | D+         |  |
| 15.1 Fiscal impact of policy proposals | B   | D          | The government has not prepared estimates of the fiscal impact of all proposed changes in revenues and expenditures policy for the budget year.  |
| 15.2 Fiscal strategy adoption          | B   | B          | The Government has adopted and submitted to the Legislature a fiscal strategy document, which includes the goals and objectives of the year to be planned and of the next three following years. |
| 15.3 Reporting on fiscal outcomes      | C   | D          | The Government does not prepare an internal report on the progress made against its fiscal strategy. Such a report has not been prepared for at least the last completed fiscal year.            |

159. The annual Budget law submitted to the Legislature includes several documents including the Basic Data and Directions (BDD) Document, the annex on capital projects, and the Explanatory Note. These three documents provide insight on the fiscal impact of revenues and expenditure policy proposals of the budget:

- the BDD Document provides general information about the budget evolution over the budget year and the three following years. This information is provided through budgetary aggregates by economic nature and administrative unit and by program with a significant amount of comments;
- the Capital Budget annex includes a comprehensive list of capital projects planned within the budget, with a timeline for their implementation. It also provides information on total cost of project and financing source with completion dates for each project.
- the Explanatory Note provides relevant quantitative information about the breakdown of some main appropriations or revenues into baseline and new policy for the budget year (only).

160. The budget itself is not presented in a way that allows this quantitative breakdown into the fiscal impact of the baseline and new policy. However, the combination of the BDD Document and the Explanatory Note provides a partial basis for achieving this. This is a deficiency in the budget documents per se. All these documents are presented for the approval of the Parliament.

161. The fiscal strategy of the government is approved by the Legislature by dint of the Economic Liberty Act that was enacted in 2011 and enforced in 2014. This document includes quantitative targets for expenditure rule (30 percent of GDP), fiscal balance rule (3 percent of GDP) and State debt (60 percent of GDP). The timeframe for these fiscal rules is the same as the BDD's (four-year forecast projection including for the budget

year). The document is annexed to the budget and, as such, submitted to the Parliament. The last document approved by the legislature was in 2016.

162. While the government prepares execution reports (quarterly and annually) of the budget, there is no synthesis document to report on execution of the fiscal objectives against the annual budget. In particular, no document outlines the consistence of the three quantitative targets (expenditures, deficit and debt) with the annual budget execution.

### **15.1 Fiscal impact of policy proposals**

163. The Basic Data and Directions (BDD) Document for 2017-2020 includes the main planned reforms within the next four years. The document includes medium-term macroeconomic forecasts, main directions and maximum allowable budget allocations for the spending institutions for funding these priority directions during the budget year and the three following years.

164. Although the document remains largely qualitative, it is complemented by the Capital Budget Annex and the Explanatory Note that include some (but not all) quantitative information on the fiscal impact of new policies for the budget year (Explanatory Note) and the following years (BDD). Nevertheless, the extent of non-quantified new policies<sup>66</sup> is such that a strict implementation of the PEFA scoring methodology of this dimension leads to a D score. There are two main reasons for such a rating:

- not all new initiatives are quantified, (i.e. those which represent at least 90 percent in value of the budget); but much less; and,
- very few data are available for the three-year period included in the scope of the PEFA, i.e. 2014, 2015 and 2016.

### **15.2 Fiscal strategy adoption**

165. The BDD Document of the country is approved by the Government by July 10 of each year. The Document consists of the main directions, budgetary priorities and maximum allowable budget allocations for the spending institutions for the year to be planned and for the next three years. It includes quantitative fiscal targets (expenditure rule, fiscal balance rule and State debt) that are set in the 2011 Economic Liberty Act (see above).

166. Although one main indicator for fiscal target (expenditure rule) is not fulfilled for the budget 2017 (target of 30 percent was exceeded and to peak at 33.3 percent), the Economic Liberty Act is in line with a B score.

### **15.3 Reporting on fiscal outcomes**

167. The government does not prepare a fiscal strategy execution report that compares the planned objectives for fiscal rules with the actual of at least the previous year. The annual report of budget execution, published in

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<sup>66</sup> For example, the following new initiatives in the BDD Document are not quantified: marketing activities for tourism, protected areas for eco-tourism, development of different types of tourism, development of business tourism, improvement of environmental management, protection of biodiversity, sustainable forest management, disease prevention, specialized health care program, maternal and child health programs, implementation of electronic medical records system, introduction of universal quality standards in early and preschool education, introduction of free lessons in general education, higher sport education for teachers. This list is not comprehensive.

the Ministry of Finance website, includes information on the economic situation (economic growth, prices, exchange rate of GEL, foreign trade, public debt, cash transfers) and on the execution of the budget (revenues, expenditures, reserve funds and other), but not on the indicators related to the fiscal rules<sup>67</sup>. The IMF's Fiscal Transparency Evaluation report (Sep 2017) reached the same conclusion.<sup>68</sup> Score: D.

## PI-16. Medium-term perspective in expenditure budgeting

168. This indicator examines the extent to which expenditure budgets are developed for the medium-term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. Assessment is based on, for dimensions 16.1, 16.2 and 16.3, last budget submitted to the legislature, 2017. For dimension 16.4, last budget submitted to the legislature 2017, and the current budget 2018. The coverage is budgetary central government.

| Indicator/Dimension  | Minimum Requirements (Scoring Method M2 AV) |            |   |
|--|---|------------|---|
|  | 2017 Score                                  |            | Brief justification for score   |
|  | Self-Assessment                             | Validation |   |
| PI-16: Medium-term perspective in expenditure budgeting    | B+  | B+         |   |
| 16.1 Medium-term expenditure estimates                     | A   | A          | The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification.                                     |
| 16.2 Medium-term expenditure ceilings                      | A   | A          | Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.   |
| 16.3 Alignment of strategic plans and medium-term budgets  | A   | A          | Medium-term strategic plans are prepared and costed for all ministries. Expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans and assessed in the subsequent execution reports |
| 16.4 Consistency of budgets with previous year's estimates | C   | D          | There is no explanation of the 4.1% absolute deviation or the 10.6% composition deviation.  |

<sup>67</sup>[http://mof.ge/images/File/biuj2016\\_12tve/mokle-informacia-2016-wlis-biujetis-shesrulebis-shesaxeb.pdf](http://mof.ge/images/File/biuj2016_12tve/mokle-informacia-2016-wlis-biujetis-shesrulebis-shesaxeb.pdf)

<sup>68</sup> Within the framework of the technical assistance of the International Monetary Fund, it is planned to review / analyze existing fiscal rules and introduce additional regulations for both state and local budgets, if necessary. It is also planned to improve the presentation of the budget in order to get a better breakdown of the budget between the baseline and the new policy.

### 16.1 Medium-term expenditure estimates

169. In 2015, five ministries (Ministry of Education and Science, Ministry of Environment and Natural Resources Protection, Ministry of Labor, Health and Social Security, Ministry of Corrections and Probation and Ministry of Finance) were pilot ministries for a new budget process within the framework of Public Finance Management Reform. The 2016 draft budget has been prepared in this renewed format and all ministries prepared and approved detailed medium-term action plans accompanied by appropriate cost estimates and are compatible with the country's basic data and directions document and the annual budget law.

170. The 2017 – 2020 BDD document, as part of budget documentation, provides estimates for the budget year and the following three years annually on economic, administrative bodies and their related programs. These latter two classifications cover Government programs and donor capital projects by program for the same time period and are included as an annex to the budget. Taken together they provide information by implementing ministry/agency and their programs. However, the actual budget document itself covers only the budget year as it authorizes spending for the budget year only. Score: A.

### 16.2 Medium-term expenditure ceilings

171. No later than 5 days after the approval of the BDD document by the Government, the Ministry of Finance of Georgia provides the forms of budget proposal to the spending institutions through the Electronic Budget Management System (E-budget). This reflects the maximum allowable budget ceiling allocations, within the limits of which the spending institutions prepare the budget proposal for the next years (budget and subsequent three years annually). These are submitted to the Ministry of Finance no later than September 1, in accordance with the Budget Code, through the Budget Management System (E-budget). These ceilings are hard although the spending agencies are permitted to enter, as a separate entry in the system, a request and justification for additional resources to fund their programs. These will be considered as part of the subsequent budget negotiation process, but are not certain to be granted. Score: A.

### 16.3 Alignment of strategic plans and medium-term budgets

172. The Budget Code establishes the basic framework of public finances around programs over the medium-term. The process and procedures relate to a number of individual elements, such as: budget strategic compilation, budget preparation and approval, management of resources. One of the key factors for successful implementation of any policy is the correct calculation of expenditures and their reflection in the budget. Under the legislation<sup>69</sup> the policy planning documents include the relevant financial calculations, different sectoral plans and action plans that are accompanied by appropriate cost estimates. Within the framework developed under the Public Finance Management Reform, the relation between the policy documents and the annual budget has been developed and has significantly improved with the introduction and experience of implementing of program-based (result-oriented) budgeting. The revised methodology of the program budget also envisages preparation of detailed medium-term (4-year) action plans by the ministries accompanied by appropriate cost estimates and corresponds to the annual budget law and the country's BDD document. The

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<sup>69</sup>On the Approval of "Strategic Documents of Public Administration" - "Guide to Public Administration Reform of Georgia 2020" and "Policy Planning System Reform Strategy 2015-2017". Decree of the Government of Georgia (Decree N427 of August 19, 2015; Decree N385 of July 8, 2011 of the Ministry of Finance of Georgia on drawing up the program based budget.

BDD regulates the process of preparation of program budgets and medium-term action plans by the Ministries in the format of the Working Groups.

173. The Ministry of Finance is involved in the development of sectoral plans and action plans in various directions in order to ensure the reflection of relevant budgets in these documents and their connection with the Government’s program, the annual budget law and the country's BDD document. All of the above mentioned ensures a close relation between the policy documents and budgets. Score: A.

#### 16.4 Consistency of budgets with previous year’s estimates

174. The number of changes between the second year of the previous MTEF and the actual budget in the following MTEF is 104.1% with an absolute deviation of 10.6%.<sup>70</sup> While these are not significant, the budget documentation does not provide any explanation of any of the changes that have taken place. Score: D.

#### PI-17. Budget preparation process

175. This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. The time period for dimensions 17.1 and 17.2 is last budget submitted to the legislature and for 17.3 the last three completed fiscal years. Coverage is budgetary central government.

| Indicator/Dimension                       | Minimum Requirements (Scoring Method M2 AV) |            | Brief justification for score  |
|---|---|------------|--|
|   | 2017 Score                                  |            |  |
|   | Self-Assessment                             | Validation |  |
| PI-17: Budget Preparation Process         | A   | A          |  |
| 17.1 Budget calendar                      | A   | A          | The budget calendar is clear and adhered to. It allows budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.                       |
| 17.2 Guidance on budget preparation       | A   | A          | The budget circular (BDD) is comprehensive and covers total expenditure for the fiscal year. The ministry ceilings reflected in the circular are approved before the circular distribution to budgetary units. |
| 17.3 Budget submission to the legislature | A   | A          | The government submitted the annual budget proposal more than three months before the end of the year in each of the last three fiscal years.  |

<sup>70</sup> using the spreadsheets for PI-3.2

176. Due to the transfer of the 2012 State budget to the program-based format, the Country's BDD Document of 2013-2015 was prepared in a different format for the first time in order to make it consistent with the requirements set out in the program budget.

177. In 2015, program-based budgeting methodology was modified, and new regulations were drafted in more detail that recommend the spending units to develop programs and sub-programs, prepare appropriate cost estimates, determine expected interim and final results and performance assessment indicators from their medium-term plans, sectoral strategies and available resources point of view.

178. The program budget considers a wider system of indicators: Basic and targeted indicators, the probability of error and the possible risks shall be presented for each program. The goal is that Programs / Sub-programs / Activities and their Budgets defined by the Ministries' Medium Action Plans or various Sectoral Strategies will be reflected in the relevant annual draft budget and Basic Data and Directions Document. The methodology describes the procedures for preparing medium-term action plans by the Ministries and provides detailed information on what shall be covered by the medium-term action plans and how to prepare information, including cost estimates of each medium-term action plan for different types of programs.

179. The revised methodology of program budget proposes to facilitate the preparation of medium-term action plans by the Ministries in the Working Groups format. Within the framework of the EU Public Finance Management Reform (PFM III) the Evaluation Mission has issued a recommendation, on the involvement of high-level management in the process of preparation of medium-term action plans by the Ministries and on the creation of the Working Groups in all Ministries. According to the resolution, the Working Group will be headed by the Minister and the Working Group will be composed of heads / representatives of departments that define the policy of relevant direction, and heads / representatives of the structural units' subject to sub-agency and other control. The employee of the budgetary department of the Ministry of Finance of Georgia may be also involved in the working group.

180. The abovementioned regulations concerning the preparation of budget documentation in the format of the Working Group also was drafted by the Government on the "Measures to be implemented for the purpose of drawing up the Basic Data and Directions Document of the Country" and was approved by the Resolution N104 of February 26, 2016.

181. Within the framework of the Public Finance Management Reform, all levels of budget and all budgetary organizations were unified in the Treasury single account system. In particular, the relevant modules of the State finance management system have been updated and since January 1, 2015, all levels of budget and all budgetary organizations have been unified in the Treasury single account system both at planning and performance stage.

182. As a result of the reform, the circle of institutions envisaged under the Budget Organization terminology was expanded and the sphere of regulation of the Budget Code applies to all legal entities established by and/or subordinated to the Central, Autonomous Republics and Local Authorities of Georgia (except for legal entities with entrepreneurial status and National Bank of Georgia). This contributes to greater transparency of the budgetary process. The budget format and submission procedures have been significantly improved. Significant steps have been taken towards the results-oriented planning, medium-term perspective, and the existence of links between strategic planning and budget.



## 17.1. Budget calendar

183. The Budget Calendar is clearly defined by the Budget Code of Georgia. The Budget Calendar, which follows the conditions set out in the Budget Code and indicates relevant dates, is available on the website of the Ministry of Finance of Georgia. The rights and obligations of relevant State agencies are described in detail for each phase of the budgeting process. The main steps of the budget process are described below.

184. The Budget Calendar was strictly compiled by all participants for the last three budgets submitted to the legislature (budgets for FY 2015, 2016 and 2017).

185. The budget circular is the BDD document which is adopted by the Government before July 10 of each year. It includes the budgetary unit's ceilings that are filled in the electronic budget system, E-Budget, before July 15 each year. The application forms provided to the budgetary units through the electronic system are clearly understood and enable them to fill all the necessary information. In addition, the E-Budget is connected to the E-Treasury, which allows for the automatic synchronization of the data of the previous years. Consequently, accuracy of information is ensured and the process is transparent.

186. *All* the budgetary units (99%) sent their budget proposal between August 26 and 31, which allowed them at least six weeks to complete their estimates from the day the budget ceilings were entered in E-Budget (July 15).

187. The budget calendar is clear and adhered to. It allows budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time. Score: A.

| Budget Calendar of State Budget of Georgia*  |                                 |   |
|--|---------------------------------|---|
| Dates  | Responsible Agency              | Process   |
| Until 1 <sup>st</sup> March  | Government of Georgia           | for the purpose of preparation of Basic Data and Directions Document of the country determines lists of information and dates to be presented by decree   |
| Until 1 <sup>st</sup> June   | Government of Georgia           | for the purpose to consent on Basic Data and Directions Document with Committees of Parliament of Georgia, presents information on Main Macroeconomic Forecasts and Main Directions of Ministries of Georgia to Parliament of Georgia                               |
| Not later than 20 <sup>th</sup> June   | Parliament of Georgia           | conclusions of Committees of Parliament of Georgia to be presented to Government of Georgia   |
| Until 30 <sup>th</sup> June of every year  | Ministries of Georgia           | adopts their medium-term action plans   |
| Not later than 10 <sup>th</sup> July   | Government of Georgia           | adopts country's primary version of Basic Data and Directions Document  |
| not later 5 days after adoption Basic Data and directions by Government of Georgia   | Ministry of Finance of Georgia  | sends budgetary request forms to spending organizations   |
| Not later than 1 <sup>st</sup> September   | Heads of Spending Organizations | presents budgetary requests to Ministry of Finance of Georgia   |
| Not later than 15 <sup>th</sup> September  | Ministry of Finance of Georgia  | presents main parameters of draft law on state budget to government of Georgia  |
| Not later than 25 <sup>th</sup> September  | Ministry of Finance of Georgia  | presents draft law on state budget and renewed version of Basic Data and Directions Document to Government of Georgia   |
| Not later than 1 <sup>st</sup> October   | Government of Georgia           | presents draft law on State Budget of Georgia with attached materials consented with President of Georgia and also Basic Data and Directions Document correspondent to draft Law on state budget to Parliament of Georgia   |
| Not later than 22 <sup>nd</sup> October  | Parliament of Georgia           | sends remarks and suggestions made during the committees' sessions, conclusions of State Audit Office of Georgia and National Bank of Georgia to Government of Georgia  |
| Not later than 5 <sup>th</sup> November  | Government of Georgia           | presents changed versions of draft law of state budget and Basic Data and Directions Document with information on consideration on state of taking into account of provided remarks and suggestions, to Parliament of Georgia for discussion at plenary session     |
| Not later than 15 <sup>th</sup> November   | Parliament of Georgia           | sends remarks and suggestions provided at plenary sessions to government of Georgia   |
| Not later than 30 <sup>th</sup> November   | Government of Georgia           | presents draft law on state budget and Basic Directions and Data Document final versions with information on consideration on state of taking into account of provided remarks and suggestions provided at plenary session to Parliament of Georgia                 |
| Not later than third Friday of December  | Parliament of Georgia           | votes draft law on state budget. Law on State Budget of Georgia should be adopted by majority of lists of MP's by one hearing   |
| In case of failer of adoption of state Budget of Georgia until third Friday of December, in 10 days, but not later 31 <sup>st</sup> December | Parliament of Georgia           | same version of draft law of state budget or redesigned version of agreement committee of members of Parliament of Georgia and Government of Georgia should be revoked again  |
| In case of discharge of Parliament of Georgia due to failer of adoption of State Budget  | President of Georgia            | adopts State Budget of Georgia by decree and presents for adoption to newly elected Parliament after one month from its rights recognition  |
| in 5 working days after publishing Law on State Budget of Georgia  | Spending Organizations          | present information on quarterly and/or monthly probable distribution of assigned funds of State Budget to Ministry of Finance of Georgia   |
| Not later than 15 days after publishing State Budget of Georgia  | Ministry of Finance of Georgia  | makes decisions on quarterly and/or monthly distribution of state and consolidated budgets (In tax part)  |
| Not later 1 month from the beginning planning budget year  | Ministry of Finance of Georgia  | on the basis of information received from local self-governments and autonomous republics, provides preparation of Basic Data and Directions Document final version and its presentation to Finance and Budget Committee of Parliament of Georgia as an information |
| In 20 days after end of every month  | State Treasury of Georgia       | presents to Parliament of Georgia accountability report indicating receipts, expenses, change in residual and total balance of State Budget of Georgia  |
| In 1 month after end of every quarter  | Ministry of Finance of Georgia  | presents to parliament of Georgia quarterly overview of accrual execution of State Budget of Georgia  |
| Not later than three month after end of budgetary year   | Government of Georgia           | presents annual report on execution of State Budget of Georgia to Parliament of Georgia   |
| Not later one month after presentation report on execution of State Budget of Georgia to Parliament of Georgia by Government of Georgia      | State Audit Office of Georgia   | presents report to Parliament of Georgia, on annual report on execution of State Budget of Georgia presented to Parliament of Georgia by Government of Georgia  |
| Not later than 15 <sup>th</sup> June   | Parliament of Georgia           | issues decree on adoption or failer of adoption on execution of State Budget of Georgia   |
| In one month, in case of failer of adoption report on execution of State Budget of Georgia by Parliament of Georgia                          | President of Georgia            | considering responsibility of Government of Georgia, informs Parliament on conformity of its decision   |

\*assembled according to Budget Code of Georgia

## 17.2. Guidance on budget preparation

188. As mentioned above, the budget circular is the BDD Document which is an electronically published document. This document is prepared according to the budget code of Georgia:

- A Government Resolution defines a list of information and deadlines for submission of the requested data by budgetary units (as well as Autonomous Republics and Local governments) for the BDD Document by March 1 (paragraph 3 of article 34 of the budget code),
- The government submits information on the major macroeconomic projections and main directions of the line ministries to the parliament by June 1 (paragraph 4 of the article 34 of the budget code). The parliament does not officially endorse the BDD but its committees send their opinions by June 20,
- The government approves the first draft of the BDD Document by July 10 (paragraph 6 of the article 34 of the budget code of Georgia).
- In compliance with the ceilings defined in the BDD and within 5 days of its approval, the government submits the budget proposals template to the budgetary units through E-Budget.

189. Thus, the circular, which includes the ministry ceilings, is discussed with the budgetary units during its preparation, submitted to the parliament for opinion, and approved by the government (cabinet) before it is distributed to the budgetary units.

190. The budget code defines the content of the BDD (paragraph 5 of article 34):

- Main macroeconomic indicators (nominal and real Gross Domestic Product (GDP), economic growth, inflation, investments, etc.) projections and their description for the past, current, future and three following fiscal years
- Aggregated indicators of consolidated and central government budget revenue and expenditure, financial and nonfinancial assets and liabilities for the past, current, future and three following fiscal years
- Analysis of the central government budget execution for the past fiscal year and projections for the current fiscal year
- State priorities defined by the government for the two next years
- Programs, objectives and funding of budgetary units for the two next years
- Budget ceilings for each budgetary unit
- Orientations for expenditure for the programs and sub-programs for each budgetary unit.

191. The level of information described above ensures that the circular is clear and comprehensive. It covers total expenditure of central government for the fiscal year and contains expenditure ceilings for all the budgetary units. Score: A.

## 17.3. Budget submission to the legislature

192. In accordance with the budget code of Georgia, the government shall submit the draft central government budget to the Parliament no later than October 1. The table below shows that this rule was complied with for the budgets 2014 to 2016. The government submitted the annual budget proposal more than three months before the end of the year in each of the last four fiscal years. Score: A.

| Table 17.3 Date of budget submission to the legislature |                    |
|---|--------------------|
| Budget  | Submission Date    |
| 2014  | September 25, 2013 |
| 2015  | September 25, 2014 |
| 2016  | September 22, 2015 |
| 2017  | September 23, 2016 |

Source Ministry of Finance

## PI-18. Legislative scrutiny of budgets

193. This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. Time period: Last completed fiscal year (2016) for 18.1, 18.2 and 18.4. For 18.3 last three completed fiscal years (2014, 2015 and 2016). Coverage: budgetary central government.

| Indicator/Dimension                               | Minimum Requirements (Scoring Method M1 WL) |            | Brief justification for score   |
|---|---|------------|---|
|   | 2017 Score                                  |            |   |
|   | Self-Assessment                             | Validation |   |
| PI-18: Legislative scrutiny of budget             | A   | A          |   |
| 18.1 Scope of budget scrutiny                     | A   | A          | The Georgian Parliament's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.  |
| 18.2 Legislative procedures for budget scrutiny   | A   | A          | The legislature's procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also include arrangements for public consultation. |
| 18.3 Timing of budget approval                    | A   | A          | During the last three fiscal years the legislative body approved the annual budget law before the start of the fiscal year.   |
| 18.4 Rules for budget adjustment by the executive | A   | A          | Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendment and are adhered to in all instances.   |

### 18.1. Scope of budget scrutiny

194. The legislative body analyzes the fiscal policy, medium-term priorities, budget revenues and expenditures in detail. According to the Budget Code of Georgia, the draft law of the State budget, which is submitted to the Parliament, includes detailed information about the revenues and expenditures of the State budget. The BBD Document of the country is submitted to the Parliament together with the draft budget of the relevant year, which includes information on the medium-term macroeconomic and fiscal forecasts, as well as information about the main directions of development of central government, autonomous republics and local authorities of Georgia (Budget Code of Georgia, Article 34).

195. The draft State budget of 2017, as well as of 2016 and other recent years was fully compatible with the requirements defined by the Budget Code and the Parliament reviewed them in compliance with the requirements of the Rules of Procedure. Score: A.

### 18.2. Legislative procedures for budget scrutiny

196. The legislative procedures for budget scrutiny are approved before the start of budget hearings. The further process complies with the approved procedures. These procedures define the internal organizational procedures of the legislature, such as:

- the respective responsibilities of the Budget and Finance committee and other legislative committees in the process,
- the existence of technical supports within the Parliament such as the staff of the Budget and Finance committee or the Parliamentary Budget Office, which is independent from the Parliament but issues comments on the budget proposals,
- negotiation procedures, such as the existence of a submission of a second and a third version of the budget proposal by the executive to the legislature after the Parliament comments on the proposals.

197. The Rules of Procedure of the Parliament specifically defines procedures for reviewing the country's BBD Document, the draft State budget law and its attached materials. The submitted documents are publicly available immediately after their submission to the Parliament (Article 182, paragraph 2). In addition to the above, and in accordance with the Rules of Procedure of the Parliament, the Committee sessions are public (Article 49, paragraph 10), and information on the Committee sessions and their agenda is available on the website of the Parliament (Article 49, Paragraph 5). During the public hearings, public representatives (citizens, NGOs, association) are part of the discussion, the format allows them to ask questions, express their views, argue, and debate.

198. The review of the budget 2017 was implemented with the following procedures:

- On October 3, 2016, the schedule for review of the draft State budget law drawn up by the Finance Budget Committee, the report of the Government and the BDD Document of the country was submitted to the Parliament Bureau (Parliament Bureau session # 427, 03.10.2016).<sup>71</sup>
- According to this schedule, following the committee discussions, the draft law was reviewed at the summary meeting of the Budget and Finance Committee (#34, 17.10.2016<sup>72</sup>), after which the comments

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<sup>71</sup><http://info.parliament.ge/#law-drafting/12985>

<sup>72</sup><http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-346.page>

were reflected in the conclusions of the committees and submitted to the Speaker of the Parliament in accordance with the Rules of Procedure of the Parliament (Rules of Procedure of the Parliament, Article 183).

- On December 1, 2016, the final version of the State budget law together with the attached materials, the BDD Document and information on the proposals and comments were submitted to the Parliamentary Bureau (Parliamentary Bureau Session #7, 01.12.2010).<sup>73</sup>
- After the committee reviewed the final version of the draft budget, the draft law was reviewed at the summary meeting of the Budget and Finance Committee (#5, 09.12.2016).<sup>74</sup>

199. In the course of the review, conclusions of the State Audit Office and the National Bank of Georgia, as well as the Budget Office Reviews were submitted to the Parliament in accordance with the requirements defined by the Rules of Procedure. The final version of the draft budget was reviewed and approved at the plenary session on December 14, 2016.

200. The review of the budget **2016** was carried out with the following procedures:

- On September 30, 2015, the schedule of review of the draft State budget law drawn up by the Finance Budget Committee, the report of the Government and the BDD Document of the country was submitted to the Parliament Bureau (Parliament Bureau session # 330, 30.09.2015).<sup>75</sup>
- According to this schedule, following the committee discussions, the draft law was reviewed at the summary meeting of the Budget and Finance Committee (#49, 20.10.2015<sup>76</sup>), after which the comments reflected in the conclusions of the committees have been submitted to the Speaker of Parliament in accordance with the Rules of Procedure of the Parliament (Rules of Procedure of the Parliament, Article 183).
- On November 30, 2015, the final version of the State budget law together with the attached materials, the BDD Document and information on the proposals and comments were submitted to the Parliamentary Bureau (Parliamentary Bureau session # 354, 30.11.2015).<sup>77</sup>
- After the committee reviewed the final version of the draft budget, the draft law has been reviewed at the summary meeting of the Budget and Finance Committee (#57, 04.12.2015).<sup>78</sup>

201. In the course of review, conclusions of the State Audit Office and the National Bank of Georgia, as well as the Budget Office Reviews have been submitted to the Parliament in accordance with the requirements defined by the Rules of Procedure. The final version of the draft budget was reviewed and approved at the plenary session on December 11, 2015.

202. The legislature's procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review

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<sup>73</sup><http://info.parliament.ge/#law-drafting/13092>

<sup>74</sup><http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-5-9-dekemberi-2016-weli.page>

<sup>75</sup><http://info.parliament.ge/#law-drafting/10668>

<sup>76</sup><http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-495.page>

<sup>77</sup><http://info.parliament.ge/#law-drafting/10668>

<sup>78</sup><http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-575.page>

committees, technical support, and negotiation procedures. They also include arrangements for public consultation. Score: A.

### 18.3. Timing of budget approval

203. The law requires that the government submits the draft budget and its annexes to the Parliament by October 1<sup>st</sup><sup>79</sup>. The Parliament has to approve the budget by the third Friday of December<sup>80</sup>. The table below shows the dates of approval and the legal deadline for the last four years.

| <b>Table 18.3 Approval of Budget Dates</b> |                                 |                       |
|--|---------------------------------|-----------------------|
| <b>Budget</b>                              | <b>Date of approval</b>         | <b>Legal deadline</b> |
| 2014                                       | December 11, 2013 <sup>81</sup> | December 20, 2013     |
| 2015                                       | December 12, 2014 <sup>82</sup> | December 19, 2014     |
| 2016                                       | December 11, 2015 <sup>83</sup> | December 28, 2015     |
| 2017                                       | December 14, 2016 <sup>84</sup> | December 16, 2016     |

Source Enacted Budgets

204. During the last three fiscal years the legislative body approved the annual budget law before the start of the fiscal year. Score: A.

### 18.4. Rules for budget adjustment by the executive

205. There are clearly defined rules for making amendments to the Budget Law by the Executive Government during the year. The rules strictly define the limits of the amendments that are complied with in all cases, according to the Parliamentary Budget Office.

206. Rules for making amendments to the budget throughout the year, including the nature and scope of the distribution are determined by the Budget Code (Article 31). In particular:

- Reallocations of budgets between budgetary units have to be approved by the Parliament through an amendment to the budget. It occurred once in 2016,
- Reallocation of funds between programs and sub-programs of budgetary units may be carried out by the Ministry of Finance without requiring amendments to the law and approval of the Parliament. However, such reallocations shall not exceed 5% of the annual budget allocation of the budgetary unit. This rule was complied with.

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

<sup>79</sup>Budget Code, Article 39, Paragraph 1.

<sup>80</sup>Budget Code, Article 39, Paragraph 8.

<sup>81</sup><https://matsne.gov.ge/ka/document/view/2144522>

<sup>82</sup><https://matsne.gov.ge/ka/document/view/2144522>

<sup>83</sup><https://matsne.gov.ge/ka/document/view/3108373>

<sup>84</sup><https://matsne.gov.ge/ka/document/view/3495562>

# PILLAR FIVE: Predictability and Control in Budget Execution

## PI-19. Revenue administration

208. This indicator relates to the entities that administer central government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. These may include public corporations that operate as regulators and holding companies for government interests. In such cases the assessment will require information to be collected from entities outside the government sector. The assessment period for dimension 19.1 and 19.2: At time of assessment. For dimension 19.3 and 19.4: Last completed fiscal year, 2016.

| Indicator/Dimension                              | Minimum Requirements (scoring Method M2 AV) |            | Brief justification for score   |
|--|---|------------|---|
|  | 2017 Score                                  |            |   |
|  | Self-Assessment                             | Validation |   |
| PI-19: Revenue administration                    | C+  | B+         |   |
| 19.1 Rights and obligations for revenue measures | A   | A          | Entities collecting <i>most</i> revenues use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures. |
| 19.2 Revenue risk management                     | C   | A          | Entities collecting <i>most</i> revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for <i>all</i> categories of revenue and, at a minimum for their large and medium revenue payers.          |
| 19.3 Revenue audit and investigation             | C   | A          | Entities collecting <i>most</i> revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete <i>all</i> planned audits and investigations.                                 |
| 19.4 Revenue arrears monitoring                  | D   | D          | The stock of revenue arrears at the end of the last completed fiscal year is around 5 percent of the total revenue collection for the year but the revenue arrears older than 12 months is around 90 percent of total revenue arrears.                      |

209. The relative importance of tax groups is as below. There are no social security contributions in Georgia. All taxes are administered by Georgia Revenue Services which is covered in this indicator.



| <b>Table 19 Tax Revenue by Groups</b> |              |
|---------------------------------------|--------------|
|                                       | <b>GEL m</b> |
| Total Taxes                           | 8,010.90     |
| Personal Income Tax                   | 2,223.20     |
| Company Income Tax                    | 1,025.20     |
| VAT                                   | 3,505.50     |
| Excise                                | 870.7        |
| Import Duty                           | 69.3         |
| Property Tax                          | 290.1        |
| Other Taxes                           | 26.8         |

Source Ministry of Finance Statistics

### 19.1 Rights and obligations for revenue measures

210. The web portal of the Revenue Service [www.rs.ge](http://www.rs.ge) provides information on the various taxes in place as well as the services provided to taxpayers. The information includes the legislative base for each tax, any changes that have taken place, addresses of service centers, contact information, activities planned by the Revenue Service, as well as useful information related to various types of business. There is a Pocket Tax Book, which presents in one document the relevant information on taxes, and a Frequently Asked Questions guide.

211. Taxpayers can get information and answers to queries at the service center of the revenue office. Those regions where there are no service centers are served by mobile service center - RS CAR. The movable service center (minibus) is equipped so that taxpayers can receive a variety of electronic services on the spot. In addition, the Information-Consulting Telephone Center of the Revenue Service provides the taxpayer with consultation in legislative and technical issues, such as filling out the declarations, issuing the invoice, etc. There is also an active tax education program. The 2016 Annual Report of the Revenue Services states that within 2016, the Public Relations Division implemented an educational project for the students of the higher education institutions of Georgia and throughout the country: 17 educational tours were carried out in 9 customs checkpoints, 4 customs clearance zones and 9 service centers. 692 students from 21 higher institutions were engaged in the project. All forms of the media – TV, radio, print and social - are used to inform the public of their obligations and what services it can receive. The GRS also produce case manuals on tax application and provide advanced rulings as a guide in specific cases of tax law.<sup>85</sup> The assessment team was able to confirm that fees and charges for services are displayed and comprehensive and that the provision for payment is receipted and accountable.<sup>86</sup>

212. The law has provision for a three-stage appeal process should a tax payer not agree with an assessment or ruling. The first stage is with the Dispute Resolution Council of the GRS, the second stage is with the MOF Dispute Resolution Council (which has representatives from the private sector as members) and the final recourse is with the judicial system. There is a disputes manual that sets out the process and procedures. There

<sup>85</sup> A positive assessment of taxpayer education services is reported in Business Perception Survey on Policy Reforms USAID Governing for Growth (G4G) in Georgia 15 December 2016

<sup>86</sup> Public Service Hall issuing ID card, marriage and birth registration, passport and property registration. Also, some protected areas visitor centres.

is also a Tax Ombudsman appointed by the Prime Minister (in coordination with the Chairman of the Parliament) who is responsible for monitoring the protection of taxpayers' rights and their legitimate interests, disclosing violations and taking remedial action. Of the 7,982 disputes in 2016, 8% were fully satisfied 64% partially satisfied 13% not satisfied and 15% still to be considered. Analysis of 1,362 cases in the GRS 2016 Annual report indicates that 85% of disputes were resolved in favor of GRS. Score: A.

## 19.2 Revenue risk management

213. The Georgian taxation system is a self-assessment system under which taxes are calculated, paid and reported in accordance with prevailing tax legislation. Each tax payer has a unique taxpayer identification number which is issued when a company is registered. Employees are also issued with a number. Each tax payer has its own electronic file on the GRS computer system which is accessible in real time by the tax payer. The system is linked to the procurement system and a person or company cannot enter a tender if there is an outstanding tax liability, which is the equivalent of tax clearance certificate. Information is exchanged with the Ministry of Internal Affairs and National Public Registry Agency, for obtaining information on any estate registered with companies and individuals. A tax number is required when opening a bank account and the opening of the account is communicated to the Revenue Services.

214. Risk management is a crucial part of the GRS strategy and has the following stages:

- Identification of risks;
- Risk assessment and analysis;
- Determination of risk priority;
- Risk response and reduction measures;
- Evaluation / monitoring of results.

215. Taxpayers are divided into different risk groups and different measures are defined for each group. Two main approaches of risk assessment and analysis have been developed by the administration department: The first structural and systematic approach is an automatic risk assessment program through which the taxpayers' groups are analyzed and relevant measures are planned. While taxpayers are not separated into a large taxpayer unit as in many countries, size of turnover is an important element in the risk criteria as is the sector (such as construction) and previous compliance. The automatic risk assessment program selects high-risk payers for the audit quarterly plan. The second and least structural and systematic approach is the analysis of the information obtained from the various information bases on specific taxpayers by analysts and risks analysis, according to which the appropriate tax measures are planned. Customs uses ASYCUDA World and its risk module for selection of importers into the channels for clearance of imports. The risk module is populated with data relating to the importer, type of import and country of origin which have their own risk profile based on previous history.

216. The Revenue Service has established the service of Personal Tax Advisor (PRIVÉ) who provides a full package of tax services. This Personal Tax Advisor is an employee of the Revenue Service and is the main contact person for the taxpayer, serving the taxpayer at his/her convenience and simplifying relations with the tax authority.

217. There are provisions for penalties for non-compliance. These provisions include: late payment of tax 0.07% of the tax due for each complete/incomplete overdue day; late filing of tax return 5% of the tax stated in the tax return for each complete/incomplete overdue month minimum 200 GEL and maximum 30% of the tax stated in the tax return; understatement of tax (other than due to incorrect timing) 50% of the understated amount; understatement of tax due to incorrect timing 10% of the understated amount and crediting tax based

on bogus operations or fictitious agreements or fake VAT documents 200% of credited tax. Ultimately the GRS can confiscate property. In 2016, 9,950 Customs violations were recorded - (8,278 tax offences with an accrued amount of sanction of 8,764,539 GEL and on 1,282 administrative offences the accrued amount of sanction of 838,532 GEL). The GRS 3,378 issued Orders for the seizure of the property. Score: A.

### 19.3 Revenue audit and investigation

218. GRS has an Audit Department which accounted for 18% of the total GRS staff of 3,748 in 2016 according to the GRS 2016 Annual Report, of which 367 were qualified auditors. During 2016 a draft regulation on tax audit procedures in the Audit Department was developed. It describes in detail all the procedures undertaken by the Audit Department for implementation of its main activities. It identifies the structural units responsible for undertaking procedures and the associated timeframe. A draft Auditors Code of Ethics has been developed and submitted to the Legal Department for comments and suggestions.

219. Audit selection is based on the risk assessment generated by the Analytical Department. Field audits cover all taxes by the audited entity whereas desk audits can be related to single or multiple tax types. The Department conducted 1,076 field audits (40% completed within two months) and 2,468 desk audits (65% completed within one month) in 2016. Following the application of regulations, a total of 3,545 audits were planned to be conducted in 2017 and 3,773 were carried out, a 106% completion rate.

220. In 2016, the Customs Department completed 81 desk audits as per its plan in addition to the inspections following the ASYCUDA procedures of green (no check) yellow (document check only) red (full inspection) and blue (post clearance) channels. The coverage of imports relates to import duties (which are not significant) but also VAT on imports. It also commenced joint audits with the Audit Department.

221. The relative numbers of inspections by ASYCUDA channels are:

| Table 19.3 ASYCUDA Channels |                |               |                |               |              |              |               |               |               |              |
|-----------------------------|----------------|---------------|----------------|---------------|--------------|--------------|---------------|---------------|---------------|--------------|
| 2016                        |                |               |                |               |              |              |               |               |               |              |
| Regime                      | Total          |               | Green          |               | Blue         |              | Yellow        |               | Red           |              |
| Export                      | 34 541         | 14.0%         | 32 543         | 13.2%         | 640          | 0.3%         | 819           | 0.3%          | 534           | 0.2%         |
| Import                      | 193 515        | 78.5%         | 148 512        | 60.2%         | 4 855        | 2.0%         | 23 629        | 9.6%          | 15 566        | 6.3%         |
| Other                       | 18 477         | 7.5%          | 16 645         | 6.8%          | 2            | 0.0%         | 1 318         | 0.5%          | 508           | 0.2%         |
| <b>Total</b>                | <b>246 533</b> | <b>100.0%</b> | <b>197 700</b> | <b>80.2%</b>  | <b>5 497</b> | <b>2.2%</b>  | <b>25 766</b> | <b>10.5%</b>  | <b>16 608</b> | <b>6.7%</b>  |
| 2017                        |                |               |                |               |              |              |               |               |               |              |
| Regime                      | Total          |               | Green          |               | Blue         |              | Yellow        |               | Red           |              |
| Export                      | 45 023         | 16.2%         | 43 198         | 15.50%        | 437          | 0.20%        | 858           | 0.30%         | 526           | 0.20%        |
| Import                      | 207 142        | 74.6%         | 161 571        | 58.20%        | 4 359        | 1.60%        | 26 848        | 9.70%         | 13 099        | 4.70%        |
| Other                       | 25 661         | 9.2%          | 24 278         | 8.70%         |              |              | 914           | 0.30%         | 460           | 0.20%        |
| <b>Total</b>                | <b>277 826</b> | <b>100.0%</b> | <b>229 047</b> | <b>82.40%</b> | <b>4 796</b> | <b>1.70%</b> | <b>28 620</b> | <b>10.30%</b> | <b>14 085</b> | <b>5.10%</b> |

Source Georgia Revenue Services

222. As a result of field audit activities GEL 170 m was generated in 2016 and GEL 197m from desk audits. Customs Department post clearance audits generated GEL 1.5m the same period. Score: A.

## 19.4 Revenue arrears monitoring

223. As presented in the table below the percentage of the existing debt to gross tax revenue is 61% in 2016, falling from 83% in 2014 and 99% in 2015. However, 89% of the total debt in 2016 is more than 12 months old, the majority of which cannot be recovered due to the nature of the debt (the so-called debts of inactive organizations). Debt arising in recent years amounts to only 5%, which indicates that the current accumulation is low. As a result of the amendments made to the legislation during 2016, a part of the inactive debt has been written-off, amounting to 1,687,341,237 GEL for 36,140 taxpayers. Score: D.

| <b>Table 19.4 Tax Arrears</b><br>(Amounts in thousands GEL)                         |                 |               |                 |               |                 |               |
|---|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| <b>Tax arrears</b>  | <b>2014</b>     |               | <b>2015</b>     |               | <b>2016</b>     |               |
|   | <b>Quantity</b> | <b>Amount</b> | <b>Quantity</b> | <b>Amount</b> | <b>Quantity</b> | <b>Amount</b> |
| Secured debt by the end of the year   | 243,205         | 5,849,729     | 243,478         | 7,736,690     | 226,490         | 4,907,061     |
| Including debts more than 12 months old   | 189,061         | 5,145,340     | 187,214         | 5,164,160     | 170,523         | 4,385,366     |
| Revenues  |                 | 7,006,666     |                 | 7,769,307     |                 | 7,986,751     |
| % of debt in relation to the gross revenue  |                 | <b>83%</b>    |                 | <b>99%</b>    |                 | <b>61%</b>    |
| % of debt of more than 12 months old in relation to the gross revenue               |                 | <b>88.0%</b>  |                 | <b>67.0%</b>  |                 | <b>89.0%</b>  |
| Debts arising during the year   | 21,012          | 389,204       | 49,315          | 800,923       | 55,967          | 521,695       |
| % of debts arising during the year in relation to the actual index of annual income |                 | <b>4.3%</b>   |                 | <b>8.1%</b>   |                 | <b>5.0%</b>   |

Source Georgia Revenue Services

## PI-20. Accounting for revenue

224. This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling the tax revenue accounts. It covers both tax revenues and non-tax revenues collected by the central government. The assessment period is at time of the assessment.

| Indicator/Dimension                     | Minimum Requirements (scoring Method M1 WL) |            |   |
|---|---|------------|---|
|   | 2017 Score                                  |            | Brief justification for score   |
|   | Self-Assessment                             | Validation |   |
| PI-20: Accounting for revenue           | A   | A          |   |
| 20.1 Information on revenue collections | A   | A          | A central agency obtains revenue data at least monthly from entities collecting <i>all</i> central government revenue. This information is broken down by revenue type and is consolidated into a report. |
| 20.2 Transfer of revenue collections    | A   | A          | Entities collecting <i>most</i> central government revenue transfer the collections directly into accounts controlled by the Treasury, or transfer the collections daily to the Treasury.                 |
| 20.3 Revenue accounts reconciliation    | A   | A          | Entities collecting <i>most</i> central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury on a bi-monthly basis.                       |

### 20.1 Information on revenue collections

225. All revenues are transferred to the Treasury single account which is managed by and operated by the Treasury. Treasury code defines the type of revenues transferred to the Treasury single account, which is registered in the Treasury service information system. As from January 2016, a monthly revenue performance report is produced for management. Score: A.

### 20.2 Transfer of revenue collections

226. Tax revenues are recorded to the Treasury single code, and non-tax revenues - to the Treasury code opened for the appropriate revenue in the TSA. The taxpayer initially pays into the GRS account in a commercial bank and this is transferred into the TSA by the bank on a daily basis. If transfers are not made within 24 hours the bank is subject to a fine. Score: A.

### 20.3 Revenue accounts reconciliation

227. Each tax payer has an electronic account which has a record of when taxes are due and the amount to be paid. When a taxpayer makes a payment, the amount paid is allocated to the total obligation and to the individual tax liability in chronological order. At the end of the period the individual account can be reconciled as to payments due and to arrears if any. This is done at the end of each month on all tax payer accounts. As

indicated in PI-3.2 there was some teething trouble in implementing this system which is now resolved<sup>87</sup>. The GRS can monitor revenues in real time. The GRS reconciles payments to the TSA and this is carried out on the 15<sup>th</sup> of each month. Score: A.

## PI-21. Predictability of in-year resource allocation

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

| Indicator/Dimension                             | Minimum Requirements (Scoring Method M2 AV) |            | Brief justification for score  |
|---|---|------------|--|
|   | 2017 Score                                  |            |  |
|   | Self-Assessment                             | Validation |  |
| PI-21: Predictability of in-year allocation     | A   | A          |  |
| 21.1 Consolidation of cash balances             | A   | A          | The consolidated information about all bank and cash balances is available at the official website of the Treasury Service at the end of the day.            |
| 21.2 Cash forecasting and monitoring            | A   | A          | A cash flow forecast is prepared annually for the fiscal year, broken down by months and updated monthly on the basis of actual cash inflows and outflows.   |
| 21.3 Information on commitment ceilings         | B   | A          | Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases. |
| 21.4 Significance of in-year budget adjustments | A   | A          | Insignificant adjustment to budget allocations was made once in 2016 and was done in a transparent and predictable way.                                      |

### 21.1. Consolidation of cash balances

229. According to the budget law, all revenues of the budget are immediately transferred to the Treasury single account. The Treasury, on the basis of its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through daily auctions. to the average balance of these funds is GEL 500 m. The consolidation of cash balances in TSA and commercial banks is made on a daily basis and published on the Treasury website ([www.treasury.gov.ge](http://www.treasury.gov.ge)).

<sup>87</sup> The SAO identified some conceptual deficiencies in “other taxes” with respect to 2016. Taxes are classified at the time of payment deadline for a specific payer, because of which paid taxes are reflected in article of “other taxes” initially. In 2016 some 500 m GEL were not reconciled which amounted to 6% of total collections which does not impact on the score. In 2017 the problem was resolved.

230. All budgetary units transfer their revenue in the TSA except for the own revenues e.g. primary schools and kindergarten, which are deposited in commercial banks. On average, these deposits amount to GEL 46 m, or less than 5% of the GEL 1bn of cash balance in TSA and commercial banks mentioned above. They are not consolidated with the rest of the cash balances on a daily basis.

231. Consequently, *all* (95%) of bank and cash balances are consolidated on a daily basis. Score: A.

232. In order to mobilize additional revenues, the introduction of cash flow management mechanisms is planned within the framework of cash flow management reform. The Treasury will transfer free cash flows in various banking instruments on financial markets. The draft of the relevant provision has been elaborated and the technical platform for conducting the deposit auctions is prepared. After the entry into force of the regulation, the active transactions will start on the financial market. The employees of the Treasury have been trained on investments and risk management issues.

### 21.2. Cash forecasting and monitoring

233. Within the Treasury Service, the Department of Cash Forecasting and Management is in charge of forecasting and managing the cash flows. This unit was established in 2015. In addition to the cash flow forecast, this unit is responsible for:

- analyzing the financial market,
- selecting and monitoring financial tools and instruments for optimizing cash management,
- collecting, processing and analyzing the historical data of cash balances, revenues and expenditures, etc.

234. A cash flow forecast is prepared through statistical analysis and econometrical models which are based on historical data, forecasts of revenues and expenditures (including information on contract payment schedules, periodic payments and information coming from the budgetary units about their expected one-time payments).

235. A cash flow forecast is prepared annually for the year to come and broken-down month by month. It is updated at least monthly on the basis of actual inflows and outflows. In addition, each month, the Treasury prepares a daily projection of cash flow for the month to come. Score: A.

### 21.3. Information on commitment ceilings

236. After the annual State budget law is approved, its allocations are included in the Public Financial Management Information system for each budgetary unit and broken down by quarters. Thus, commitment ceilings become automatically accessible to the budgetary units which have full authority to commit expenditure within the limits of the quarterly budget allocations.

237. The under-consumption of commitment in a quarter is automatically carried over to the following quarter and the information is provided in the information system. As there wasn't any cash flow problem, there wasn't any reduction of the commitment ceilings.

238. In 2016, budgetary units were able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases. Score: A.

## 21.4. Significance of in-year budget adjustments

239. In-year budget adjustments must comply with article 30 of the Budget Code which requires that:
- reallocation from a budget unit to another budget unit is made through amendments to the annual budget law,
  - distribution of budget allocations between the individual programs and sub-programs of budgetary units do not exceed 5% of the budgetary unit's allocation.
240. The 2016 budget was amended only once by the Parliament. The total increase in revenue and expenditure is summarized in the table below.

|             | Original budget | Amended budget | Difference     |          |
|-------------|-----------------|----------------|----------------|----------|
|             | <i>Million</i>  | <i>Million</i> | <i>Million</i> | <i>%</i> |
| Revenue     | GEL 10,145      | GEL 10,318     | GEL 173        | 1.7%     |
| Expenditure | GEL 10,145      | GEL 10,292     | GEL 147        | 1.5%     |

Source Ministry of Finance

241. In addition to the total increase in expenditure, the amended budget raised the health care expenditure by a total amount of GEL 40m. The increase was covered by a corresponding decrease in administration expenditure of budgetary units.
242. The difference between the original budget and the amended budget is measured according to the methodology of PI-2.1 for the main budgetary units. The variance in expenditure composition is 3.4%. Thus the 2016 in-year adjustment to budget allocations is not significant.
243. This adjustment was compliant with the rules set in the budget code, which require an approval by the Parliament. It was discussed with budgetary units before the proposed amended law was tabled in the Parliament. The commitment ceilings of budgetary units were modified accordingly in the information system after the amended law was adopted. Therefore, the in-year budget adjustments were transparent and predictable.
244. Insignificant adjustments to the budget were made once in 2016 and were done in a transparent and predictable way. Score: A.

## PI-22. Expenditure arrears

245. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. For 22.1 the time period is the last three completed fiscal years (2014, 2015 and 2016) and for 22.2 at the time of assessment. Coverage is budgetary central government.



| Indicator/Dimension                 | Minimum Requirements (Scoring Method M1 WL) |            |   |
|-------------------------------------|---|------------|---|
|                                     | 2017 Score                                  |            | Brief justification for score   |
|                                     | Self-Assessment                             | Validation |   |
| PI-22: Expenditure arrears          | C+  | C+         |   |
| 22.1 Stock of expenditure arrears   | A   | A          | Amount of expenditure arrears did not exceed 2% during 2014-2016.   |
| 22.2 Expenditure arrears monitoring | C   | C          | The financial statements submitted to the Treasury Service by spending institutions provide information on stock and composition of expenditure arrears but not their age profile. No monitoring is done in-year. |

### 22.1. Stock of expenditure arrears

246. According to the PEFA definition, arrears are overdue debt, liabilities, or obligations. In Georgia, arrears are defined as registered liabilities for which the goods or services are provided during the year but the relevant documents have not been received at the end of the fiscal year. Consequently, the payment cannot be processed during the year and is reported to the following year.

247. Those arrears are regulated by the Budget Code of Georgia and annual Budget Law which require their coverage by the sub-program 60 07 (funds for repayment of debt accumulated in previous years and execution of court decisions) of the program 60 00 (Payment of general State importance). They are reported in the annual financial statements. There are no arrears in personnel expenditure.

**Table 22.1 Expenditure Arrears**

| Year | Arrears (registered liability - payment) | Cash expenditure | Arrear / Cash expenditure % |
|------|--|------------------|-----------------------------|
| 2014 | 151,269,200                              | 8,177,876,300    | 1.85%                       |
| 2015 | 136,316,753                              | 8,838,171,800    | 1.54%                       |
| 2016 | 100,745,700                              | 9,404,231,300    | 1.07%                       |

Source Ministry of Finance

248. As shown in the above table, the volume of credit debt does not exceed 2% of the expenditures. Arrears per se (i.e. overdue debt, liabilities, or obligations) are necessarily lower than the registered liabilities at the end of the year. Score: A.

### 22.2. Expenditure arrears monitoring

249. The financial statements submitted to the Treasury Service by spending institutions provide information on the stock and composition of expenditure arrears. Accordingly, the periodicity of preparation of such information is annual. No information on the age of arrears is provided.

250. Payments that are not processed with before the due date specified in the contract are not monitored.

251. Data on stock and composition of expenditure arrears is generated annually, at the end of the year. Based on the analysis and supporting evidence, the score for this dimension is C. However, a Module for recording invoices (VAT Invoices, Acceptance - Delivery Acts, etc.) in the PFMIS is being analyzed. If such a module is introduced, it will enable the monitoring of the existence of expenditure arrears during the year. Score: C.

**PI-23. Payroll controls**

252. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of nonsalary internal controls, PI-25. The time period for 23.1, 23.2 and 23.3 is at the time of assessment and for 23.4 is for the last three completed fiscal year (2014, 2015 and 2016) and coverage is central government.

| Indicator/Dimension                               | Minimum Requirements (Scoring Method M1 (WL)) |            | Brief justification for score   |
|---|---|------------|---|
|   | 2017 Score                                    |            |   |
|   | Self-Assessment                               | Validation |   |
| PI-23: Payroll controls                           | A   | A          |   |
| 23.1 Integration of payroll and personnel records | A   | A          | The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system. |
| 23.2 Management of payroll changes                | A   | A          | Personal records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.   |
| 23.3 Internal control of payroll                  | A   | A          | Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The  |

| Indicator/Dimension | Minimum Requirements (Scoring Method M1 (WL)) |            |  |
|---------------------|---|------------|--|
|                     | 2017 Score                                    |            | Brief justification for score  |
|                     | Self-Assessment                               | Validation |  |
|                     |   |            | changes are certified by an authorized person and approved by the head of the unit. In addition, for remuneration changes, these have to be approved by the Treasury. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and token numbers to be used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high. |
| 23.4 Payroll audit  | B   | A          | There is a strong system of annual payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues.   |

### 23.1. Integration of payroll and personnel records

253. The annual budget law provides information on the number of employees and the budget for salaries. The budgetary units maintain and recruit staff within the parameters of this law. Payroll records for budgetary units are maintained by their human resource personnel using the E-Treasury system that has a payroll module. The payroll module has a human resource management system that captures an employee's start date, position, identification number, department name, bank account, salary amount, tax and insurance payments, promotions and salary changes. Payroll records can be accessed and reviewed by the State Treasury but they only have read only access. This restricts alternations to the records. Upon the issuance of an appointment letter to an employee, before the records are entered into E-Treasury (payroll module), they are reconciled with the employee's records in the Civil Registry database managed by the Ministry of Justice. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. There is also a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system. Score A.

254. There are ongoing public service reforms whose objective is to have one integrated civil service with a harmonized remuneration system.

### 23.2. Management of payroll changes

255. Whenever required, the budgetary units update the records of employees prior to the monthly payroll payments. These updates are reflected in real-time mode in the E-Treasury (payroll module) and taken into consideration in the month's payroll payments. Retroactive changes to the existing payroll records are not allowed in the E-Treasury system. Score: A.

### 23.3. Internal control of payroll

256. There is a strong system in place that monitors payroll changes at the budgetary units and it has an audit trail. At the budgetary units, there is a two-level authorization process aka a four-eye principle, with respect to payroll changes. For any change, the system automatically generates a unique number with a status of “to be certified”. The certification is done by an authorized person of the entity and the certified payroll record is then approved by the head of the unit, taking into consideration the requirements of the Labor legislation. If the changes are being made to the employee’s remuneration, these have to be authorized by the State Treasury under a three-level authorization process. This approval process leaves an audit trail as each approver accesses the E-Treasury system using a unique password and token number. Payroll data integrity is high as both internal and external auditors who conduct regular payroll audits, consider the risk to be low. Score: A.

### 23.4. Payroll audit

257. Payroll audits for the last three financial years (2014-2016) have been conducted by the State Audit Office. The audit is part of the mandatory audit procedure for financial and compliance audits that are done in accordance with International Standards for Supreme Audit Institutions (ISSAI). Audit coverage over this period has averaged 94% of the annual State budget which includes payroll. In addition, internal auditors conduct regular payroll audits in accordance with the Law of Georgia on State Internal Financial Control and international standards issued by the Institute of Internal Auditors. These audits identify payroll control weaknesses and accountability issues. Score: A.

### PI-24. Procurement

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

| Indicator/Dimension         | Minimum Requirements (Scoring Method M2 AV) |            | Brief justification for score  |
|-----------------------------|---|------------|--|
|                             | 2017 Score                                  |            |  |
|                             | Self-Assessment                             | Validation |  |
| PI-24: Procurement          | A   | B+         |  |
| 24.1 Procurement monitoring | A   | A          | Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for <b>all</b> procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP). |
| 24.2 Procurement methods    | A   | A          | As per public procurement legislation open competition above 5,000 GEL equivalent to US\$ 2,000 is a default method. 91% of contracts by value procured in 2016 were conducted through competitive selection.  |

| Indicator/Dimension                           | Minimum Requirements (Scoring Method M2 AV) |            |   |
|---|---|------------|---|
|   | 2017 Score                                  |            | Brief justification for score   |
|   | Self-Assessment                             | Validation |   |
| 24.3 Public access to procurement information | A   | A          | <p>All the key procurement information is made available to the public. These include but are not limited to:</p> <ul style="list-style-type: none"> <li>(1) legal and regulatory framework for procurement;</li> <li>(2) government procurement plans;</li> <li>(3) bidding opportunities;</li> <li>(4) contract awards (purpose, contractor and value);</li> <li>(5) data on resolution of procurement complaints; and</li> <li>(6) annual procurement statistics.</li> </ul>   |
| 24.4 Procurement complaints management        | A   | D          | <p>In case of contracts under the thresholds defined by EU procurement directives, Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency on Dispute Review Board is applicable. Based on above decree, Article 3, subparagraph 1 and 2, dispute review board consists of 6 persons on a parity principle. 3 members are from CSOs/NGOs and 3 are from State Procurement Agency. Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote. State Procurement Agency is also a clearing/reviewing body for Simplified Procurement (aka Direct Contracting requests from implementing agencies).</p> <p>Involvement of the State Procurement Agency in specific procurement procedure for simplified procurement procedures (direct contracting) makes it part of the procurement transactions and procurement decision-making process leading to contract award. This creates conflicts with its oversight function and its role in the review of procurement complaints. This arrangement does not meet criterion 1 of Complaints Review Management sub-dimension of PEFA's procurement dimension.</p> |

## 24.1. Procurement monitoring

259. Information on the complete cycle of procurement is kept in the database of the Ge-GP system. This information is transparent and accessible for any interested person. In particular, the following information can be obtained: type of procurement, number of the application, status of procurement, procuring organization, date of procurement announcement, date and time of start of the bidding, date and time of the end of the bidding, estimated cost of procurement, classifier code and the specific object of procurement, quantity or volume of procurement, date of supply, warranty amount, bidder and their proposals, amount and time of first offer, amount and time of last offer, winner, commission protocols, term of validity of the contract, number and amount, amendments to the contract, etc. Score: A.

## 24.2 Procurement methods

260. The main determinant of compliance for this dimension is to assess the actual use of competitive methods. In 2016 91% of all contracts procured through the central government budget were procured through competitive methods. As per public procurement legislation open competition above 5,000 GEL equivalent to US\$ 2000, is the default method.

261. In 2016, the so-called tender without a trade and a two-stage tender were introduced (NAT and MEP are the relevant abbreviations in the Ge-GP). The difference between these procurement methods lies in the fact that in the first case bidders are rated by the price of tender proposal, and in the second case on the basis of price and other countable criteria, which allows to consider life cycle costing of the procurement object while selecting it, which in its turn facilitates more rational spending of funds.

262. Unlike ordinary tenders, newly introduced tender types do not require to conduct rounds of electronic trade between bidders. In addition, at the selection and evaluation stages, access to some information is temporarily limited. The so-called automated ranking system is used in both procurement methods, through which the ranking of the bidders is systematically determined. Only the bidder who holds the highest position in the ranking and its tender proposal is being shown in the electronic system. Bidder holding the next position in the ranking becomes visible only in case of disqualification of the previous bidder. Upon granting the final status, any details uploaded to the electronic system become public.

263. Under the Decree №5 of June 28, 2016 of the Head of State Procurement Agency amendment has been made to the Rules for Conducting Simplified Procurement, Simplified Electronic Tender and Electronic Tender, approved by the Decree №9 of April 7, 2011 of the Head of State Procurement Agency, on the basis of which a new method of conducting tender has been introduced - Purchase of construction works in a different method (marked by DAP abbreviation in the Ge-GP system).

264. By this method, procuring entities have the opportunity to conduct a tender with rules different from the existing methods (SPA, NAT, MEP), which implies assessment of the tender proposal of all bidders simultaneously at one stage. Namely, in case of announcing the DAP tender, the bidders fix the tender proposal price, and they enjoy the right of reducing it only once. Additional rounds of electronic trade are not held. At the same time, together with the reduction of the tender proposal price, the bidders are obliged to upload the new cost estimate corresponding to the modified price in the system. At the stage of submission of proposals, the documents asserting the qualification data shall be uploaded in the system if required.

265. As a result, after the tender committee technically evaluates and selects all bidders, the procuring entity has the opportunity to sign the contract with the bidder offering the lowest price without any additional procedures. Score: A.

### 24.3. Public access to procurement information

266. Any information related to procurement is public and available online (e.g. tender announcements, tender documents, all decisions of the tender commission, etc.). The tender proposal price is submitted and the contracts signed between parties are published through Ge-GP system. Procuring organizations are required to publish an annual plan of procurement through the electronic system at the beginning of fiscal year. Any information related to State procurement is available on the website of the Agency - <http://procurement.gov.ge/> even for non-registered users. The State procurement monitoring process is not limited to the involvement of public servants and may be carried out by any interested person. Different analytical tools have been developed. This website ([www.stats.spa.ge/](http://www.stats.spa.ge/)), reflects several key information on public procurement, including quarterly updates on published tenders, value of tenders, average number of bidders, number of registered users etc. As part of the World Bank administered Technical Assistance project, “Improving Efficiency and Transparency in Public Procurement” a dedicated website was developed which structures public procurement data following the scheme proposed by the Open Contracting Data Standard and launched dedicated portal (<http://opendata.spa.ge/>) which generates tender information for all public procurement contracts for years 2014-2017 in machine readable format. This SPA’s portal will allow and facilitate access and subsequent use of data by different types of users. This would allow streamlined and more reliable third-party audits and citizen engagement. Entities such as Supreme Audit Institutions, CSOs, private sector, line ministries, donors and many others will have ability to run evidence based analysis to contribute to improved procurement, governance and overall public finance management. Score: A.

| Table 24.3 Information on Procurement Processes    |          |  |
|--|----------|--|
| Publicly available                                 | Yes / No | Location   |
| Law on Procurement and relevant regulatory acts    | Yes      | <a href="http://www.procurement.gov.ge/ELibrary/LegalActs.aspx">http://www.procurement.gov.ge/ELibrary/LegalActs.aspx</a><br><a href="https://matsne.gov.ge">https://matsne.gov.ge</a> |
| Government procurement plan                        | Yes      | <a href="https://tenders.procurement.gov.ge">https://tenders.procurement.gov.ge</a> – plan module  |
| Bidding opportunities                              | Yes      | <a href="https://tenders.procurement.gov.ge">https://tenders.procurement.gov.ge</a>  |
| Winner of the tender (goal, contractor and amount) | Yes      | <a href="https://tenders.procurement.gov.ge">https://tenders.procurement.gov.ge</a>  |
| Information on the results of review of complaints | Yes      | <a href="https://tenders.procurement.gov.ge/dispute">https://tenders.procurement.gov.ge/dispute</a>  |
| Annual Procurement Statistics                      | Yes      | <a href="http://procurement.gov.ge/ELibrary/AnalyticalStudiesReports.aspx">http://procurement.gov.ge/ELibrary/AnalyticalStudiesReports.aspx</a>  |

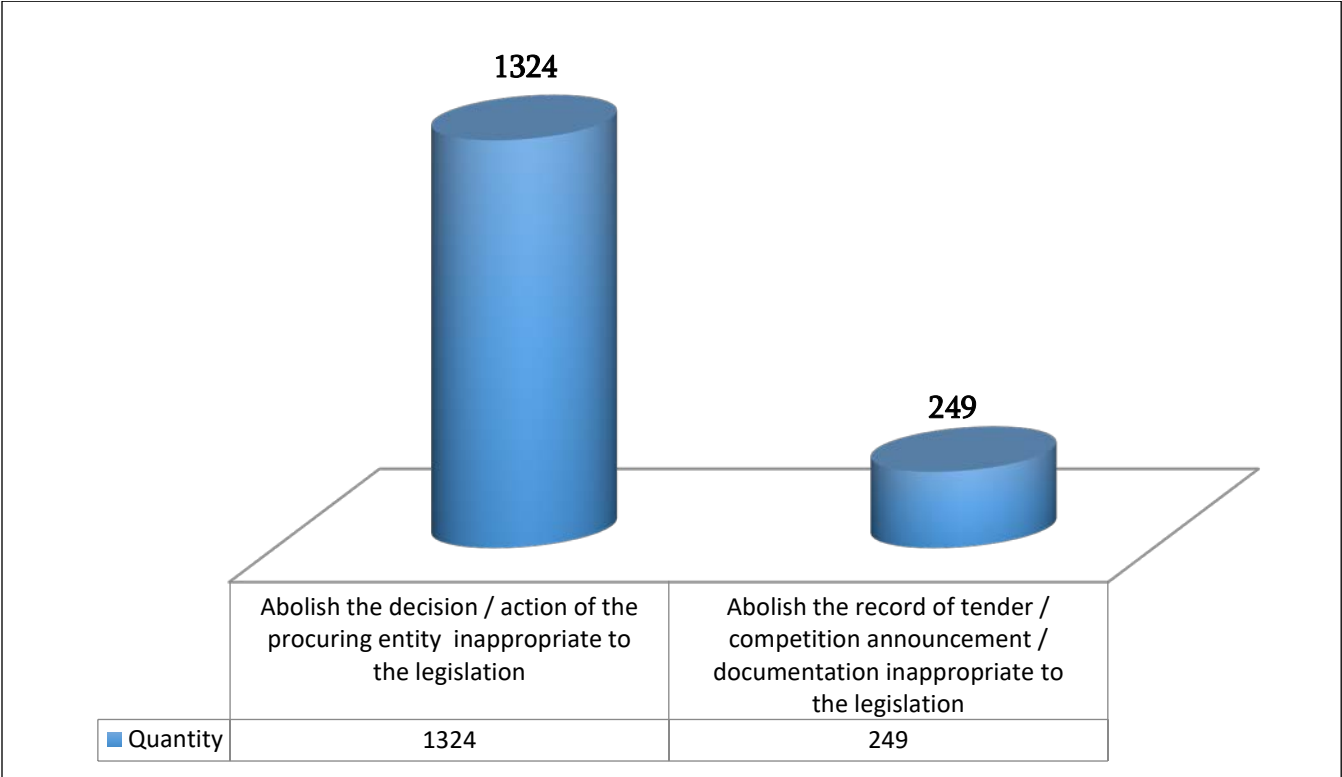
### 24.4. Procurement complaints management

267. Amendments have been made to the Rules of Activity of the Procurement Related Disputes Resolution Board, according to which the terms of the appeal have been changed, the new form of the application has been introduced and the process of suspension of procurement procedures has been automated. In particular, the Rules of Activity of the Procurement Related Disputes Resolution Board, approved by the Order №1 of

February 27, 2015 of the Chairman of the State Procurement Agency, has been amended three times in 2016.<sup>88</sup> According to the amendment, the terms of appealing to the Board have been newly established, the basis for the inadmissibility of appeal has been determined. In addition, the procurement procedures are suspended for the procuring entity, as well as for the bidder(s) once the appeal is admitted.

268. According to the amendments made under the Decree №17 of December 30, 2016 of the Chairman of the State Procurement Agency (effective since January 16, 2017), in case of admissible complaint the appropriate procurement procedures will be suspended systemically. Also, the Parties (complainant, applicant) and interested persons (if applicable) will be notified about the invitation to the Board Meeting in accordance with the Paragraph 5 of Article 1 of the Rule approved by the Decree №1.<sup>89</sup> A new electronic complaint form has been elaborated and the instruction for its filling, which is attached to the abovementioned Decree and is available to any interested person.

269. In 2016, 1,573 complaints were submitted to the Procurement Related Disputes Resolution Board. Most of them were related to the inadequate decision of the procuring organization / action cancellation request is shown below.



Source SPA

<sup>88</sup>[Decree №1 of January 11, 2016 of the Chairman of State Procurement Agency;](#) [Decree №12 of October 26, 2016 of the Chairman of State Procurement Agency;](#) [Decree №17 of December 30, 2016 of the Chairman of State Procurement Agency;](#)

<sup>89</sup>Within the framework of the Rule, any information can be obtained / sent through automatic means of management, website <https://tenders.procurement.gov.ge/dispute> and /or through other modern means of communication (e-mail, phone, short text message).



| Table 24.4 Procurement Complaints Criteria  |          |   |
|---|----------|---|
| Procurement related complaint criteria  | Yes / No | Proof / Comment   |
| (1) Is not involved in procurement transactions or decision-making processes.                     | No       | According to Article 3, Subparagraph 1 and 2 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency, dispute review board consists of 6 persons on a parity principle. 3 members are from CSOs/NGOs and 3 are from State Procurement Agency. Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote. State Procurement Agency is also a clearing/reviewing body for Simplified Procurement (aka Direct Contracting requests from implementing agencies. |
| (2) Does not impose fees for disputing parties.   | Yes      | Submission of complaints is free of charge. Article 2, paragraph 1 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.   |
| (3) Processes after submitting and solving complaints are clearly defined and publicly available. | Yes      | Article 6, paragraph 2 and Article 9, paragraph 8 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.  |
| 4) Uses the power to suspend the procurement process.   | Yes      | Article 7, subparagraph “d <sup>2</sup> ” of paragraph 2 and Article 23, paragraphs 2 <sup>2</sup> and 11 of the Law of Georgia on State Procurement.<br>Article 6, subparagraph “c” of paragraph 2 and paragraph 6 of the same Article of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.  |
| (5) Issues rules / regulations in the specified timeframes.                                       | Yes      | Article 7, paragraph 4 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.   |
| (6) Issues decisions which are mandatory for all parties (without access of external upper body). | Yes      | Article 10 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.<br>Article 23, paragraph 14 of the Law of Georgia on state Procurement.   |

270. Score D as criterion 1 is not met.

271. Recently (outside of the PEFA timeframe) there has been a considerable improvement in the complaints procedures particularly with respect to the composition of the Complaints Review Council and the automatic installation of the SPA chair as its chair. For contracts with estimated contract price equal to, or more than, the thresholds defined by the EU procurement directives – outlined in the newly adopted Order No. 1 of the Chairman of the State Procurement Agency on the Rules of Activity of the State Procurement Related Dispute Resolution Board - dated 08 Feb 2018 is applicable. Under the new order – Chairman of SPA is no longer the head of the board with prevailing vote. The complaints handled through the new Dispute Resolution Board, even though new, are under a Board which still includes 3 members from State Procurement Agency but as part of an expanded membership. The Board, as per new order, is composed on 10 members made up of 3 members from SPA (including SPA chairman), 3 members from

NGO, 1 member from– the Competition Agency, 1 member from Georgian Chamber of Commerce and Industry and 1 member from the Business Ombudsman of Georgia, as well as the one representative of the relevant profile from the academic community. Each Board member including the 3 SPA members has voting authority on decision making according to Article 24 of the Order. This creates a conflict of interest given that SPA provides no objections on source direct contracts, which determines the procurement method leading to contract award.

272. However, considering the EU thresholds (i.e. 5,548,000 EUR for civil works contract, (equivalent to GEL 15.8 million) it is expected that substantial numbers of complaints would still be handled through previous order of the Chairman on Dispute Review Board as it still applies to disputes relating to lesser amounts.

### PI-25. Internal controls on nonsalary expenditure

273. This indicator measures the effectiveness of general internal controls for nonsalary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. Time period: At time of assessment and coverage: central government.

| Indicator/Dimension                                   | Minimum Requirements (Scoring Method M2 AV) |            | Brief justification for score   |
|---|---|------------|---|
|   | 2017 Score                                  |            |   |
|   | Self-assessment                             | Validation |   |
| PI-25: Internal controls on nonsalary expenditures    | A   | A          |   |
| 25.1 Segregation of duties                            | A   | A          | Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at at different levels in the PFMIS, in accordance with Order of the Minister of Finance of July 6, 2012 on the approval instructions for the State Treasury Electronic Service System. |
| 25.2 Effectiveness of expenditure commitment controls | A   | A          | Commitment control applies to all payments made from the Treasury single account. Actual expenditures incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.  |
| 25.3 Compliance with payment rules and procedures     | A   | A          | Compliance with payment rules and procedures is very high.  |

274. Effectiveness of internal controls for nonsalary expenditures is ensured by the established PFMIS. The system covers the whole process of nonsalary expenditures and sets the levels of control in the system according to the functions of different employees. Payment procedures for nonsalary expenditures are determined by the Order №424 of December 31, 2014 of the Minister of Finance of Georgia on the approval of instruction about the rule of payments by organizations of State Treasury Service, which is executed by all Spending Units.

### 25.1. Segregation of duties

275. Functions are clearly segregated by the provisions of the Spending Units, Internal Regulations, Job descriptions and other internal documents. Levels of admission of the relevant person at all stages of payment in the PFMIS are determined by the Order of the Minister of Finance of July 6, 2012 on the approval of instruction for the State Treasury Electronic Service System. For the purpose of granting the right to access the system, the MDA contacts the State Treasury Service with the request of access to the system (or cancellation) and submit annex filled in accordance with the relevant rights. Levels of admission to authorization on accounting and payment documents differ by the functions of employees, in terms of authorizing, recording / editing, examining, etc.

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

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

277. All of these types of access are performed by a “responsible” person and that person is different for each of the type of access. The management of admissions of authorized persons at all stages of the payments process is carried out through the electronic passport of respective module. The module will include the personal number, name and surname, place of work, position, and contact information of an authorized person. Personal information is verified in the database of the Civil Registry. Score: A.

### 25.2. Effectiveness of expenditure commitment controls

278. Payments of Spending Units are processed through the E-Treasury System, within the obligations taken under the approved budget and are paid from the Treasury single account. Payment procedures in the E-Treasury System are determined by the Order №424 of December 31, 2014 of the Minister of Finance of Georgia on the approval of instruction about the rule of payments by organizations of State Treasury Service, which is executed by all Spending Units<sup>90</sup>. The commitment control mechanism applies to all payments made from the Treasury single account. Annual plan with a quarterly annotation will be reflected in the Treasury system from the Budget Planning and Assignments Management Module. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources. Score: A.

### 25.3. Compliance with payment rules and procedures

279. In order for the Budget Unit to make payments through the Treasury Electronic System, first of all, the contract is registered, and then the obligation is recorded, and then the payment is made. There is a three-level mechanism of authorization in the system, which consists of the following stages:

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

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<sup>90</sup><https://matsne.gov.ge/ka/document/view/2665096>

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

281. Low risk payments that meet certain parameters are also automatically processed through the “Green Corridor”. These include utility bills and travel expenditures. Below are statistics of the Green Corridor transactions processed budgetary organizations between 2014 and 2016. The trend shows that they are increasing as confidence in the robustness of the control systems grows. Score: A.

| <b>Table 25.2 Number of Green Corridor transactions</b> |         |
|---|---------|
| <b>2014</b>   | 0       |
| <b>2015</b>   | 90,035  |
| <b>2016</b>   | 130,860 |

Source: Ministry of Finance

## PI-26. Internal audit

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

| <b>Indicator/Dimension</b>                  | <b>Minimum Requirements (Scoring Method M1 WL)</b> |                   | <b>Brief justification for score</b>   |
|---|--|-------------------|--|
|   | <b>2007 Score</b>                                  | <b>2007 Score</b> |  |
|   | <b>Self-Assessment</b>                             | <b>Validation</b> |  |
| PI-26: Internal Audit                       | B  | B+                |  |
| 26.1 Coverage of internal audit             | B  | A                 | Internal auditors are in all 16 ministries, all 13 LEPLs required to have internal auditors, 4% of non-commercial entities, and 36% of higher education entities with the rest covered by internal audit unit of the Ministry of Education, and 45% of legal entities under private law. Internal audit coverage of the central government (mainly ministries) budgeted expenditure over fiscal years 2014-2016, was an average of 94%.                  |
| 26.2 Nature of audits and standards applied | B  | B                 | Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors. A quality assurance process is in the initial stages of being introduced. |

| Indicator/Dimension                                  | Minimum Requirements (Scoring Method M1 WL) |            |  |
|--|---|------------|--|
|  | 2007 Score                                  |            | Brief justification for score  |
|  | Self-Assessment                             | Validation |  |
| 26.3 Implementation of internal audits and reporting | B   | A          | Annual audit programs exist and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. In fiscal year 2016, programmed audits were 126 for central government out of which 115 (91%) were completed and their reports distributed to appropriate parties. |
| 26.4 Response to internal audits                     | B   | A          | Management implemented 96% of internal audit recommendations made over fiscal years 2014-2016, for an average coverage of 93% of the central government budgeted expenditure.  |

### 26.1. Coverage of the internal audit

283. Under Article 4 of the Georgian law on State Internal Financial Control (Law of Georgia #5447 dated December 9, 2011), internal auditors for central government should be in the following organizations:

- a) Ministries of Georgia. At the time of the assessment, internal auditors were in all the 16 ministries, which have been reorganized in 2018 into 13 ministries.
- b) There are 13 LEPLs that are required to have internal auditors and they all do have auditors. There are other LEPLs that total 217 that are not required to have internal auditors. However, LEPLs under line Ministries are covered by the Internal Audit Unit of Ministries, such as the 2,081 schools under Ministry of Education and Science.
- c) Legal entities under private law, where more than 50 percent of the shares are owned by the State. Out of a total of 219, only one has an internal auditor.

284. Other institutions that have internal auditors include, (i) higher education entities, whereby out of 11 entities, four have internal auditors, and rest are covered by the Internal Audit unit of Ministry of Education and Science; and (ii) non-commercial entities, where out of 23 entities, one has an internal auditor.

285. Data on the coverage of internal audit of the central government budget over the fiscal years 2014-2016 is shown in the table below. The coverage is not 100 percent and the Center for Harmonization Unit on internal audit is currently working on this issue, with an international expert and in cooperation with the SAI. During the upcoming year CHU is planning to conduct several trainings and workshops for internal auditors on methodology of calculating the coverage of the budget. The CHU has a Strategic Plan for 2017-2019 that will drive internal audit's reform agenda.

286. The coverage of internal audit of the central government budget (from mainly the ministries budget) over the fiscal years 2014-2016 is shown in the table below.

| <b>Table 26.1 Coverage of Internal Audits (GEL thousands)</b> |             |             |             |
|---|-------------|-------------|-------------|
|   | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Central Budget  | 9,009,812   | 9,703,127   | 10,292,234  |
| Audited amount  | 8,463,500   | 9,230,298   | 9,491,307   |
| <b>Coverage %</b>   | <b>94%</b>  | <b>95%</b>  | <b>92%</b>  |

Source: Centre of Harmonization (Internal Audit)

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

## 26.2. Nature of audits and standards applied

288. Article 22 of the Georgian law on State Internal Financial Control, defines 5 types of internal audit engagements that includes: financial audit, compliance audit, system audit, performance audit and information technology audit. The law clearly defines the process of internal audit report preparation and its issuance to relevant parties. The main findings and recommendations are discussed with the auditee, whose view is expressed in the final internal audit report.

289. Georgia has a Center for Harmonization Unit (CHU) that became functional in 2010. The center is a department of the State Internal Control of the Ministry of Finance. Under Article 2 of the Georgian law on State Internal Financial Control, the center ensures the assessment, coordination and harmonization of internal audit, financial management and control systems amongst budgetary units. The harmonization is because each central government budgetary unit was setting up its own internal audit systems. However, a review of the internal audit systems at the Ministry of Defense and Ministry of Finance demonstrated that there was strong compliance with international standards on internal audit.

290. Internal audit is guided by the Internal Audit Methodology and System Audit Manual/Instruction in accordance with Article 19 of the Georgian law on State Internal Financial Control. The manual broadly covers system, compliance and financial audits. The manual for IT audit is planned to be developed by the end of FY 2018. Internal audit methodology complies with the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors that ensures compliance with international standards for internal auditing, although amendments introduced for IPPF 2017 are not reflected. There is also a code of ethics adopted in accordance with Decree of Government of Georgia #1836 dated September 18, 2011 that all internal auditors should comply with. A draft performance audit manual has been prepared to be used by internal auditors. In 2015-2016, eight pilot performance audits were conducted. These manuals ensure that internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls and they focus on high risk areas.

291. Quality assessment system for internal audit activities is in the process of introduction and therefore it is not carried out by all subjects of the internal audit. However, it should be noted that some of the internal audit units made significant steps towards the implementation / development of this system.

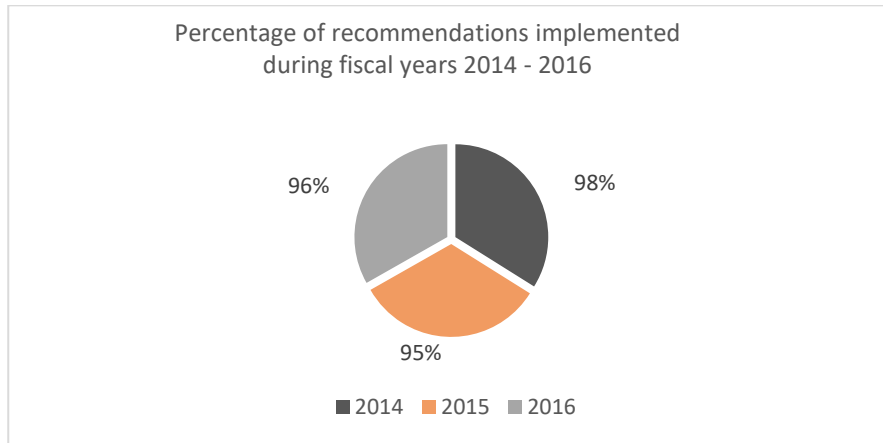
292. The core principles and specific procedures for quality assurance are defined in the manual for the Internal Auditors, issued by CHU. On the basis of the information provided by this manual, in 2017, several internal audit units have developed their own quality assurance systems. Score: B.

### 26.3. Implementation of internal audits and reporting

293. In accordance with the requirements of international standards, all internal auditors in budgetary units, based on risk assessment and with consideration of the goals and mission of the institution, prepare strategic and annual plans and submit them to the Head of the Institution for approval. These annual audit plans are also sent to the CHU at the Ministry of Finance and monitored. If a budgetary unit does not execute the annual audit plan, an explanation has to be provided to the institutions management and CHU. In the last fiscal year of the assessment, that is, 2016, a total of total of 126 audits were planned for central government, out of which 115 (91%) were completed. Score: A.

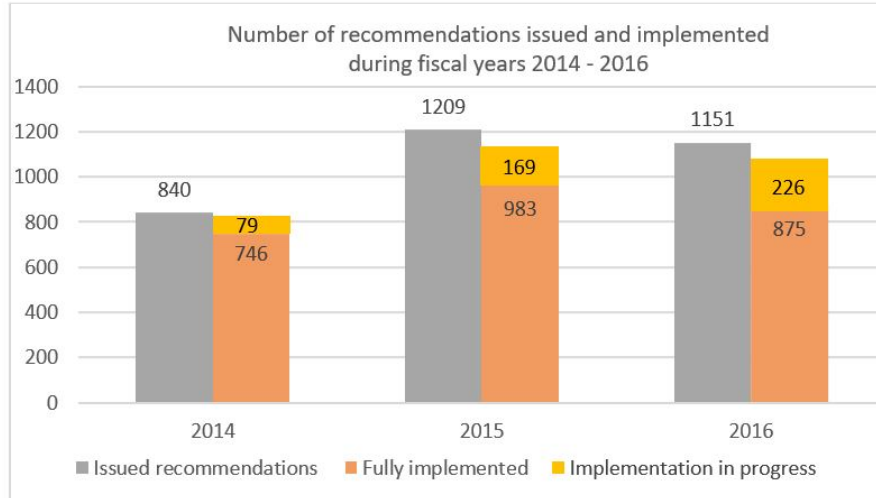
### 26.4. Response to internal audits

294. Article 24 of the Georgian law on State Internal Financial Control requires that an internal audit annual report that includes audit recommendations is presented to the head of the institution (auditee) by the end of January of the following year. This report is also sent to the CHU at the Ministry of Finance. The auditee thereafter provides the head of the institution with a report on the status of the execution of recommendations issued by internal audit. The average number of recommendations that were implemented in fiscal years 2014-2016 was 96%, for an average coverage of 93% of government budgeted expenditure. These recommendations were implemented within 12 months after being issued by the internal auditors and other recommendations were in progress of being implemented after 12 months. The diagram below shows the percentage of internal audit recommendations implemented during fiscal years 2014-2016.



Source Internal Audit Unit

295. The chart below summarizes the number of recommendations issued and implemented during fiscal years 2014-2016.



Source Internal Audit Unit

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





## PILLAR SIX: Accounting and reporting

### PI-27. Financial data integrity

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

| Indicator/Dimension                     | Minimum Requirements (Scoring Method M2 AV) |            | Brief justification for score  |
|---|---|------------|--|
|   | 2017 Score                                  |            |  |
|   | Self-Assessment                             | Validation |  |
| PI-27: Financial data integrity         | B+  | A          |  |
| 27.1 Bank account reconciliation        | A   | A          | Treasury Service under Ministry of Finance, reconciles on daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.  |
| 27.2 Suspense accounts                  | A   | A          | There are no expenditure suspense accounts under the TSA. There have been revenue suspense accounts but they are historical as they arose before fiscal years 2014-2016. During fiscal years 2014-2016, revenue deposits were properly coded and accounted for, with no suspense accounts arising. |
| 27.3 Advance accounts                   | C   | A          | Reconciliation of advance accounts takes place monthly (within 20 days after the end of each month). <b>All</b> advance accounts are cleared in a timely manner.   |
| 27.4 Financial data integrity processes | A   | A          | Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its IT department monitors unauthorized systems access. Internal auditors and the State Audit  |

| Indicator/Dimension | Minimum Requirements (Scoring Method M2 AV) |            |  |
|---------------------|---|------------|--|
|                     | 2017 Score                                  |            | Brief justification for score                                  |
|                     | Self-Assessment                             | Validation |  |
|                     |   |            | Office also conduct audits to verify financial data integrity. |

### 27.1. Bank account reconciliation

298. Treasury Service, under Ministry of Finance, reconciles on daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia. TSA is maintained in Lari. Account turnovers and daily account balances are monitored through the Real-Time Gross Settlement System (RTGS). The RTGS is fully automated. It works in online regime and data transfers are instant. Score: A.

### 27.2 Suspense accounts

299. In accordance with Ministry of Finance order #424 dated December 31, 2014 “On approval of payment rules instruction by organizations of State Treasury Service” and established internal rules and regulations, the Treasury Service has no right to transfer resources to the account(s) of the budget organizations for uncertain purposes. Therefore, there are no suspense accounts linked with expenditure accounts as enabled by Treasury system functions. All expenditure related payment should have clear justification, supporting evidence and included into budget and registered under commitments in the TSA. Financial reports that are produced monthly do not contain any expenditure suspense accounts.

300. During fiscal year 2014-2016, revenue deposits were properly coded and accounted for and there were no revenue suspense accounts. However, there were historical revenue suspense accounts that arose before fiscal years 2014-2016. These were included for monitoring purposes of their accountability in the Statement of Financial Position under the line item of cash and cash equivalents. The table below shows their accountability. Score: A.

| Fiscal Year | Opening Balance (GEL) | Accounted for deposits (GEL) | Closing Balance (GEL) |
|-------------|-----------------------|------------------------------|-----------------------|
| 2014        | 29,887,672            | (371,139)                    | 29,516,533            |
| 2015        | 29,516,533            | (1,012,265)                  | 28,504,268            |
| 2016        | 28,504,268            | (237,350)                    | 28,266,918            |

Source: Ministry of Finance

### 27.3. Advance accounts

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

302. Travel advances or any other payments to employees (that include operational imprest) must be cleared within 60 days after issuing advance payment. In case an organization that is supposed to recover the advances from employees does not submit (clear) advance payment accountability within the predetermined deadline, the system automatically blocks the organization's ability to make other payments; the only exception is salary and salary related payments (in accordance with Article 9 of Payment Instructions).

303. A report on all advance payments (travel advances, operational imprest and advance payments to vendors with registered contracts) is generated by the Treasury on a monthly basis (within 20 days after the end of each month), as part of the monthly reporting package on budget execution to the Parliament. The report is detailed and includes information on organization's name, employee's name, advance request numbers, advance amount, due date and date when it was cleared. In accordance with Article 53 (2) of the budget law, the Treasury unit must submit the report on budget execution to the Parliament within 20 days after the end of each month. Score: A.

### 27.4. Financial data integrity process

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

305. Financial data integrity is carried out by the Treasury and it reviews the financial data from budgetary organizations. The Treasury's service department reviews financial data integrity on a daily basis related to budgetary units. The IT department monitors unauthorized accounting system access. Internal auditors and State Audit Office conduct audits to verify accuracy and completeness financial data. The SAO informed the assessment team that there were no significant issues related to financial data integrity except for misclassifications of accounting entries that impacted the calculation of budget deficits, which is being addressed. Score: A.

## PI-28. In-year budget reports

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

| Indicator/Dimension                        | Minimum Requirements (Scoring Method M1 WL) |            | Brief justification for score  |
|--|---|------------|--|
|  | 2017 Score                                  |            |  |
|  | Self-Assessment                             | Validation |  |
| PI-28: In-year budget reports              | B+  | B+         |  |
| 28.1 Coverage and comparability of reports | A   | A          | Coverage and classification of data in the budget execution reports allows direct comparison to the original budget. Information includes <b>all</b> central government budget estimates for the budgetary units.  |
| 28.2 Timing of in-year budget reports      | B   | B          | Consolidated budget execution reports are prepared quarterly and issued to Parliament and are published within four weeks of the end of the quarter.   |
| 28.3 Accuracy of in-year budget reports    | A   | A          | There are no material concerns regarding data accuracy following discussions with Parliament's Budget Office and the State Audit Office. An analysis of the budget execution reports is done quarterly by Parliament's Budget Office that issues a report to the Budget and Finance Committee of Parliament. Information on expenditure is covered at both commitment and payment stages in the e-Treasury system. |

### 28.1. Coverage and comparability of reports

307. Quarterly budget execution reports are prepared on a cash basis in accordance with Articles 53 and 54 of the Budget Code of Georgia and posted at the Ministry of Finance website. Monthly budget execution reports are also prepared mainly for management purposes. These reports cover all central government budgetary units. Within one month after the completion of each quarter, the Ministry of Finance submits a Parliament quarterly budget execution report that includes:

- Macroeconomic Overview;
- State budget performance reports on revenue, program expenditure, expenditure by function of government, and changes in financial assets and liabilities; and
- Information on state debt, performance of investment projects, court decisions' execution fund, payment of arrears from previous period, targeted grants, consolidated balances of Legal Entities of Public Law and non-commercial legal entities, and State budget performance indicators.

308. In addition to the quarterly report, the Ministry of Finance prepares an interim six months budget performance report that includes a medium-term review of budget performance in addition to the above information contained in the quarterly reports.

309. The classification in the e-budget system is based on GFSM 2001. The e-budget system has since January 1, 2015, been integrated to e-Treasury system where budgeted expenditure is captured and accounted for. These integrated systems enable the consolidation and preparation of in-year monthly, quarterly and annual reports to be prepared. Score: A.

### **28.2. Timing of in-year budget reports**

310. Consolidated budget execution reports are prepared quarterly and issued to the Parliament within four weeks, in accordance with the rule established by the legislation<sup>91</sup>. These reports are also published in the Ministry of Finance website. The Ministry of Finance also prepares consolidated monthly budget execution reports by the 20th of the following month<sup>92</sup>, which are published on its website. Score: B.

### **28.3. Accuracy of in-year budget reports**

311. There are no material concerns regarding data accuracy of the quarterly budget execution reports following discussions with Parliament's Budget Office and the State Audit Office. These reports are analyzed by the Parliament's Budget Office that issues a report to the Budget and Finance Committee. In addition, the information in the quarterly budget execution reports form the basis of the annual execution report of the state budget, which is audited by the State Audit Office. Information on expenditure in the budget execution reports is covered at both commitment and payment stages in the e-Treasury system. Score: A.

## **PI-29. Annual financial reports**

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

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<sup>91</sup><http://mof.ge/4951>

<sup>92</sup><http://treasury.ge/5535>; <http://treasury.ge/5274>

| Indicator/Dimension                               | Minimum Requirements (Scoring Method M1 WL) |                  |  |
|---|---|------------------|--|
|   | 2017 Score                                  |                  | Brief justification for score  |
|   | Self-Assessment                             | Validation       |  |
| PI-29: Annual financial reports                   | B+  | D+ <sup>93</sup> |  |
| 29.1 Completeness of the annual financial reports | A   | B                | The report on State budget execution is prepared annually and is comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities and long term obligations. In addition, the consolidated financial reports for central government budgetary units are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. The financial reports are supported by a reconciled cash flow statement. The 2014 and 2015 consolidated financial statements did not contain full information on revenue and tangible assets (nonfinancial assets). |
| 29.2 Submission of reports for external audit     | B   | D*               | The State's consolidated annual financial statements are not submitted for external audit. Although the financial statements of central government budgetary units are audited by the State Audit Office, there was no record of when they were submitted for external audit. The annual execution report for State budget is submitted for audit within 3 months.   |
| 29.3 Accounting standards                         | B   | C                | IPSAS is the accounting standards disclosed in the State's annual consolidated financial statements. These accounting standards were applied by all budgetary units in accordance with instructions on the Accounting and Financial Reporting of Budgetary Organizations approved by the Order №429 of the Minister of Finance of Georgia on December 31, 2014 in line with Article 14 of the Budget Code of Georgia. About 23% of the total number of IPSAS standards were applied by fiscal year 2016 where 9 standards out of a total of 40, were implemented. During 2017, the standards that were implemented were increased to 16.   |

<sup>93</sup> The evaluation criteria for this indicator have been modified in PEFA 2016. The lack of evidence related to submission of financial statements to the State Audit Office for audit is the main reason for the indicator now scoring D+.

## 29.1. Completeness of the annual financial reports

313. Annual report on State budget execution is prepared by the Ministry of Finance in accordance with Articles 53 and 55 - 58 of the Budget Code of Georgia. The report is submitted to the State Audit Office within 3 months after the end of the fiscal year, who then issues an audit opinion and submit it to parliament by not later than 5 months after the end of the fiscal year. The report contains the following information in accordance with Article 56:

- a) Balance sheet (includes financial assets and liabilities) of the State budget by the budget classifiers;
- b) Macroeconomic overview;
- c) Comparison of actual budget revenues and expenditures with projections of the respective period by budget classifiers;
- d) Balances on Treasury single account by the beginning and end of the year;
- e) Explanation of nonconformity between the budget allocations approved and specified according to the programs of spending institutions, if such inconsistency exceeds 30%;
- f) Explanation of nonconformity between the budget allocations approved and specified according to the programs of spending institutions, if such inconsistency exceeds 15%;
- g) Information on the execution of budget expenditure of general State significance (including the information on equalization transfers between municipalities and unpaid public debt at the end of the fiscal year);
- h) Description of programs / sub-programs implemented by spending institutions within the priorities defined in the annual budget and achieved results; and
- i) Annual indicators of budget execution for legal entities of public and private law defined under Article 6 of the Code.

314. In addition, at the State budget level, the preparation and submission of financial statements by budgetary units is regulated by instructions on the Accounting and Financial Reporting of Budgetary Organizations approved by the Order №429 of the Minister of Finance of Georgia on December 31, 2014 in line with Article 14 of the Budget Code of Georgia. Consolidated financial statements for central government budgetary units are prepared annually by the Treasury Service, within three months of the end of the fiscal year and published on the ministry's website. However, they are not audited by the State Audit Office. The consolidated financial statements are compared with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. The financial reports are supported by a reconciled cash flow statement. The 2014-2015 consolidated financial statements did not contain full information on revenues and tangible (nonfinancial) assets.

315. The 2014-2016 annual State's consolidated financial statements include:

- Statement of Financial Position;
- Statement of Financial Performance;
- Cash Flow Statement;
- Statement of Changes in Equity;
- Statement comparing Budget & Actual Expenditure; and
- Notes for the financial statements

316. Based on the analysis and supporting evidence, the score for this dimension is, B.

## 29.2 Submission of reports for external audit

317. The State's consolidated annual financial statements are not submitted to the State Audit Office (SAO) for audit. As a result, they are not submitted to Parliament. However, the budgetary units do prepare their financial statements and submit them to the Ministry of Finance within 3 months for quality review to ensure compliance with the requirements of the accounting and financial reporting instructions. If there is non-compliance with the submission of financial statements, the Ministry of Finance can take remedial measures against the budgetary units that include termination of funding. Although the financial statements of the budgetary units are audited, the Ministry of Finance does not maintain records of when they were submitted to the SAO for audit. The ministry assumes the financial statements can be acquired by the SAO should the SAO need to conduct an audit. The annual report on State budget execution is submitted for audit within three months of the end of the fiscal year. Score: D\*.

## 29.3. Accounting standards

318. Central government budget funded organizations are required to prepare financial statements that comply with IPSAS (accrual basis) in accordance with the instructions on the Accounting and Financial Reporting of Budgetary Organizations approved by the Order №429 of the Minister of Finance of Georgia on December 31, 2014. These standards are disclosed in the State's consolidated financial statements produced by the Ministry of Finance. The financial statements for fiscal year ending on December 31, 2016, had applied nine standards (about 23% of the 40 standards) that include: (i) IPSAS 2 on Cash Flow Statement; (ii) IPSAS 3 on Accounting Policies, Changes in Accounting Estimates and Errors; (iii) IPSAS 4 on The Effects of Changes in Foreign Exchange Rates; (iv) IPSAS 6 on Consolidated and Separate Financial Statements; (v) IPSAS 13 on Leases; (vi) IPSAS 19 on Provisions, Contingent Liabilities and Contingent Assets; (vii) IPSAS 22 on Disclosure of Financial information about the General Government Sector; (viii) IPSAS 23 on Revenue for Non-Exchange transactions (Taxes and Transfers); and (ix) IPSAS 24 on Presentation of Budget Information in Financial Statements.

319. The IPSAS standards applied in the State's consolidated financial statements for fiscal year ending on December 31, 2017, have increased from nine to sixteen<sup>94</sup>. This represents 40% of the total IPSAS standards. IPSAS implementation is ongoing with a target to comply with IPSAS accrual by 2020. This will require improvements in the E-Treasury system and training of staff with the assistance of technical support. Score: C.

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<sup>94</sup> The sixteen include the 9 implemented in 2016 fiscal year plus IPSAS 1 on Presentation of Financial Statements; IPSAS 5 on Borrowing Costs; IPSAS 9 on Revenue from Exchange Transactions; IPSAS 14 on Events After the Reporting Date; IPSAS 16 on Investment Property; IPSAS 36 on Investments in Associates and Joint Ventures; and IPSAS 37 on Joint Arrangements.





## PILLAR SEVEN: External Scrutiny and Audit

### PI-30. External audit

320. This indicator examines the characteristics of external audit. The time period is the last three completed fiscal years. Coverage is central government.

| Indicator/Dimension                                 | Minimum Requirements (Scoring Method M1 WL) |            | Brief justification for score   |
|---|---|------------|---|
|   | 2017 Score                                  |            |   |
|   | Self-Assessment                             | Validation |   |
| PI-30: External audit                               | A   | B+         |   |
| 30.1 Audit coverage and standards                   | A   | A          | The financial statements of <b>all</b> central government budgetary units include revenue, expenditure, assets and liabilities. These financial statements plus the annual report on State budget execution are audited using International Standards of Supreme Audit Institutions (ISSAI) for the last three fiscal years in accordance with Article 26 of the Law of Georgia on the State Audit Office. Audit coverage included in the report of the State Audit Office on the annual report of State budget execution was for fiscal years 2014 - 2016 96%, 94%, and 91%, respectively. |
| 30.2 Submission of audit reports to the legislature | A   | A          | During the last three completed fiscal years, the State Audit Office submitted the annual report on State budget performance to the legislative body within 3 months after receipt of the report from the Ministry of Finance. No consolidated financial reports for the State government was audited as they were not submitted by the Ministry of Finance. Audits of financial statements of the budgetary units were conducted but these were not officially submitted to the State Audit Office, and this issue is separately assessed under PI-29.2.                                   |

| Indicator/Dimension                         | Minimum Requirements (Scoring Method M1 WL) |            | Brief justification for score  |
|---|---|------------|--|
|   | 2017 Score                                  |            |  |
|   | Self-Assessment                             | Validation |  |
| 30.3 External audit follow-up               | A   | B          | In line with the Article 24 of the Law of Georgia on the State Audit Office, audit recommendations for budgetary units are followed up, monitored once every six months, and annually reported on by the State Audit Office in their report to Parliament on the annual execution of the State budget. The average performance of addressing recommendations from financial, compliance and performance audits over fiscal years 2014-2016 was 85%.  |
| 30.4 Supreme Audit Institution independence | A   | A          | The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office. |

### 30.1. Audit coverage and standards

321. The financial statements of all central government budgetary units include revenue, expenditure, assets and liabilities. For the last three fiscal years (2014-2016), the financial statements plus the annual report on state budget execution have been audited using International Standards of Supreme Audit Institutions (ISSAI) in accordance with Article 26 of the Law of Georgia on State Audit Office. Financial and compliance audits are conducted in accordance with Financial Audit Guidelines (ISSAI 1000-2999) and Compliance Audit Guidelines (ISSAI 4000-4200), respectively, which use a risk-based approach. The State Audit Office also has a Quality Assurance Department that has been functioning since 2011. The department ensures compliance with the ISSAI under ISSAI 40 on Quality Control for Supreme Audit Institutions, ISSAI 1220 on Quality Control for an Audit of Financial Statements, and International Standards of Quality Control (ISQC 1). The audit coverage for the State budget is an average of 94% over the fiscal years 2014-2016 and is included in the report of the State Audit Office on the annual report on State budget execution<sup>95</sup>. The State Audit Office has a strategic plan for 2018-2022 that will drive its reform agenda. The strategy includes an assessment of compliance with ISSAI.

322. The coverage of the three years is shown in the table below:

<sup>95</sup> Under Article 31, Paragraph 1 of the Law of Georgia on State Audit Office, Article 190, Paragraph 2 of the Rules of Procedure of the Parliament of Georgia and Articles 19 and 57 of the Budget Code of Georgia.

| <b>Table 30.1.1 Coverage of External Audit GEL 000</b> |             |             |             |
|--|-------------|-------------|-------------|
|  | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Central Budget   | 9,009,812   | 9,703,127   | 10,292,234  |
| Audited amount   | 8,653,425   | 9,092,180   | 9,367,938   |
| <b>Coverage %</b>                                      | <b>96%</b>  | <b>94%</b>  | <b>91%</b>  |

Source SAO

323. The State Audit Office also issues a report on the government's report on the annual execution of the State budget for fiscal years 2014-2016. It identifies relevant material issues and systemic and control risks as depicted in the table below:

| <b>Table 30.1.2 Audit Material Issues and Recommendations</b> |             |             |             |
|---|-------------|-------------|-------------|
|   | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| No. of relevant material systemic control risks               | 65          | 110         | 110         |
| No. of recommendations made                                   | 44          | 55          | 40          |

Source SAO

324. The number of central government audits for budgetary units (compliance and financial) plus performance audits conducted in fiscal years 2014-2016 is shown in the table below:

| <b>Table 30.1.3 Number of Audit Reports</b>         |             |             |             |
|---|-------------|-------------|-------------|
| <b>Audits</b>                                       | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| <b>Total number of audits</b>                       | <b>30</b>   | <b>46</b>   | <b>31</b>   |
| <b>Of which submitted to Parliament as follows:</b> |             |             |             |
| Same accountable year                               | 13          | 24          | 5           |
| Next accountable year                               | 17          | 22          | 26          |

Source SAO

325. The submission of audit reports to Parliament is further analyzed as follows:

| <b>Table 30.1.4 Submission of Audit Reports to Parliament</b> |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
|   | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> |
| Reports from previous accountable year                        | 3           | 17          | 22          | 26          |
| Reports from same accountable year                            | 13          | 24          | 5           |             |
| <b>Total audit reports submitted to Parliament</b>            | <b>16</b>   | <b>41</b>   | <b>27</b>   |             |

Source SAO

326. The types of audit reports submitted to Parliament are as follows:

| <b>Table 30.1.5 Type of Audit Report</b>           |             |             |             |
|--|-------------|-------------|-------------|
|  | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Financial Audit – unqualified opinion              | 0           | 1           | 0           |
| Financial Audit – qualified opinion                | 7           | 17          | 8           |
| Compliance Audit                                   | 5           | 17          | 14          |
| Performance Audit                                  | 4           | 6           | 5           |
| <b>Total audit reports submitted to Parliament</b> | <b>16</b>   | <b>41</b>   | <b>27</b>   |

Source SAO

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

### 30.2. Submission of audit reports to the legislature

328. Submission of the report of the State Audit Office on the annual execution of the State budget to the Parliament is made not later than five months after the end of the fiscal year in accordance with the Budget Code of Georgia<sup>96</sup>. The reports for fiscal year 2014-2016 were all submitted on time as illustrated in the table below:

| <b>Table 30.2 Report of the State Audit Office on the Annual Execution of the State Budget</b> |                |                |                |
|--|----------------|----------------|----------------|
|  | <b>2014</b>    | <b>2015</b>    | <b>2016</b>    |
| The date of submitting the report to the State Audit Office by the Ministry of Finance.        | March 31, 2015 | March 30, 2016 | March 31, 2017 |
| The date of submission of the report prepared by the State Audit Office to the Parliament.     | May 15, 2015   | May 13, 2016   | May 15, 2017   |

Source SAO

329. No consolidated financial reports for the State government were audited as they were not submitted by the Ministry of Finance. Audits of financial statements of the budgetary units were conducted but these are not officially submitted to the State Audit Office to measure this dimension, hence there is no record when they received the financial statements. This issue is separately assessed under PI-29.2. Score: A.

### 30.3. External audit follow-up

330. Audit follow-up is performed in accordance with Article 24 of the Law of Georgia on the State Audit Office. Audit reports and recommendations shall be presented to the auditee (budgetary unit), to its superior body, or to the State body to which the auditee is accountable. The auditee shall notify the SAO within one month of the measures to be taken with respect to the recommendations. Measures to be taken are stated in a corrective action

<sup>96</sup> Budget Code of Georgia, Article 55, Paragraph 2.

plan accompanied by an official letter. The SAO monitors the implementation of the recommendations once every six months. It thereafter classifies the recommendations as unfulfilled, partially fulfilled, fulfilled or invalid.

331. The average number of all recommendations made to central government budgetary units that related to financial, compliance and performance audits and their implementation over fiscal years 2014-2016, was 85%. Details are shown in the table below:

| <b>Table 30.4.1 Total Recommendations Implemented (including systemic risks)</b> |             |             |             |
|--|-------------|-------------|-------------|
|  | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Recommendations  | 495         | 504         | 456         |
| Recommendations implemented  | 421         | 431         | 382         |
| % Recommendations implemented  | 85%         | 86%         | 84%         |
| <b>Average</b>   | <b>85%</b>  |             |             |

Source SAO

332. Out of the above recommendations that included systemic risks<sup>97</sup> of the budgetary units, the average performance of implementing these recommendations over fiscal year 2014-2016 was 12% as shown in the table below:

| <b>Table 30.4.2 Systemic Risks and Recommendations</b> |             |             |             |
|--|-------------|-------------|-------------|
|  | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Risks  | 65          | 110         | 110         |
| Recommendations  | 44          | 55          | 40          |
| Recommendations implemented                            | 10          | 7           | 0           |
| Recommendations Ongoing                                | 22          | 29          | 33          |
| <b>% Recommendations implemented</b>                   | <b>23%</b>  | <b>13%</b>  | <b>0%</b>   |

Source SAO

333. Based on the analysis and supporting evidence, the score for this dimension is B.

### **30.4. Supreme audit institution independence**

334. The SAO is independent as stipulated under Article 97 (2) of the Constitution of Georgia. The SAO has operational, financial, functional and organizational independence in accordance with Article 3 of the Law of Georgia on State Audit Office. The Auditor General is appointed<sup>98</sup> for a term of 5 years by Parliament after being nominated by the Chairperson of the Parliament and winning a majority vote by Members of Parliament from a list of nominated candidates. The Auditor General may be removed through impeachment by the Parliament, in accordance with Article 64 of the Constitution of Georgia. The Auditor General can appoint or dismiss employees of the SAO<sup>99</sup>.

<sup>97</sup> These systemic risks of the budgetary units are summarized in the State Audit Office report on the government's report on the annual execution of the State budget.

<sup>98</sup> Article 9 paragraph 1 of the Law of Georgia on State Audit Office, Auditor General.

<sup>99</sup> Article 10 paragraph d of the Law of Georgia on State Audit Office, Authority of the Auditor General.

335. The Law of Georgia on the SAO ensures that it operates independently from the executive branch with respect to the planning of audit engagements<sup>100</sup>, arrangements for publicizing reports<sup>101</sup>, and the approval and execution of the SAO's budget<sup>102</sup>. The SAO also has unrestricted and timely access to records, documentation and information<sup>103</sup>. Score: A.

### PI-31. Legislative scrutiny of audit reports

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

| Indicator/Dimension                          | Minimum Requirements (Scoring Method M2 AV) |            |   |
|--|---|------------|---|
|  | 2017 Score                                  |            |   |
|  | Self-Assessment                             | Validation |   |
| PI-31: Legislative scrutiny of audit reports | A   | C+         |   |
| 31.1 Timing of audit report scrutiny         | A   | C          | Scrutiny of the fiscal years 2014-2016 reports of the State Audit Office on the annual execution of the State budget was completed by Parliament within two months of receipt of the reports (100% scrutinized on time). An average of 20% of the stand-alone audited financial statements for central government budgetary units, compliance and performance audits, were scrutinized over fiscal year 2014-2016. Reports for FY2014-2015 were scrutinized within 3 months while those for FY2016 were scrutinized within 6 months of receipt. The average of Parliament's scrutiny of the above two categories of audit reports is 60%. |
| 31.2 Hearing on audit findings               | B   | C          | In-depth hearings on key findings of audit reports take place with responsible officers from audited entities in attendance. There were hearings for the report of the State Audit Office on the annual execution of the State budget for fiscal years 2014-2016 (100% heard) while for the audited financial statements for central government units, over fiscal years 2014-  |

<sup>100</sup> Article 17 paragraph 3 of the Law of Georgia on State Audit Office, Audit Authority of the State Audit Office.

<sup>101</sup> Article 25 of the Law of Georgia on State Audit Office, International Standards on Auditing.

<sup>102</sup> Article 34 of the Law of Georgia on State Audit Office, Funding of the State Audit Office. .

<sup>103</sup> Article 23 paragraph 2 and 3 of the Law of Georgia on State Audit Office, Rights and responsibilities of an auditee.

| Indicator/Dimension  | Minimum Requirements (Scoring Method M2 AV) |            |  |
|--|---|------------|--|
|  | 2017 Score                                  |            |  |
|  | Self-Assessment                             | Validation |  |
|  |   |            | 2016, there were only two hearings out of 32 audit reports with qualified or adverse or disclaimer opinions, representing 6%. Average performance was 53%.   |
| 31.3 Recommendations on audit by the legislature           | A   | C          | During fiscal years 2014-2015, Parliament was not monitoring audit recommendations to ensure they were implemented; they started doing this in April 2016. During FY2016, out of 30 recommendations, 15 (or 50%) were implemented. |
| 31.4 Transparency of legislative scrutiny of audit reports | A   | A          | Hearings are conducted in public except for national security or similar sensitive discussions. Committee reports are provided to the full chamber of Parliament and published on Parliament's official website.                   |

### 31.1. Timing of audit report scrutiny

337. The Parliament shall submit the copies of the report of the State Audit Office on the annual execution of the State budget to the Budget and Finance Committee (BFC), to all other committees and to members of parliament not later than 3 days after receipt. Parliament upon receipt of the audit reports for central government budgetary units, submits them to the BFC for scrutiny.

338. The BFC of the Parliament shall define the schedule for reviewing the report of the State Audit Office on the annual execution of the State budget within 2 days after receipt, and shall submit it to the Parliamentary committees, the majority and minority members of parliament, as well as the Government, the State Audit Office and the National Bank of Georgia.

339. The BFC shall review the report of the State Audit Office on the annual execution of the State budget within 2 weeks and shall prepare relevant conclusions. Before the end of the spring session (until the last Friday of June), the Parliament adopts a resolution on the approval or non-approval of the report of the annual execution of the State budget. The analysis of Parliament's approvals of these reports for fiscal year 2014-2016 in the table below shows that these approvals were made within two months of the receipt of the reports:

| <b>Table 31.1.1 Report of the State Audit Office on the Annual Execution of the State Budget</b> |              |               |               |
|--|--------------|---------------|---------------|
|  | <b>2014</b>  | <b>2015</b>   | <b>2016</b>   |
| The date of the State Audit Office's submission of the report to Parliament                      | May 15, 2015 | May 13, 2016  | May 15, 2017  |
| The date of Parliament approval of the scrutiny of the report                                    | July 3, 2015 | June 23, 2016 | June 30, 2017 |

Source SAO and BFC

340. The SAO audits stand-alone financial statements of central government budgetary units and conducts performance and compliance audits. The table below shows the number of audit reports submitted by SAO and those that were scrutinized in fiscal years 2014-2016.

| <b>Table 31.1.2 Audit Reports Submitted and Scrutinized</b>   |             |             |             |
|---|-------------|-------------|-------------|
| <b>Fiscal Year</b>  | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Total financial statement audit reports for central government budgetary units plus compliance and performance audits by the SAO. | 16          | 41          | 27          |
| Scrutinized by Parliament   | 6           | 3           | 8           |
| Percentage of scrutinized audit reports   | 38%         | 7%          | 30%         |
| Average timing of scrutiny of audit reports from time of receipt by Parliament.   | 0-3 months  | 0-1 month   | 3-6 months  |

Source SAO and BFC

341. The results show that out of a total of 84 audit reports submitted by SAO to Parliament over fiscal years 2014-2016, 17 were scrutinized, representing 20%. The working group of the BFC that was established in 2015, according to article 7 and 9 of its standing order, is authorized to prioritize and select audit reports to be scrutinized by the BFC. Evidence of this work was seen for fiscal year 2016 but the reports need to explain the basis of the scrutiny.

342. The average of scrutinizing the Report of the State Audit Office on the Annual Execution of the State Budget which was done within two months (100% scrutinized on time), and the stand-alone financial statements of central government budgetary units, compliance and performance audits (20% scrutinized), was 60%. Score: C.

### **31.2. Hearing on audit findings**

343. Hearings of the key findings of the Report of the State Audit Office on the Annual Execution of the State budget for fiscal years 2014-2016 took place in Parliament's BFC, with responsible officers of audited entities in attendance. A representative from the SAO attends these hearings.

344. Hearings for stand-alone audited financial statements for central government budgetary units also took place. The table below shows the number of audit reports with qualified, adverse, or disclaimer audit opinions and



their scrutiny by the Parliament. Over the fiscal years 2014-2016, only two audit reports with a modified (qualified) audit opinion were scrutinized out of 32 audit reports (6%).

| <b>Table 31.2 Scrutiny of Audit Reports with Qualified Opinion</b>           |             |             |             |
|--|-------------|-------------|-------------|
| <b>Fiscal Year</b>   | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| No. of audit reports with a qualified or adverse or disclaimer audit opinion | 7           | 17          | 8           |
| Scrutinized by Parliament  | 1           | 0           | 1           |

Source SAO and BFC

345. The average of the two hearings has been taken into consideration in determining the score. With regard to the State Audit Office on the Annual Execution of the State budget for fiscal years 2014-2016, 100% was heard, while for the stand-alone financial audits for budgetary units with qualified opinions, only 2 out of 32 (6%) audit reports over fiscal years 2014-2016 were heard. The average was 53%. Score: C.

### **31.3. Recommendations on audit by the legislature**

346. The Parliament's BFC was not ready to issue recommendations during fiscal year 2015. The working group of the BFC started supporting the BFC to follow up audit report recommendations in April 2016. The BFC provides the auditee 90 days to submit a report on the implementation of its recommendations. The working group of the committee under article 20 of its standing order follows up progress on the implementation of the recommendations with the auditee monthly and reports to the committee on a quarterly basis. During FY2016, 15 out of 30 recommendations (50%) were implemented for the eight audit reports that were scrutinized. Score: C.

### **31.4. Transparency of legislative scrutiny of audit reports**

347. Hearings are conducted at the Parliament in public<sup>104</sup>, except for national security or similar sensitive discussions. The Finance and Budget committee provides its reports to the full chamber of Parliament and its reports are published on Parliament's official website. The website links to the hearings of the Annual Budget Execution Reports for fiscal years 2014-2016 are below:

- FY 2014 Budget execution report: <https://info.parliament.ge/#law-drafting/9372>
- FY 2015 Budget execution report: <https://info.parliament.ge/#law-drafting/12060>
- FY 2016 Budget execution report: <https://info.parliament.ge/#law-drafting/13934>

348. The table below shows the types of audit reports for which hearings were held related to the central government:

<sup>104</sup> The hearings are broadcasted live on Parliament's website and television. Audio recordings of the sessions are uploaded on the website and some on YouTube.

| <b>Table 31.4 Hearings by Type of Audit</b>                      |             |             |             |
|--|-------------|-------------|-------------|
| <b>Fiscal Year</b>   | <b>2014</b> | <b>2015</b> | <b>2016</b> |
| Hearings related to performance audit reports                    | 4           | 3           | 6           |
| Hearings related to financial audit reports for budgetary units  | 1           | 0           | 1           |
| Hearings related to compliance audit reports for budgetary units | 1           | 0           | 1           |
| <b>Total no. of audit reports for which hearings were held.</b>  | <b>6</b>    | <b>3</b>    | <b>8</b>    |

Source BFC

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

## 4. Conclusions of the analysis of PFM systems

### 4.1 Integrated assessment across the performance indicators

#### *Budget Reliability*

350. The challenges in producing accurate revenue projections have been met in recent years, as demonstrated by the high scores, indicating that revenue actuals were close to both overall (score A) and composition (score B) estimates. As a result, the aggregate expenditure side of the budget has also scored A, as well as the expenditure composition both by administrative type (score A) and by economic type (score A). This overall result has been achieved in the context of strengths in virement (score A) and the existence of supplementary budgets (score A). These additional strengths have been reflected in composition scores. The process of controlling budget allocations to match the availability of cash has been supported by good cash forecasting (score A) with budgetary units having certainty in the availability of funds to execute their budgets as planned (score A).

351. The stock of arrears is negligible (score A) and is historical with no current arrears. Commitment control is strong which ensures that arrears do not re-emerge.

#### *Transparency of Public Finances*

352. The Republic of Georgia has an impressive array of information regarding the finances of the budgetary central government. The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards (score A). The transfers to subnational government are transparently determined (score A) for both capital and current transfers. Information is included in the budget on a timely basis. As a result, the budget documents include most of the basic, and much of the supplementary information, required to support a transparent budget process (score B). This could be improved further by including information on financial assets and financial implications of new policy initiatives.

353. There is complete data regarding operations for public bodies as these are included in the budget documentation. Taken together with Estimates of Revenue and Expenditure for Spending Units and their supported agencies, the whole of government is included in the budget documents. Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is very good (score A).

354. Public access to fiscal information is strong (score A) with all required elements made available.

#### *Management of Assets and Liabilities*

355. A comprehensive and inclusive process is lacking in managing the public investment program where all dimensions scored a C. Reporting of risks associated with public corporations (score B), and local government authorities (score B) would benefit from comprehensive consolidated reporting. There is a report on contingent liabilities and other fiscal risks (score B) whose score can improve with their greater coverage. Two aspects of debt management score A, and once the debt management strategy (score D), which is not yet finalized, is approved, there will be a strong focus on managing debt.

### ***Policy-based Fiscal Strategy and Budgeting***

356. Good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. There is an effective budget calendar (score A) which provides budgetary unit adequate time to prepare their budgets as well as the legislature to carry out its scrutiny function. A medium-term approach is taken to expenditure budgeting, with baseline multi-year ceilings based on the forward estimates of the most recently approved prior budget. The budget is presented for the up-coming year and the following two fiscal years (score A) with a focus on determining medium-term ceiling aligned to strategic plans and medium-term budgets (score A). Improvements can be achieved by explaining difference from previous fiscal forecasts (score B) and explaining any changes from previous expenditure estimates (score D). Improvements in fiscal strategy can be affected by preparing estimates of the fiscal impact of policy changes in revenue and expenditure (score D) and reporting on fiscal outcomes (score D) although adoption of the fiscal strategy is good (score B) but could be improved by time-based fiscal targets.

### ***Predictability and Control in Budget Execution***

357. Revenue administration is strong, but some constraints remain, particularly the stock of arrears (score D). The taxation system is based on comprehensive legislation providing information on the tax liabilities of taxpayers. This is supported by information leaflets that can be accessed on-line and at departmental offices, as well as media broadcasts, training and awareness events. The appeals mechanisms are clearly defined by law, with a second-tier tax tribunal in place with recourse to the courts (score A). Georgia Revenue Services has adopted a risk-based approach to administering revenues and this is backed up with legally codified penalties and fines. It stratifies taxpayers based on turnover and links it to other systems such as procurement. The tax audit program covers all taxes and comprises both desk and field audits based on an audit plan which is implemented (score A) with resultant tax yield measured.

358. Revenue collected is relatively well managed in terms of the flow of funds to the Treasury and recording of transactions. All revenues are transferred from the receiving commercial banks daily to the Treasury account (Score A). All accounts are reconciled on a timely basis (score A) as all taxpayers have their own electronic account. GRS can monitor revenues in real time. GRS reconciles payments to the TSA and this is carried out on the 15<sup>th</sup> of each month (score A). A revenue report is prepared monthly for management purposes (score A).

359. The Georgian Treasury, based on its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through daily auctions. The consolidation of cash balances in TSA and commercial banks is made on a daily basis and published on the Treasury website (score A). A cash flow forecast is prepared annually for the year to come and broken-down month by month. It is updated at least monthly on the basis of actual inflows and outflows. In addition, each month, the Treasury prepares a projection of daily cash flow for the month to come (score A). Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases. Management of budget releases has been successful in controlling arrears (score A) but arrears are not always adequately monitored (score C).

360. All elements of the payroll system score an A. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. Personnel records are updated

monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. Changes to the payroll records, are restricted to authorized persons in the budgetary units. The changes are certified by an authorized person and approved by the head of the unit. There is a strong system of annual payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues.

361. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP). Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works (score A). 91% of the value of contracts are procured through competitive procurement methods (score A). All the key procurement information is made available to the public (score A). However, the appeals process is not wholly independent as 3 members of the appeals board are from State Procurement Agency. The Chairman of State Procurement Agency is the same Chairman of the dispute review board, with a prevailing vote (score D).

362. Internal controls on nonsalary expenditure scores an A in all dimensions with strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. This achievement is ensured by the established PFMIS. The internal audit function has been strengthened (score B+) but the process of harmonizing systems and processes amongst all budgetary units needs to continue. Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors (score B). Management implemented 96% of internal audit recommendations made over fiscal years 2014-2016 (Score A).

### ***Accounting and Reporting***

363. Accounts reconciliation and financial data integrity are areas of strengths. The bank reconciliation for all active central government bank accounts takes place on a daily basis through Real-Time Gross Settlement System (RTGS) (score A). There are no active expenditure suspense accounts (score A). Advances are reconciled in a timely manner (score A). Data integrity is good (score A) as access and changes to records is restricted and recorded, and results in a sufficient audit trail.

364. With respect to in-year budget reports, coverage and classification of data allows for direct comparison to the original budget. Information includes all central government budget estimates for the budgetary units. Expenditure made from transfers to extrabudgetary units are included in the report mainly because of the integration between e-Budget and e-Treasury systems that contains the accountability of these related expenditures (score A). Consolidated budget execution reports are prepared quarterly and issued to Parliament as well as published within four weeks from the end of the quarter (score B). There are no material concerns regarding data accuracy. Information on expenditure is covered at both commitment and payment stages in the e-Treasury system (score A).

365. The situation with respect to the annual financial reports is mixed (overall score of D+). The consolidated budget execution report for central government budgetary units are prepared annually and are comparable with the approved budget. There is also detailed analysis of performance. The financial statements generally contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. The financial reports are supported by a reconciled cash flow statement (score B). The State's annual

financial statements are not submitted for external audit. Although the financial statements of central government budgetary units are audited by the State Audit Office, no evidence was provided by the Ministry of Finance of when their financial statements were submitted for audit (score D\*). The annual execution report for the State budget is submitted for audit within 3 months. IPSAS is the disclosed accounting standards applied to all budgetary units' financial reports in line with the instructions on the accounting and financial statements of budgetary organizations. Nevertheless, less than 50% of the total number of IPSAS standards was applied by fiscal year 2016 where 9 standards were implemented. During 2017, 16 standards are being implemented out of a total of 40 (score C).

### ***External Scrutiny and Audit***

366. External audit is an area of significant strength (score B+). However, legislative scrutiny of these accounts cannot be considered to be good practice (score C+). The financial statements of all central government budgetary units include revenue, expenditure, assets and liabilities. They are audited using International Standards of Supreme Audit Institutions. The audits highlighted relevant material issues and systemic and control risks (score A). During the last three completed fiscal years, the State Audit Office submitted the annual report on the State budget performance to the legislative body within 3 months after receipt of the report from the Ministry of Finance (score A). Audit recommendations for budgetary units are followed up, monitored once every six months and annually reported on by the State Audit Office in their report to Parliament on the annual execution of the State budget (score B). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office (score A).

367. Transparency of legislative scrutiny of audit reports is high (score A) but there is need to improve on the timing of audit report scrutiny, hearing of audit findings and follow up of audit recommendations issued by Parliament, that all scored, C.

## **4.2 Effectiveness of the internal control framework**

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

369. The internal control environment, as set out in annex 2, is generally sound. The scores in related indicators and dimensions reinforce that controls associated with the day-to-day transaction of the budgetary central government are functioning and result in good data integrity regarding the activities of these entities. The laws and regulations provide the legal framework, and allow for specific roles and responsibilities, segregation of duties, and operating processes. The system embeds access controls and audit trails that support the internal control framework.

370. The current compliance-based approach supports continuous improvement in the control environment given the strengths in commitment controls and associated compliance with rules and procedures.

371. There is a risk-based approach supported by a strong internal and external audit and oversight function. Risk assessment is an important part of the control framework that applies to internal audit and analysis.

Similarly, certain activities, such as advances, and payroll, receive a level of attention in the ex-ante control process.

372. Control activities are generally strong, in particular with regard to segregation of duties and reconciliation of accounts. Budget rules for supplementary estimates and virement are met.

373. Information and communication of internal control awareness is continuously promoted through targeted and cross-cutting training. Monitoring is strong through the processes of internal and external audit, with follow-up improving.

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

### **4.3 Strengths and weaknesses of PFM**

375. An overriding feature of PFM in the Republic of Georgia has been the development and good use of information technology in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, Revenue Services, and procurement. The application of IT has been developed in-country based on business processes in each of the subject areas (redefined as necessary) and not on the reconfiguration of business practices to suit particular software. This adoption of IT solutions combined with the internet as a vehicle for its implementation by competent and trained personnel (with appropriate control) has been fundamental to the development of strengths in PFM. The integration of IT, internet and personnel enhanced skills through training, has resulted in PFM's positive effectiveness and efficiency.

#### ***Aggregate Fiscal Discipline***

376. Aggregate fiscal discipline is achieved due to control over spending during budget execution, as well as realistic revenue forecasts. Strong revenue administration ensures that revenues are efficiently collected. The planned budget on an aggregate basis is not circumvented using virement and supplementary budgets. Treasury operations and cash management enables expenditures to be managed within the available resources. Control of contractual commitments is effective and helps to limit expenditure arrears. The strong external audit function enhances fiscal discipline.

#### ***Strategic Allocation of Resources***

377. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is a strong link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that is consistent with a strategic allocation of resources. There is an emphasis on the overall fiscal framework which could be improved by analysis and reporting of changes in circumstances relating to fiscal strategy and implications of policy changes. Better management of investment would improve the strategic allocation of resources as it would ensure that recurrent cost implication of investment is factored into the budget process and investments are also selected to generate the best return.

#### ***Efficient Use of Resources for Service Delivery***

378. The current weaknesses in competitive bidding in the procurement system with respect to the appeals and dispute process could have adverse implications for the efficiency in service delivery. The strengths in the accountability mechanisms make external audits effective as counter checks on inefficient use of resources. However, weaknesses in the production of consolidated annual financial statements limit the impact of audits which in turn limits the effectiveness of oversight. These are offset, however, by the strength of the annual budget execution reports which includes information on the realization of annual targets for outputs and objectives. Publishing of performance targets and outcomes also supports the efficient use of resources in service delivery units. On the revenue side, operational efficiency is compromised by the accumulation of tax arrears. Lack of effective tax debt collection undermines credibility of tax assessments and the principle of equal treatment of taxpayers. The continued arrears write-off of uncollectable arrears would afford the opportunity to clean up tax arrears and make them current.

#### 4.4 Performance changes since previous assessment

379. While the PEFA has been carried out using the 2016 methodology, it has been possible to score against the 2011 PEFA methodology, which was used in the previous PEFA assessment of Georgia in 2013. Across the 28 individual indicators compared, there has been an improvement in 9 indicators, deterioration in 1 and no change in 18 indicators. This overall improvement in scoring has been from a relatively high baseline achieved in 2013.

380. The comparison of the two PEFA assessments shows that the following indicators have improved:

##### **Fiscal Discipline**

- Composition of expenditure outturn compared to original approved budget (variance in composition)
- Aggregate revenue outturn compared to original approved budget
- Oversight of aggregate fiscal risk from other public sector entities (monitoring of public corporations)

##### **Strategic Allocation of Resources**

- Multi-year perspective in fiscal planning, expenditure policy and budgeting (costed sector strategies)

##### **Efficient use of Resources for Service Delivery**

- Effectiveness of payroll controls (payroll audits)
- Effectiveness of internal audit (coverage and quality)
- Timeliness and regularity of accounts reconciliation (bank reconciliation)
- Scope, nature and follow-up of external audit (scope/nature)
- Legislative scrutiny of external audit reports.

381. The main area of backsliding is the timeliness of submissions of annual financial statements which impacts on all the key fiscal and budgetary outcomes.

382. These improvements can be attributed to strong management of the PFM reform program in Georgia.



## 5. Government PFM reform process

### 5.1 Approach to PFM reforms

383. The history of PFM reform in Georgia is well documented in the publication Public Finance Management Reform in Georgia<sup>105</sup> as well as Public Finance of Georgia Management Reform Strategy 2014-2017. These reforms have been centered on the introduction and implementation of program and performance budgeting with the associated accounting and reporting requirements through the use of information technology. The former of these reports notes “that since 2007 impressive progress has been made and many innovative components have been developed at the Revenue Service; Important reforms were implemented at the Treasury Service; Treasury single account was extended, which now includes local governments and all public entities; Also, web-based PFMS was launched, which is one of the achievements of the PFM reforms in the country, as it was mainly developed in-house. Over the last 10 years the State Audit Office has transformed from the traditional control-inspection function to the new function of modern financial and compliance audit in line with international best practice: the legal and methodological basis for internal audit and control has been established and is being rolled out throughout the Government, since the establishment the Academy of the Ministry of Finance has been developed into the key provider of training related to the PFM reforms and initiatives, and reform includes new approaches in the instruments and practices of parliamentary scrutiny of the PFM system. The importance of independent fiscal institutions and role of the Budget Office of the parliament is also understood and remains in the agenda of the PFM reform.

384. The achievements in public procurement are impressive. The reform in this sector has evolved steadily. The law on State procurement was modified considerably and made compatible with EU legislation and international good practice.”

385. PFM reform in Georgia has delivered and continues to deliver tangible results, such as: good progress in ensuring transparency of public finance in line with international standards; fiscal discipline and fiscal rules; sound program based budgeting system for all levels of the general Government are strengthened and has deepened inter-governmental fiscal relations; well-structured and fully integrated in-house developed electronic system (ePFMS) for Budgeting, Treasury and other related areas; impressive tax policy reform and sound tools for macroeconomic and fiscal analysis.

386. In recent years, the Ministry of Finance has developed the capabilities to assess the aggregated fiscal risk enterprises and as such, it improved its financial oversight of the public sector.

387. While the PFM reform agenda has been Government-driven and led, it has benefited from technical assistance from the EU as well as the World Bank and IMF for the whole of the reform period.

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<sup>105</sup> This publication has been produced with the assistance of the European Union. Its contents are the sole responsibility of Louis Berger in association with PMCG, SAFEGE and BDO and can in no way be taken to reflect the views of the European Union. [Georgia PFM reform](#)

## 5.2 Recent and ongoing reform actions

388. The Public Sector Financial Management Reform Action Plan 2017 sets out a costed plan with targeted results covering the following areas which show the ongoing nature of the reforms and their deepening nature: Improvement of Budget Management; Taxation Policy and Custom Issues; Macroeconomic Forecasting and Analysis; Public Debt Management; Accounting and Reporting; Public internal control over financial reform; Informational Technologies and Resource Management. Each of these topics are presented in detail in Annex 5 along with the responsible body for implementation. This annex shows the breadth and depth of the reforms as well as their holistic and intertwined features. It also reflects the continued nature of the reform agenda building upon achievements from previous reform activities across the broad spectrum of the PFM agenda.

389. The IMF FAD Fiscal Transparency Evaluation<sup>106</sup> has also presented an action plan agreed with Government covering the 2017 -2020 period with a focus on fiscal reports, reporting and control of tax expenditures; improvement in budget comprehensiveness; strengthening credibility of fiscal objectives; improved credibility of macroeconomic forecasts and MTBF; long term fiscal sustainability analysis; criteria for drawing on budget contingency funds; reporting on and control of contingent liabilities and reporting on subnational governments.

390. All the above indicates the ongoing commitment to reform in terms of its continuation and deepening across the whole range of the PFM cycle building on achievements and success to date. Reform is seen as an ongoing rather than a one-off activity.

## 5.3 Institutional considerations

391. The PFM reform program has been driven by successive Governments and its institutions such as the Ministry of Finance and its many implementing departments – Budget, Treasury, Accounts, Debt, and Revenue - but also State Audit, the State Procurement Agency as well as the Parliament. The building block of electronic processes (e-government) has ensured that there are linkages between all the different actors to provide information and control. The reform process is transparent fulfilling a desire for Georgia to be modern and viable State and its longevity has ensured its sustainability.

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<sup>106</sup> September 2017

## Annex 1.1: Performance indicator summary

| Indicator/Dimension   | Score     | Explanation   |
|---|-----------|---|
| <b>PI-1 Aggregate expenditure outturn</b>                           | <b>A</b>  |   |
| 1.1 Aggregate expenditure outturn                                   | A         | In all 3 years the deviation was less than 5 percent (1.2% 0.3% and 1.2%)   |
| <b>PI-2 Expenditure composition outturn</b>                         | <b>A</b>  |   |
| 2.1 Expenditure composition outturn by function                     | A         | In all 3 years the deviation was less than 5 percent (2.9% 2.5% and 3.4%)   |
| 2.2 Expenditure composition outturn by economic type                | A         | In all 3 years the deviation was less than 5 percent (3.1% 4.0% and 3.8%)   |
| 2.3 Expenditure from contingency reserves                           | A         | Actual expenditure charged to the contingency fund vote 1.0% in 2014, 1.7% in 2015 and 1.9% in 2016 and cannot exceed 2% of the budget by law.  |
| <b>PI-3 Revenue outturn</b>   | <b>B+</b> |   |
| 3.1 Aggregate revenue outturn                                       | A         | Aggregate deviation was between 97 and 106 percent (less than 102 percent in each year)   |
| 3.2 Revenue composition outturn                                     | B         | Variance in revenue collection was less than 10 per cent in two of the three years (5.5%, 5.0%, and 13.3%).   |
| <b>PI-4 Budget classification</b>                                   | <b>A</b>  |   |
| 4.1 Budget classification   | A         | Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification substitutes to the GFS administrative classification and provides at least the same level of detail. |
| <b>PI-5 Budget documentation</b>                                    | <b>B</b>  |   |
| 5.1 Budget documentation  | B         | Budget documentation fulfills nine elements, including the four basic elements and five additional elements.  |
| <b>PI-6 Central government operations outside financial reports</b> | <b>A</b>  |   |
| 6.1 Expenditure outside financial reports                           | A         | All expenditures are included in financial reports  |
| 6.2 Revenue outside financial reports                               | A         | All revenues are included in financial reports  |
| 6.3 Financial reports of extrabudgetary units                       | NA        | There are no extrabudgetary units   |
| <b>PI-7 Transfers to subnational governments</b>                    | <b>A</b>  |   |
| 7.1 Systems for allocating transfers                                | A         | The horizontal allocation of some 92% of transfers to subnational governments from central government is determined by transparent, rule based systems.   |
| 7.2 Timeliness of information on transfers                          | A         | Local self-government bodies are provided with detailed information on the annual volume of transfers not less than 6 weeks prior to the completion of the planned budget   |
| <b>PI-8 Performance information for service delivery</b>            | <b>A</b>  |   |
| 8.1 Performance plans for service delivery                          | A         | Information is annually prepared and published according to program objectives of most ministries (75%). It includes performance indicators, programs about intermediate and final results and outcomes.  |
| 8.2 Performance achieved for service delivery                       | A         | Information about intermediate and final results of the programs /sub-programs implemented by most ministries (i.e. 75 percent in value) within the priorities and about their Performance Assessment Indicators are published annually in the Budget Annual Reports;                 |
| 8.3 Resources received by service delivery units                    | A         | The information on the resources received by the service providers is collected and recorded in case of programs implemented by not less than 2 major ministries based on the sources of funding. This information is prepared at least annually.                                     |
| 8.4 Performance evaluation for service delivery                     | A         | Assessment of efficiency and effectiveness of service delivery has been prepared and published in respect of activities of <u>most</u> ministries (i.e. 75 percent in value) in the period of at least the previous three years.  |

| Indicator/Dimension                                 | Score     | Explanation  |
|---|-----------|--|
| <b>PI-9 Public access to fiscal information</b>     | <b>A</b>  |  |
| 9.1 Public access to fiscal information             | A         | The Government provides access to all types of listed fiscal information   |
| <b>PI-10 Fiscal risk management</b>                 | <b>B</b>  |  |
| 10.1 Monitoring of public corporations              | B         | Audited annual financial statements for <b>most</b> public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by central government annually. The Government's Fiscal risk report addresses individual public corporations.  |
| 10.2 Monitoring of subnational government           | C         | Annual financial statements for subnational governments are published by end April but are not audited on an annual basis.   |
| 10.3 Contingent liabilities and other fiscal risks  | B         | Central government entities and agencies quantify most significant contingent liabilities in their financial reports.  |
| <b>PI-11 Public investment management</b>           | <b>C</b>  |  |
| 11.1 Economic analysis of investment proposals      | C         | Economic analyses are conducted to assess <i>some</i> major investment projects.   |
| 11.2 Investment project selection                   | C         | Prior to their inclusion in the budget, <i>some</i> of the major investment projects are prioritized by a central entity.  |
| 11.3 Investment project costing                     | C         | Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents.   |
| 11.4 Investment project monitoring                  | C         | The total cost and physical progress of major investment projects are not adequately monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually but only at a superficial level.   |
| <b>PI-12 Public asset management</b>                | <b>C+</b> |  |
| 12.1 Financial asset monitoring                     | B         | The government maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.  |
| 12.2 Nonfinancial asset monitoring                  | C         | The government maintains a register of its holdings of fixed assets, and collects partial information on their usage and age.  |
| 12.3 Transparency of asset disposal                 | C         | Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The State Property Agency provides detailed information on every transaction. However, disposal of the remaining assets is implemented by the spending line agencies in non-centralized manner and detailed information on what is being disposed is not available in the format of a report.  |
| <b>PI-13 Debt management</b>                        | <b>B</b>  |  |
| 13.1 Recording and reporting of debt and guarantees | A         | Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.   |
| 13.2 Approval of debt and guarantees                | A         | Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature. |
| 13.3 Debt management strategy                       | D         | At the time of the Self-Assessment and its validation, the Debt Management Strategy of Georgia 2016-2019 is being developed to reflect the measures and actions to be taken to ensure the implementation of effective debt management policy.  |
| <b>PI-14 Macroeconomic and fiscal forecasting</b>   | <b>A</b>  |  |

| <b>Indicator/Dimension</b>                                    | <b>Score</b> | <b>Explanation</b>   |
|---|--------------|--|
| 14.1 Macroeconomic forecasts                                  | A            | The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the three following fiscal years. The projections have been reviewed by the Parliament Budget Office (PBO). |
| 14.2 Fiscal forecasts   | B            | The government prepares forecasts of the main fiscal indicators, including revenues (by type), disaggregated expenditure, and the budget balance, for the budget year and three following fiscal years. These forecasts, together with the underlying assumptions are included in budget documentation submitted to the legislature.   |
| 14.3 Macrofiscal sensitivity analysis                         | A            | The government prepares the scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.  |
| <b>PI-15 Fiscal strategy</b>                                  | <b>D+</b>    |  |
| 15.1 Fiscal impact of policy proposals                        | D            | The government has not prepared estimates of the fiscal impact of all proposed changes in revenues and expenditures policy for the budget year.  |
| 15.2 Fiscal strategy adoption                                 | B            | The Government has adopted and submitted to the Legislature a fiscal strategy document, which includes the goals and objectives of the year to be planned and of the next three following years.   |
| 15.3. Reporting on fiscal outcomes                            | D            | The Government does not prepare an internal report on the progress made against its fiscal strategy. Such a report has not been prepared for at least the last completed fiscal year.  |
| <b>PI-16 Medium-term perspective in expenditure budgeting</b> | <b>B+</b>    |  |
| 16.1 Medium-term expenditure estimates                        | A            | The annual budget present's estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification.   |
| 16.2 Medium-term expenditure ceilings                         | A            | Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.  |
| 16.3 Alignment of strategic plans and medium-term budgets     | A            | Medium-term strategic plans are prepared and costed for all ministries. Expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans and assessed in the subsequent execution reports  |
| 16.4 Consistency of budgets with previous year estimates      | D            | There is no explanation of the 4.1% absolute deviation or the 10.6% composition deviation.   |
| <b>PI-17 Budget preparation process</b>                       | <b>A</b>     |  |
| 17.1 Budget calendar  | A            | The budget calendar is clear and adhered to. It allows budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.   |
| 17.2 Guidance on budget preparation                           | A            | The budget circular (BDD) is comprehensive and covers total expenditure for the fiscal year. The ministry ceilings reflected in the circular are approved before the circular distribution to budgetary units.   |
| 17.3 Budget submission to the legislature                     | A            | The government submitted the annual budget proposal more than three months before the end of the year in each of the last three fiscal years.  |
| <b>PI-18 Legislative scrutiny of budgets</b>                  | <b>A</b>     |  |
| 18.1 Scope of budget scrutiny                                 | A            | The Georgian Parliament's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.   |
| 18.2 Legislative procedures for budget scrutiny               | A            | The legislature's procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also include arrangements for public consultation.  |
| 18.3 Timing of budget approval                                | A            | During the last three fiscal years the legislative body approved the annual budget law before the start of the fiscal year.  |

| Indicator/Dimension  | Score     | Explanation  |
|--|-----------|--|
| 18.4 Rules for budget adjustments by the executive         | A         | Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendment and are adhered to in all instances.  |
| <b>PI-19 Revenue administration</b>                        | <b>B+</b> |  |
| 19.1 Rights and obligations for revenue measures           | A         | Entities collecting <i>most</i> revenues use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.  |
| 19.2 Revenue risk management                               | A         | Entities collecting <i>most</i> revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for <i>all</i> categories of revenue and, as a minimum for their large and medium revenue payers.   |
| 19.3 Revenue audit and investigation                       | A         | Entities collecting <i>most</i> revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete <i>all</i> planned audits and investigations.  |
| 19.4 Revenue arrears monitoring                            | D         | The stock of revenue arrears at the end of the last completed fiscal year is around 5 percent of the total revenue collection for the year but the revenue arrears older than 12 months is around 90 percent of total revenue arrears.   |
| <b>PI-20 Accounting for revenue</b>                        | <b>A</b>  |  |
| 20.1 Information on revenue collections                    | A         | A central agency obtains revenue data at least monthly from entities collecting <i>all</i> central government revenue. This information is broken down by revenue type and is consolidated into a report.  |
| 20.2 Transfer of revenue collections                       | A         | Entities collecting <i>most</i> central government revenue transfer the collections directly into accounts controlled by the Treasury, or transfer the collections daily to the Treasury.  |
| 20.3 Revenue accounts reconciliation                       | A         | Entities collecting <i>most</i> central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury on a bi-monthly basis.  |
| <b>PI-21 Predictability of in-year resource allocation</b> | <b>A</b>  |  |
| 21.1 Consolidation of cash balances                        | A         | A cash flow forecast is prepared annually for the fiscal year, broken down by months and updated monthly on the basis of actual cash inflows and outflows.   |
| 21.2 Cash forecasting and monitoring                       | A         | Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases.   |
| 21.3 Information on commitment ceilings                    | A         | Insignificant adjustment to budget allocations was made once in 2016 and was done in a transparent and predictable way.  |
| 21.4 Significance of in-year budget adjustments            | A         | A cash flow forecast is prepared annually for the fiscal year, broken down by months and updated monthly on the basis of actual cash inflows and outflows.   |
| <b>PI-22 Expenditure arrears</b>                           | <b>C+</b> |  |
| 22.1 Stock of expenditure arrears                          | A         | Amount of expenditure arrears did not exceed 2% during 2014-2016.  |
| 22.2 Expenditure arrears monitoring                        | C         | The financial statements submitted to the Treasury Service by spending institutions provide information on stock and composition of expenditure arrears but not their age profile. No monitoring is done in-year.  |
| <b>PI-23 Payroll controls</b>                              | <b>A</b>  |  |
| 23.1 Integration of payroll and personnel records          | A         | The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of |

| Indicator/Dimension                                     | Score     | Explanation   |
|---|-----------|---|
|   |           | any person that is not reflected in the personnel database of the E-Treasury system.  |
| 23.2 Management of payroll changes                      | A         | Personal records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.   |
| 23.3 Internal control of payroll                        | A         | Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The changes are certified by an authorized person and approved by the head of the unit. In addition, for remuneration changes, these have to be approved by the State Treasury. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and token numbers to be used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high.   |
| 23.4 Payroll audit                                      | A         | There is a strong system of annual payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues.  |
| <b>PI-24 Procurement</b>                                | <b>B+</b> |   |
| 24.1 Procurement monitoring                             | A         | Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).   |
| 24.2 Procurement methods                                | A         | As per public procurement legislation open competition above 5,000 Georgian Lari (GEL) equivalent US\$ 2000 is a default method. 91% of contracts by value procured in 2016 were conducted through competitive selection.   |
| 24.3 Public access to procurement information           | A         | All the key procurement information is made available to the public. These include but are not limited to<br>(1) legal and regulatory framework for procurement<br>(2) government procurement plans<br>(3) bidding opportunities<br>(4) contract awards (purpose, contractor and value)<br>(5) data on resolution of procurement complaints<br>(6) annual procurement statistics  |
| 24.4 Procurement complaints management                  | D         | Procurement system meets all criteria except N1. According to Article 3, Subparagraph 1 and 2 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency, dispute review board consists of 6 persons on a parity principle. 3 members are from CSOs/NGOs and 3 are from State Procurement Agency. Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote. State Procurement Agency is also a clearing/reviewing body for Simplified Procurement (aka Direct Contracting requests from implementing agencies).<br>The involvement of the State Procurement Agency in specific procurement procedure for simplified procurement procedures (aka direct contracting) makes it part of the procurement transactions and procurement decision-making process leading to contract award, which creates conflicts with its oversight function and its role in the review of procurement complaints |
| <b>PI-25 Internal controls on nonsalary expenditure</b> | <b>A</b>  |   |
| 25.1 Segregation of duties                              | A         | Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the IFMIS, in accordance with Order of the Minister of Finance of July 6, 2012 on the approval instructions for the State Treasury Electronic Service System.  |

| <b>Indicator/Dimension</b>                            | <b>Score</b> | <b>Explanation</b>   |
|---|--------------|--|
| 25.2 Effectiveness of expenditure commitment controls | A            | Commitment control applies to all payments made from the Treasury single account. Actual expenditures incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.   |
| 25.3 Compliance with payment rules and procedures     | A            | Compliance with payment rules and procedures is very high.   |
| <b>PI-26 Internal audit</b>                           | <b>B+</b>    |  |
| 26.1 Coverage of internal audit                       | A            | Internal auditors are in all 16 ministries, all 13 LEPLs required to have internal auditors, 4% of non-commercial entities, and 36% of higher education entities with the rest covered by internal audit unit of the Ministry of Education, and 45% of legal entities under private law. Internal audit coverage of the central government (mainly ministries) budgeted expenditure over fiscal years 2014-2016, was an average of 94%.                  |
| 26.2 Nature of audits and standards applied           | B            | Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors. A quality assurance process is in the initial stages of being introduced. |
| 26.3 Implementation of internal audits and reporting  | A            | Annual audit programs exist and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. In fiscal year 2016, programmed audits were 126 for central government out of which 115 (91%) were completed and their reports distributed to appropriate parties.   |
| 26.4 Response to internal audits                      | A            | Management implemented 96% of internal audit recommendations made over fiscal years 2014-2016, for an average coverage of 93% of the central government budgeted expenditure.  |
| <b>PI-27 Financial data integrity</b>                 | <b>A</b>     |  |
| 27.1 Bank account reconciliation                      | A            | Treasury Service under Ministry of Finance, reconciles on daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.  |
| 27.2 Suspense accounts                                | A            | There are no expenditure suspense accounts under the TSA. There have been revenue suspense accounts but they are historical as they arose before fiscal years 2014-2016. During fiscal years 2014-2016, revenue deposits were properly coded and accounted for, with no suspense accounts arising.   |
| 27.3 Advance accounts                                 | A            | Reconciliation of advance accounts takes place monthly (within 20 days after the end of each month). All advance accounts are cleared in a timely manner.  |
| 27.4 Financial data integrity processes               | A            | Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its IT department monitors unauthorized systems access. Internal auditors and the State Audit Office do also conduct audits to verify financial data integrity.  |
| <b>PI-28 In-year budget reports</b>                   | <b>B+</b>    |  |
| 28.1 Coverage and comparability of reports            | A            | Coverage and classification of data in the budget execution reports allows direct comparison to the original budget. Information includes all central government budget estimates for the budgetary units.   |
| 28.2 Timing of in-year budget reports                 | B            | Consolidated budget execution reports are prepared quarterly and issued to Parliament as well as published within four weeks from the end of the quarter.  |
| 28.3 Accuracy of in-year budget reports               | A            | There are no material concerns regarding data accuracy following discussions with Parliament's Budget Office and the State Audit Office. An analysis of the budget execution reports is done quarterly by Parliament's Budget Office that issues a report to the Budget and Finance Committee of Parliament. Information on expenditure is covered at both commitment and payment stages in the e-Treasury system.                                       |
| <b>PI-29 Annual financial reports</b>                 | <b>D+</b>    |  |



| Indicator/Dimension                                 | Score     | Explanation  |
|---|-----------|--|
| 29.1 Completeness of annual financial reports       | B         | The report on State budget execution is prepared annually and is comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities and long term obligations. In addition, the consolidated financial reports for central government budgetary units are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. The financial reports are supported by a reconciled cash flow statement. The 2014 and 2015 consolidated financial statements did not contain full information on revenue and tangible assets (nonfinancial assets). |
| 29.2 Submission of reports for external audit       | D*        | The State's consolidated annual financial statements are not submitted for external audit. Although the financial statements of central government budgetary units are audited by the State Audit Office, there was no record of when they were submitted for external audit. The annual execution report for State budget is submitted for audit within 3 months.   |
| 29.3 Accounting standards                           | C         | IPSAS is the accounting standards disclosed in the State's annual consolidated financial statements. These accounting standards were applied by all budgetary units in accordance with instructions on the Accounting and Financial Reporting of Budgetary Organizations approved by the Order №429 of the Minister of Finance of Georgia on December 31, 2014 in line with Article 14 of the Budget Code of Georgia. About 23% of the total number of IPSAS standards were applied by fiscal year 2016 where 9 standards out of a total of 40, were implemented. During 2017, the standards that were implemented were increased to 16  |
| <b>PI-30 External audit</b>                         | <b>B+</b> |  |
| 30.1 Audit coverage and standards                   | A         | The financial statements of <b>all</b> central government budgetary units include revenue, expenditure, assets and liabilities. They are audited using International Standards of Supreme Audit Institutions (ISSAI) for the last three fiscal years in accordance with Article 26 of the Law of Georgia on State Audit Office. Audit coverage included in the report of the State Audit Office on the annual report on State budget execution, for fiscal years 2014 was 96%, 2015 was 94% and 2016 was 91%. The audits highlighted relevant material issues and systemic and control risks.  |
| 30.2 Submission of audit reports to the legislature | A         | During the last three completed fiscal years, the State Audit Office submitted the annual report on the State budget performance to the legislative body within 3 months after receipt of the report by the Audit Service. No consolidated financial reports for the State government was audited as they were not submitted by the Ministry of Finance. Audits of financial statements of the budgetary units were conducted but these were not officially submitted to the State Audit Office to measure this dimension, and this issue is separately dealt with under PI-29.2.  |
| 30.3 External audit follow-up                       | B         | In line with the Article 24 of the Law of Georgia on the State Audit Office, audit recommendations for budgetary units are followed up, monitored once every six months and annually reported on by the State Audit Office in their report to Parliament on the annual execution of the State budget. The average performance of addressing recommendations from financial, compliance and performance audits over fiscal years 2014-2016 was 85%.   |
| 30.4 Supreme Audit Institution (SAI) independence   | A         | The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office.   |
| <b>PI-31 Legislative scrutiny of audit reports</b>  | <b>C+</b> |  |

| Indicator/Dimension  | Score | Explanation  |
|--|-------|--|
| 31.1 Timing of audit report scrutiny                       | C     | Scrutiny of the fiscal years 2014-2016 Reports of the State Audit Office on the Annual Execution of the State budget was completed by Parliament within two months of receipt of the reports (100% scrutinized on time). An average of 20% of the stand-alone audited financial statements for central government budgetary units, compliance and performance audits, were scrutinized over fiscal year 2014-2016. Reports scrutinized for FY2014-2015 were done within 3 months while those of FY2016 were scrutinized within 6 months of receipt of the reports. The average of Parliament's scrutiny of the above two categories of audit reports is 60%. |
| 31.2 Hearings on audit findings                            | C     | In-depth hearings on key findings of audit reports take place with responsible officers from audited entities in attendance. There were hearings for the Report of the State Audit Office on the Annual Execution of the State budget for fiscal years 2014-2016 (100% heard) while for the audited financial statements for central government units, over fiscal years 2014-2016, there were only two hearings out of 32 audit reports with qualified or adverse or disclaimer opinions, representing 6%. Average performance was 53%.   |
| 31.3 Recommendations on audit by the legislature           | C     | During fiscal years 2014-2015, Parliament was not monitoring audit recommendations to ensure they were implemented, as they started doing this in April 2016. During FY2016, out of 30 recommendations that were issued, 15 (50%) were implemented related to the eight scrutinized audit reports.   |
| 31.4 Transparency of legislative scrutiny of audit reports | A     | Hearings are conducted in public except for national security or similar sensitive discussions. Committee reports are provided to the full chamber of Parliament and published on Parliament's official website.   |

## Annex 1.2: Comparison of PEFA scores of 2013 and 2017

|   | 2013   | 2017 | Direction of Change | Description of requirements met and progress between 2013 and 2016 using 2011 PEFA methodology updated in 2011  |
|---|--------|------|---------------------|---|
| <b>A. PFM-OUTTURNS: Credibility of the Budget</b>   |        |      |                     |   |
| <b>PI-1 Aggregate expenditure outturn compared to original approved budget</b>                          | A      | A    | →                   | 2017 score based on 100.8% 98.1% and 97.7%  |
| <b>PI-2 Composition of expenditure outturn compared to original approved budget</b>                     | B+     | A    | ↑                   |   |
| (i) Extent of the variance in expenditure composition during the last three years                       | B      | A    |                     | 2017 score based on 3.1% 3.6% and 3.2%  |
| (ii) The average amount of expenditure actually charged to a contingency vote over the last three years | A      | A    |                     | 2017 score based on 1.6%  |
| <b>PI-3 Aggregate revenue outturn compared to original approved budget</b>                              | B      | A    | ↑                   | 2017 score based on 99.7% 99.7% and 99.8%   |
| <b>PI-4 Stock and monitoring of expenditure payment arrears</b>   | A (B+) | B+   | →                   |   |
| (i) Stock of expenditure payment arrears and a recent change in the stock.                              | A      | A    |                     | The stock of expenditure arrears of the central government was below 2% of total expenditure at the end of 2016.  |
| (ii) Availability of data for monitoring the stock of expenditure payment arrears.                      | A (B)  | B    |                     | Data on the stock of central government expenditure arrears was collected at the end of 2015 and 2016. It is reliable and complete. However, there is no information on the age profile. This appears to be the case in 2013 which could have been scored B |
| <b>B. KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency</b>                                  |        |      |                     |   |
| <b>PI-5 Classification of the budget</b>  | A      | A    | →                   | Budget is based on administrative economic and sub- functional classifications  |
| <b>PI-6 Comprehensiveness of information included in budget documentation</b>                           | A      | A    | →                   | All elements but elements 5 (financial assets) and 9 (explanation of budget implications of new policy initiatives) are provided.   |
| <b>PI-7 Extent of unreported government operations.</b>   | A      | A    | →                   |   |
| (i) Level of unreported government operations   | A      | A    |                     | There are no unreported government operations   |
| (ii) Income/expenditure information on donor-funded projects  | A      | A    |                     | All donor income/ expenditure is included in the budget   |
| <b>PI-8 Transparency of inter-governmental fiscal relations.</b>  | A      | A    | →                   |   |
| (i) Transparency and objectivity in the horizontal allocation amongst Subnational Governments           | B      | A    |                     | 2017 score based on over 90% of transfers is rule based   |
| (ii) Timeliness and reliable information to SN Governments on their allocations                         | A      | A    |                     | Information is supplied before the budget process starts  |

|  | 2013 | 2017 | Direction of Change | Description of requirements met and progress between 2013 and 2016 using 2011 PEFA methodology updated in 2011  |
|--|------|------|---------------------|---|
| (iii) Extent of consolidation of fiscal data for general government according to sectoral categories | A    | A    |                     | This is consolidated according to sectoral categories   |
| <b>PI-9 Oversight of aggregate fiscal risk from other public sector entities.</b>                    | C+   | B+   | ↑                   |   |
| (i) Extent of central government monitoring of autonomous entities and public enterprises            | C    | B    |                     | A substantial fiscal risk report is produced annually   |
| (ii) Extent of central government monitoring of SN government's fiscal position                      | A    | A    |                     | Reports are produced annually   |
| <b>PI-10 Public access to key fiscal information</b>   | A    | A    | →                   | All six criteria are available  |
| <b>C. BUDGET CYCLE</b>   |      |      |                     |   |
| <b>C (i) Policy-Based Budgeting</b>  |      |      |                     |   |
| <b>PI-11 Orderliness and participation in the annual budget process</b>                              | A    | A    | →                   |   |
| (i) Existence of, and adherence to, a fixed budget calendar  | A    | A    |                     | The budget calendar is clear and adhered to. It allows spending units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time. |
| (ii) Guidance on the preparation of budget submissions   | A    | A    |                     | The budget circular (BDD) is comprehensive and clear. The ministry ceilings reflected in the circular are approved before the circular distribution to Spending Units.                  |
| (iii) Timely budget approval by the legislature  | A    | A    |                     | 2017 score based on the legislature approval on:<br>- the budget 2015 on December 12, 2014.<br>- the budget 2016 on December 11, 2015.<br>- the budget 2017 on December 14, 2016.       |
| <b>PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>             | B+   | A    | ↑                   |   |
| (i) Multiyear fiscal forecasts and functional allocations  | A    | A    |                     | Forecasts are made for the budget and two outer years by economic and functional classifications.   |
| (ii) Scope and frequency of debt sustainability analysis   | A    | A    |                     | A DSA is produced annually.   |
| (iii) Existence of costed sector strategies  | C    | A    |                     | The development of program budgeting based on programs and their underpinning strategies has evolved and is the basis for the budget and MTEF.  |
| (iv) Linkages between investment budgets and forward expenditure estimates                           | B    | B    |                     | The majority of investments are selected according to sector strategies and costs.  |
| <b>C (ii) Predictability and Control in Budget Execution</b>   |      |      |                     |   |
| <b>PI-13 Transparency of taxpayer obligations and liabilities</b>                                    | A    | A    | →                   |   |
| (i) Clarity and comprehensiveness of tax liabilities   | A    | A    |                     | There is comprehensive information and no discretionary incentives.   |
| (ii) Taxpayer access to information on tax liabilities   | A    | A    |                     | There is good tax payer education.  |

|   | 2013      | 2017      | Direction of Change | Description of requirements met and progress between 2013 and 2016 using 2011 PEFA methodology updated in 2011   |
|---|-----------|-----------|---------------------|--|
| and administrative procedures   |           |           |                     |  |
| (iii) Existence and functioning of a tax appeal mechanism.  | B         | A         |                     | A three-stage appeals process is in place with final recourse to the Court.  |
| <b>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</b>   | <b>A</b>  | <b>A</b>  | →                   |  |
| (i) Controls in the taxpayer registration system  | A         | A         |                     | There is a TIN and linkages to other systems such as procurement.  |
| (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations  | A         | A         |                     | Penalties are in the law and are applied.  |
| (iii) Planning and monitoring of tax audit and fraud investigation programs   | A         | A         |                     | Field and desk audits are undertaken and selection is based on risk.   |
| <b>PI-15 Effectiveness in collection of tax payments</b>  | <b>D+</b> | <b>D+</b> | →                   |  |
| (i) Collection ratio for gross tax arrears  | D         | D         |                     | Arrears are significant and aged.  |
| (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration   | A         | A         |                     | Transfers are made daily.  |
| (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury | A         | A         |                     | Reconciliation is timely.  |
| <b>PI-16 Predictability in the availability of funds for commitment of expenditures</b>   | <b>A</b>  | <b>A</b>  | →                   |  |
| (i) Extent to which cash flows are forecasted and monitored   | A         | A         |                     | A cash flow forecast is prepared annually for the fiscal year, broken down by months and updated monthly on the basis of actual cash inflows and outflows.   |
| (ii) Reliability and horizon of periodic in-year information to Spending Units on ceilings for expenditure                              | A         | A         |                     | In 2016, Spending Units were able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases. |
| (iii) Frequency and transparency of adjustments to budget allocations above the level of management of Spending Units                   | A         | A         |                     | Insignificant adjustment to budget allocations was made once in 2016 and was done in a transparent and predictable way.  |
| <b>PI-17 Recording and management of cash balances, debt and guarantees</b>   | <b>A</b>  | <b>A</b>  | →                   |  |
| (i) Quality of debt data recording and reporting.   | A         | A         |                     | Debt is recorded when it is undertaken and reported monthly.   |
| (ii) Extent of consolidation of the government's cash balances.   | A         | A         |                     | All cash balances are consolidated and published daily.  |
| (iii) Systems for contracting loans and issuance of guarantees.   | A         | A         |                     | The Minister of Finance can only commit to debt.   |
| <b>PI-18 Effectiveness of payroll controls</b>  | <b>D+</b> | <b>A</b>  | ↑                   |  |
| (i) Degree of integration and reconciliation between  | A         | A         |                     | Records and payroll are reconciled.  |

|   | 2013          | 2017      | Direction of Change | Description of requirements met and progress between 2013 and 2016 using 2011 PEFA methodology updated in 2011   |
|---|---------------|-----------|---------------------|--|
| personnel records and payroll data.   |               |           |                     |  |
| (ii) Timeliness of changes to personnel records and the payroll.                                | A             | A         |                     | Changes are made when needed in the month applicable.  |
| (iii) Internal controls of changes to personnel records and the payroll.                        | A             | A         |                     | There is an audit trail of the authorized changes.   |
| (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.           | D             | A         |                     | Payroll audits are carried out annually.   |
| <b>PI-19 Competition, value for money and controls in procurement</b>                           | <b>A (B+)</b> | <b>B+</b> | →                   |  |
| (i) Transparency, comprehensiveness and competition in the legal and regulatory framework       | A             | A         |                     | There is a transparent comprehensiveness and competition in the legal framework.   |
| (ii) Use of competitive methods   | A             | A         |                     | Competitiveness methods are the norm.  |
| (iii) Public access to complete, reliable and timely procurement information                    | A             | A         |                     | There is good public access to information.  |
| (iv) Existence of an independent administrative procurement complains system                    | A (D)         | D         |                     | There are 3 members of the procurement agency on the complaints board which was the case in 2013. This should have been scored D.                                    |
| <b>PI-20 Effectiveness of internal controls for nonsalary expenditure</b>                       | <b>A</b>      | <b>A</b>  | →                   |  |
| (i) Effectiveness of expenditure commitment controls  | A             | A         |                     | Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations.            |
| (ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures. | A             | A         |                     | Other internal control rules and procedures are relevant, and incorporate a comprehensive and generally cost-effective set of controls, which are widely understood. |
| (iii) Degree of compliance with rules for processing and recording transactions                 | A             | A         |                     | Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.   |
| <b>PI-21 Effectiveness of internal audit</b>  | <b>C+</b>     | <b>B+</b> | ↑                   |  |
| (i) Coverage and quality of the internal audit function.  | C             | B         |                     | Coverage is more than 50%.   |
| (ii) Frequency and distribution of reports  | A             | A         |                     | Reports are issued according to a plan.  |
| (iii) Extent of management response to internal audit findings.                                 | C             | A         |                     | Management response is comprehensive.  |
| <b>C (iii) Accounting, Recording and Reporting</b>  |               |           |                     |  |
| <b>PI-22 Timeliness and regularity of accounts reconciliation</b>                               | <b>B+</b>     | <b>A</b>  | ↑                   |  |
| (i) Regularity of bank reconciliation   | B             | A         |                     | Reconciliation is carried out daily.   |
| (ii) Regularity and clearance of suspense accounts and advances                                 | A             | A         |                     | No expenditure suspense accounts and advance accounts are reconciled timely.   |
| <b>PI-23 Availability of information on resources received by service delivery units</b>        | <b>B</b>      | <b>B</b>  | →                   | Information is available for primary health but not primary schools.   |

|  | 2013                               | 2017 | Direction of Change | Description of requirements met and progress between 2013 and 2016 using 2011 PEFA methodology updated in 2011  |
|--|------------------------------------|------|---------------------|---|
| <b>PI-24 Quality and timeliness of in-year budget reports</b>  | A                                  | A    | →                   |   |
| (i) Scope of reports in terms of coverage and compatibility with budget estimates.   | A                                  | A    |                     | Information is comparable with budget and included commitments.   |
| (ii) Timeliness of the issue of reports  | A                                  | A    |                     | Consolidated budget execution reports are prepared quarterly and issued to Parliament as well as published within four weeks from the end of the quarter.   |
| (iii) Quality of information   | A                                  | A    |                     | There are no material concerns regarding data accuracy.   |
| <b>PI-25 Quality and timeliness of annual financial statements</b>   | C+                                 | D+   | ↓                   |   |
| (i) Completeness of the financial statements   | C                                  | B    |                     | The 2014 and 2015 consolidated financial statements did not contain full information on revenue and tangible assets (nonfinancial assets).  |
| (ii) Timeliness of submissions of the financial statements   | A                                  | D*   |                     | Although the financial statements of central government budgetary units are audited by the State Audit Office, no evidence was provided by the Ministry of Finance of when their financial statements were submitted for audit. In 2013 the PEFA reports that the Government transmitted the consolidated financial statement for audit in a timely manner. |
| (iii) Accounting standards used  | C                                  | C    |                     | Statements are consistent with national standards.  |
|  | C (iv) External Scrutiny and Audit |      |                     |   |
| <b>PI-26 Scope, nature and follow-up of external audit</b>   | B+                                 | A    | ↑                   |   |
| (i) Scope/nature of audit performed (including adherence to auditing standards)  | B                                  | A    |                     | Th financial statements of <b>all</b> central government budgetary units include revenue, expenditure, assets and liabilities. They are audited using International Standards of Supreme Audit Institutions.  |
| (ii) Timeliness of submission of audit reports to the Legislature  | A                                  | A    |                     | During the last three completed fiscal years, the State Audit Office submitted the annual report on the State budget performance to the legislative body within 3 months after receipt of the report by the Audit Service.  |
| (iii) Evidence of follow up on audit recommendations   | A                                  | A    |                     | audit recommendations for budgetary units are followed up, monitored once every six months and annually reported on by the State Audit Office in their report to Parliament on the annual execution of the State budget.  |
| <b>PI-27 Legislative scrutiny of the annual budget law</b>   | A                                  | A    | →                   |   |
| (i) Scope of the legislature scrutiny  | A                                  | A    |                     | The legislature's procedures are firmly established and respected. They include internal organizational arrangements, such as specialized review committee and negotiation procedures.  |
| (ii) Extent to which the legislature's procedures are well established and respected.  | A                                  | A    |                     | In 2016, for the budget 2017, the budget proposal was submitted on September 23, 2016 and approved by the legislature on December 14, 2016. The legislature had more than two months to review the budget proposals.  |
| (iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macrofiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined) | A                                  | A    |                     | Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.  |

|  | 2013      | 2017      | Direction of Change | Description of requirements met and progress between 2013 and 2016 using 2011 PEFA methodology updated in 2011  |
|--|-----------|-----------|---------------------|---|
| (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature  | A         | A         |                     | Through its review of the budget proposal and the BDD which is annexed to it, the legislature's review covers fiscal policies, medium-term fiscal forecast and medium-term priorities as well as details of expenditure and revenue.  |
| <b>PI-28 Legislative scrutiny of external audit reports</b>                                  | <b>D+</b> | <b>C+</b> | ↑                   |   |
| (i) Timeliness of examination of audit reports by the legislature                            | A<br>(C)  | C         |                     | The situation in 2013 and 2017 is the same. It is likely that 2013 was scored too high.   |
| (ii) Extent of hearing on key findings undertaken by the legislature                         | C         | C         |                     | The situation in 2013 and 2017 is the same. In-depth hearings on key findings of audit reports take place with responsible officers from audited entities in attendance. There were only two hearings out of 32 audit reports with qualified or adverse or disclaimer opinions, representing 6%. Average performance was 53%. |
| (iii) Issuance of recommended actions by the legislature and implementation by the executive | D         | B         |                     | The evidence is that there are more recommendations made in 2016 and follow up was 50%.   |



## Annex 2: Summary of observations on the internal control framework

| Internal control components and elements   | Summary of observations  |
|--|--|
| <b>1. Control Environment</b>  |  |
| 1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization | Legal basis for internal control is established and is implemented through the Central Harmonization Unit which promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures. This includes developing and promoting the personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.   |
| 1.2 Commitment to competence   | The existence of the Central Harmonization Unit indicates a commitment to competence in implementing internal controls and is evidence by the scores in PIs 23, 25 and 26.   |
| 1.3 The 'tone at the top' (i.e. management's philosophy and operating style)   | There is a positive approach to implementing internal controls as evidenced by the organisational structure which will be strengthened by ensuring that there is greater response to recommendations.  |
| 1.4 Organizational structure   | <p>The roles of the various parties involved in the financial management control system are established in the Law on Public Internal Financial Control. The Ministry of Finance of Georgia is an authorized body which, through the Central Harmonization Unit promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures.</p> <p>The government is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the Law. Full implementation of the requirements of this legislation and alignment with international good practices will take time. Public sector units must establish an organizational structure that enables the achievement of the objectives and compliance with the functions assigned by legislation. It must be presented in documentary form, stating clearly the rules for determining and segregating tasks, duties, and responsibilities, as well as hierarchy and appropriate reporting lines.</p> |
| 1.5. Human resource policies and practices   | A cadre of professional in internal audit and financial control is in place and follows standard public sector policies and practices.   |
| <b>2. Risk assessment</b>  |  |
| 2.1 Risk identification  | <p>Several PIs are related to the extent to which risks are identified, notably:</p> <p><b>Economic Analysis of Investment Proposals is rated 'C' in 11.1</b> – Economic analyses are conducted to assess some major investment projects.</p> <p><b>Debt Management Strategy is rated 'D' in 13.3</b> – At the time of the Self-Assessment and its validation, the Debt Management Strategy of Georgia 2016-2019 is being developed to reflect the measures and actions to be taken to</p>   |

| Internal control components and elements                               | Summary of observations  |
|--|--|
|  | <p>ensure the implementation of effective debt management policy.</p> <p><b>Macrofiscal sensitivity analysis is rated ‘A’ in 14.3</b> – The government prepares the scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.</p> <p><b>Revenue Risk Management is rated ‘A’ in 19.2</b> – Entities collecting most revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for all categories of revenue and, as a minimum for their large and medium revenue payers.</p> <p><b>Cash Flow Forecasting and Monitoring is rated ‘A’ in 21.2</b> - A cash flow forecast is prepared annually for the fiscal year, broken down by months and updated monthly on the basis of actual cash inflows and outflows.</p>   |
| 2.2 Risk assessment (significance and likelihood)                      | <b>See risk identification (2.1 above)</b>   |
| 2.3 Risk evaluation  | <p>Based on the CHU information during 2016, 91% percent of the audit plan has been implemented. In the organizations visited, all changes to the original audit plan have been approved by the head of the organization based on justification. Internal auditor submits their reports to the Minister and the head of the public entity audited (<b>Implementation of internal audits and reporting – 26.3 rated ‘A’</b>). However, Quality Assessment System for Internal Audit activities is in the process of introduction and therefore it is not carried out by all subjects of the internal audit (<b>Nature of internal audits and standards applied – 26.2 rated ‘B’</b>).</p>   |
| 2.4 Risk appetite assessment   | <p>The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature.</p>   |
| 2.5 Responses to risk (transfer, tolerance, treatment, or termination) | <p>Standard public sector HR policies are in place throughout the areas of control.</p>  |
| <b>3 Control activities</b>  |  |
| 3.1 Authorization and approval procedures                              | <p><b>Financial data integrity processes are rated ‘A’ in 27.4.</b> Access and changes to records is restricted and recorded, and results in audit trail.</p> <p><b>Recording and reporting of debt and guarantees are rated ‘A’ in 13.1.</b> Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.</p> <p><b>Approval of debt and guarantees are rated ‘A’ in 13.2.</b> Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.</p> |

| Internal control components and elements                                  | Summary of observations   |
|---|---|
|   | <p><b>Effectiveness of expenditure commitment controls is rated ‘A’ in 25.2.</b> Commitment control applies to all payments made from the Treasury single account. Actual expenditures incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.</p> <p><b>Integration of payroll and personal records is rated ‘A’ in 23.1.</b> The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by State Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury System.</p> <p><b>Management of payroll changes is rated ‘A’ in 23.2.</b> Personal records are updated monthly in time for the month’s payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.</p> <p><b>Compliance with payroll payment rules and procedures is rated ‘A’ in 23.3.</b> Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The changes are certified by an authorized person and approved by the head of the unit. In addition, for remuneration changes, these must be approved by the State Treasury. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and token numbers to be used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high.</p> |
| 3.2 Segregation of duties (authorizing, processing, recording, reviewing) | <p><b>Segregation of duties is rated ‘A’ in 25.1.</b> Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the IFMIS, in accordance with Order of the Minister of Finance of July 6, 2012 on the approval instructions for the State Treasury Electronic Service System.</p>  |
| 3.3 Controls over the access to resources and records                     | <p><b>Compliance with payment rules and procedures is rated ‘A’ in 25.3.</b> Compliance with payment rules and procedures is very high.</p> <p><b>Financial data integrity processes are rated ‘A’ in 27.4.</b> Access and changes to records is restricted and recorded, and results in audit trail.</p>   |
| 3.4 Verifications   | <p><b>Accuracy of in-year budget reports which is rated ‘A’ in 28.3.</b> There are no material concerns regarding data accuracy following discussions with Parliament’s Budget</p>  |

| Internal control components and elements                                     | Summary of observations   |
|--|---|
|  | Office and the State Audit Office. An analysis of the budget execution reports is done quarterly by Parliament’s Budget Office that issues a report to the Budget and Finance Committee of Parliament. Information on expenditure is covered at both commitment and payment stages in the e-Treasury system.  |
| 3.5 Reconciliations  | <p><b>Banks account reconciliations are rated ‘A’ in 27.1.</b> Bank reconciliations for all active central government bank accounts takes place at least on monthly basis, at aggregate and detailed levels and usually within one week from the end of the month.</p> <p><b>Suspense account reconciliations are rated ‘A’ in 27.2.</b> Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.</p>  |
| 3.6 Reviews of operating performance   | <p><b>Revenue audit and investigations are rated ‘A’ in 19.3.</b> Entities collecting most revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete all planned audits and investigations.</p>   |
| 3.7 Reviews of operations, processes and activities                          | <p><b>Procurement monitoring is rated ‘A’ in 24.1.</b> Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).</p>  |
| 3.8 Supervision (assigning, reviewing, and approving, guidance and training) | The audit trail in place indicates a supervisory focus. Personnel development through mentoring and training is in place.   |
| <b>4. Information and communication</b>                                      |   |
| <b>5. Monitoring</b>   |   |
| 5.1 Ongoing monitoring   | <p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p><b>Resources received by service delivery units is rated ‘A’ in 8.3.</b> The information on the resources received by the service providers is collected and recorded in case of programs implemented by not less than 2 major ministries based on the sources of funding. This information is prepared at least annually.</p> <p><b>Monitoring of public corporations is rated ‘B’ in 10.1.</b> Audited annual financial statements for most public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by central government annually. The Government’s Fiscal risk report addresses individual SoEs.</p> <p><b>Monitoring of subnational governments is rated ‘C’ in 10.2.</b> Audited annual financial statements for subnational governments are published by end of April but are not audited on an annual basis.</p> |

| Internal control components and elements | Summary of observations  |
|--|--|
|  | <p><b>Contingent liabilities and other fiscal risks is rated ‘B’ in 10.3.</b> Central government entities and agencies quantify most significant contingent liabilities in their financial reports.</p> <p><b>Investment project monitoring is rated ‘C’ in 11.4.</b> The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually but only at a superficial level.</p> <p><b>Quality of central government financial asset monitoring is rated ‘B’ in 12.1.</b> The government maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.</p> <p><b>Quality of central government nonfinancial asset monitoring is rated ‘C’ in 12.2.</b> The government maintains a register of its holdings of fixed assets, and collects partial information on their usage and age.</p> <p><b>Revenue arrears monitoring is rated ‘D’ in 19.4.</b> The stock of revenue arrears at the end of the last completed fiscal year is around 5 percent of the total revenue collection for the year but the revenue arrears older than 12 months is around 90 percent of total revenue arrears.</p> <p><b>Expenditure arrears monitoring is rated ‘C’ in 22.2.</b> The financial statements submitted to the Treasury Service by spending institutions provide information on stock and composition of expenditure arrears but not their age profile. No monitoring is done in-year.</p> <p><b>Procurement monitoring is rated ‘A’ in 24.1.</b> Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).</p> <p><b>Implementation of internal audits and reporting is rated ‘A’ in 26.3.</b> 91% percent of the audit plan has been implemented. In the budgetary entities with internal audit function, changes to the original audit plan are approved by the head of the entity based on justification. Internal auditor submits their reports to the Minister and the head of the public entity audited.</p> |
| 5.2 Evaluations                          | <p><b>Performance evaluation for service delivery is rated ‘A’ in 8.4. Investment project selection is rated ‘C’ in 11.2.</b></p>  |
| 5.3 Management responses                 | <p><b>Response to internal audits is rated ‘A’ in 26.4.</b> Management implemented 96% of internal audit recommendations made over fiscal years 2014-2016, for an average coverage of 93% of the central government budgetary expenditure.</p>   |

| Internal control components and elements | Summary of observations  |
|--|--|
|  | <p><b>External audit follow-up is rated 'B' in 30.3.</b> Formal responses are made by the audited entities on audits for which follow up was 85% during fiscal year 2014-2016.</p> |

## Annex 3: Sources of information

### Annex 3.1: List of people consulted

| People consulted       |  |
|------------------------|--|
| Name                   | Department, Organization, Position   |
| Giorgi Tabuashvili     | First Deputy Minister, Head of Revenue Service, Ministry of Finance                                |
| Lasha Khutsishvili     | Deputy Minister, Ministry of Finance   |
| Niko Gagua             | Deputy Minister, Ministry of Finance   |
| Tsotne Kavlashvili     | Deputy Minister, Head of Treasury Service, Ministry of Finance                                     |
| Giorgi Kakauridze      | Deputy Minister, Ministry of Finance   |
| Eka Guntsadze          | Head of Budget Department, Ministry of Finance   |
| Natia Gulua            | Deputy Head of Budget Department, Ministry of Finance  |
| Pridon Aslanikashvili  | Head of Macroeconomic Analysis and Fiscal Policy Department, Ministry of Finance                   |
| Ioseb Skhirtladze      | Head of Public Debt and External Financing Department, Ministry of Finance                         |
| Mzia Giorgobiani       | Deputy Head of Public Debt and External Financing Department, Ministry of Finance                  |
| Manana Kharchilava     | Chief Specialist, Public Debt and External Financing Department, Ministry of Finance               |
| Lela Pirtskhalaishvili | Chief Specialist, Public Debt and External Financing Department, Ministry of Finance               |
| Irakli Romanadze       | Chief Specialist, Domestic Public Debt Instruments' Development Division, Ministry of Finance      |
| Zurab Tolordava        | Head of Reporting and Methodology Department of the Treasury Service, Ministry of Finance          |
| Sopio Nemsadze         | Head of Service Department of the Treasury Service, Ministry of Finance                            |
| Levan Todua            | Head of State Loans and Deposit Operations Department of the Treasury Service, Ministry of Finance |
| Davit Gamkrelidze      | Head of Cash Forecasting and Management Department of the Treasury Service, Ministry of Finance    |
| Natia Khorguashvili    | Head of Settlement Department of the Treasury Service, Ministry of Finance                         |
| Lela Pataraiia         |  |

| <b>People consulted</b>    |   |
|----------------------------|---|
| <b>Name</b>                | <b>Department, Organization, Position</b>   |
| Irma Gelantia-Akhvlediani  | Deputy Head of Reporting and Methodology Department of the Treasury Service, Ministry of Finance                                |
| Shalva Kiknadze            | Deputy Head of State Internal Control Department, Ministry of Finance<br>Head of Internal Audit Department, Ministry of Finance |
| Nino Karazanashvili        | Head of Internal Audit Department, Ministry of Defense  |
| Eka Ghazadze               | Deputy Auditor General, State Audit Office  |
| Marika Natsvlshvili        | Head of Budget Analysis and Strategic Planning Department, State Audit Office   |
| Tsotne Karkashadze         | Head of Budget Analysis Unit, State Audit Office  |
| Irakli Shengelia           | Deputy Chairman, National Agency of State Property  |
| Irakli Tsikvadze           | Head of State Property Privatization Department, National Agency of State Property  |
| Sopio Chelidze             | Head of Sales Unit, National Agency of State Property   |
| Tata Khetaguri             | Director, Parliamentary Budget Office of Georgia  |
| Natia Tsikvadze            | Supervisor of Budget Analysis Unit, Parliamentary Budget Office of Georgia  |
| Vakhtang Chalapeikrishvili | Head of the Macroeconomic and Tax Policy Analysis Unit, Parliamentary Budget Office of Georgia                                  |
| Irakli Kovzanadze          | Chairman, Parliamentary Committee of Budget and Finance   |
| Paata Kvizhinadze          | Deputy Chairman, Parliamentary Committee of Budget and Finance  |
| Natia Archvadze            | Chief Specialist, Parliamentary Committee of Budget and Finance   |
| Kakha Demetrashvili        | Chairman, State Procurement Agency  |
| Dimitri Gulisashvili       | Deputy Chairman, State Procurement Agency   |
| Elene Tskhadaia            | GIZ   |
| Zurab Lalazashvili +1      | Business Association of Georgia (Tax and Customs Committee)   |



## Annex 3.2: Sources of information by indicator

| List of documents/reports consulted                        |   |
|--|---|
| Indicator  | Evidence  |
| 1. Aggregate expenditure outturn                           | <ul style="list-style-type: none"> <li>Data from Ministry of Finance</li> </ul>   |
| 2. Expenditure composition outturn                         | <ul style="list-style-type: none"> <li>Data from Ministry of Finance</li> </ul>   |
| 3. Revenue outturn   | <ul style="list-style-type: none"> <li>Data from Ministry of Finance</li> </ul>   |
| 4. Budget classification                                   | <ul style="list-style-type: none"> <li>Data from Ministry of Finance</li> </ul>   |
| 5. Budget documentation                                    | <ul style="list-style-type: none"> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_1-BDD.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_1-BDD.pdf</a></li> <li><a href="http://mof.ge/5027">http://mof.ge/5027</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/TAVI_I.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/TAVI_I.pdf</a></li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/TAVI_IV.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/TAVI_IV.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/vali.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/vali.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/DSA-Final.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/DSA-Final.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_1-BDD.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_1-BDD.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_3-BDD.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_3-BDD.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_2%20BDD.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/2017-BD-Tables-sen-16_2%20BDD.pdf</a>.</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/TAVI_IV.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/TAVI_IV.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/vali.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/vali.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/DSA-Final.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/DSA-Final.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf</a></li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/BDD-gadamushavebuli.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/BDD-gadamushavebuli.pdf</a>;</li> <li><a href="http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/ganmartebiti.pdf">http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/ganmartebiti.pdf</a>.</li> </ul> |
| 6. Central government operations outside financial reports | <ul style="list-style-type: none"> <li>Explanation of coverage of budget which includes all autonomous entities</li> </ul>  |
| 7. Transfers to subnational governments                    | <ul style="list-style-type: none"> <li>Data on transfers from Ministry of Finance</li> <li>Evidence of timing of releases from Ministry of Finance</li> <li>Government of Georgia Decree #23 On approval of the Selection procedures and criteria of Local Self-government and Regional projects' to be financed from the Fund of Projects to be implemented in the Regions of Georgia, prescribed by the State budget of Georgia</li> </ul>  |
| 8. Performance information for service delivery            | <ul style="list-style-type: none"> <li>Data from Ministry of Finance</li> </ul>   |
| 9. Public access to fiscal information                     | <ul style="list-style-type: none"> <li>Data from Ministry of Finance</li> <li>Data from the State Audit Office</li> <li>website of the Ministry of Finance of Georgia <a href="http://mof.ge/">http://mof.ge/</a></li> <li>website of the State Treasury <a href="http://treasury.ge/">http://treasury.ge/</a></li> <li>website of the State Audit Office of Georgia <a href="http://sao.ge/">http://sao.ge/</a></li> <li>website of the Public Procurement Agency <a href="http://procurement.gov.ge/">http://procurement.gov.ge/</a></li> <li>website of the Legislature of Georgia <a href="http://www.legislature.ge/ge/">http://www.legislature.ge/ge/</a></li> <li>website of the National Bank of Georgia: <a href="https://www.nbg.gov.ge/index.php?m=2&amp;lng=eng">https://www.nbg.gov.ge/index.php?m=2&amp;lng=eng</a></li> <li><a href="http://sao.ge/audit/audit-reports">http://sao.ge/audit/audit-reports</a></li> <li><a href="http://mof.ge/images/File/gzamkvlevi/GEO_C_G.pdf">http://mof.ge/images/File/gzamkvlevi/GEO_C_G.pdf</a>; <a href="http://mof.ge/images/File/gzamkvlevi/ENG.pdf">http://mof.ge/images/File/gzamkvlevi/ENG.pdf</a>;</li> <li><a href="http://mof.ge/images/File/gzamkvlevi/GEO_C_G.pdf">http://mof.ge/images/File/gzamkvlevi/GEO_C_G.pdf</a>; <a href="http://mof.ge/images/File/gzamkvlevi/ENG.pdf">http://mof.ge/images/File/gzamkvlevi/ENG.pdf</a>;</li> <li><a href="http://mof.ge/5075">http://mof.ge/5075</a></li> </ul>  |
| 10. Fiscal risk reporting                                  | <ul style="list-style-type: none"> <li>Fiscal Risk Report (Analysis of macroeconomic risks in the fiscal sector for 2016-2020) for not SOEs</li> <li>Partnership Fund JSC Consolidated Financial Statements for the year ended 31 December 2016</li> <li>Audit reports of individual JSC public corporations</li> <li>Discussion with Ministry of Finance Fiscal Risk Department</li> </ul>   |
| 11. Public investment management                           | <ul style="list-style-type: none"> <li>Discussion with Ministry of Finance</li> <li>Annex on capital expenditure projects (State budget of 2017)</li> <li>Performance audit of Capital Projects</li> </ul>  |
| 12. Public asset management                                | <ul style="list-style-type: none"> <li>Discussion with Ministry of Finance</li> </ul>   |

| List of documents/reports consulted                  |  |
|--|--|
| Indicator  | Evidence   |
|  | <ul style="list-style-type: none"> <li>• Discussion with Treasury Service, MOF and Financial Statement</li> <li>• Discussion with LEPL-National Agency of State Property and Budget Execution Report</li> </ul>  |
| 13. Debt management                                  | <ul style="list-style-type: none"> <li>• Discussion with State Debt and Foreign Financing Department, MOF</li> <li>• Data on Debt</li> <li>• Performance Audit of Public Debt Management</li> <li>• Budget Code of Georgia</li> </ul>  |
| 14. Macroeconomic and fiscal forecasting             | <ul style="list-style-type: none"> <li>• Data from Ministry of Finance</li> </ul>  |
| 15. Fiscal strategy                                  | <ul style="list-style-type: none"> <li>• Data from Ministry of Finance</li> </ul>  |
| 16. Medium-term perspective in expenditure budgeting | <ul style="list-style-type: none"> <li>• 2017 – 2020 Basic Data and Directions (BDD) document</li> <li>• Public Finance of Georgia Management Reform Strategy 2014-2017</li> <li>• Rules and methodology of program budgeting</li> <li>• Medium-term Action Plan 2017-2020 Ministry of Finance</li> <li>• Medium-term Action Plan (2017-2020) Ministry of Labor Health and Social Affairs</li> <li>• Data on reconciliation between budget and first year of forward estimates</li> </ul>  |
| 17. Budget preparation process                       | <ul style="list-style-type: none"> <li>• Discussions with MOF Budget Department</li> <li>• Budget Code</li> <li>• 2017 – 2020 Basic Data and Directions (BDD) document</li> </ul>  |
| 18. Legislative scrutiny of budgets                  | <ul style="list-style-type: none"> <li>• <a href="http://info.parliament.ge/#law-drafting/12985">http://info.parliament.ge/#law-drafting/12985</a></li> <li>• <a href="http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-346.page">http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-346.page</a></li> <li>• <a href="http://info.parliament.ge/#law-drafting/13092">http://info.parliament.ge/#law-drafting/13092</a></li> <li>• <a href="http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-5-9-dekemberi-2016-weli.page">http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-5-9-dekemberi-2016-weli.page</a></li> <li>• <a href="http://info.parliament.ge/#law-drafting/10668">http://info.parliament.ge/#law-drafting/10668</a></li> <li>• <a href="http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-495.page">http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-495.page</a></li> <li>• <a href="http://info.parliament.ge/#law-drafting/10668">http://info.parliament.ge/#law-drafting/10668</a></li> <li>• <a href="http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-575.page">http://parliament.ge/ge/saparlamento-saqmianoba/komitetebi/safinanso-sabiudjeto-komiteti-139/komitetis-sxdomebi1140/sxdomis-oqmi-575.page</a></li> <li>• Budget Code, Article 39, Paragraph 1.</li> <li>• Budget Code, Article 39, Paragraph 8.</li> <li>• <a href="https://matsne.gov.ge/ka/document/view/2144522">https://matsne.gov.ge/ka/document/view/2144522</a></li> <li>• <a href="https://matsne.gov.ge/ka/document/view/2144522">https://matsne.gov.ge/ka/document/view/2144522</a></li> <li>• <a href="https://matsne.gov.ge/ka/document/view/3108373">https://matsne.gov.ge/ka/document/view/3108373</a></li> <li>• <a href="https://matsne.gov.ge/ka/document/view/3495562">https://matsne.gov.ge/ka/document/view/3495562</a></li> </ul> |
| 19. Revenue administration                           | <ul style="list-style-type: none"> <li>• Discussion with Revenue Services <ul style="list-style-type: none"> <li>○ Laws, taxpayer education, risk assessment, audit, arrears</li> </ul> </li> <li>• Data from Revenue Services <ul style="list-style-type: none"> <li>○ Appeals</li> <li>○ Penalties</li> <li>○ Audit</li> <li>○ Asycuda</li> <li>○ Arrears</li> </ul> </li> <li>• GRS website (<a href="http://www.rs.ge/en/">http://www.rs.ge/en/</a>) <ul style="list-style-type: none"> <li>○ Pocket Tax Book</li> <li>○ Leaflets</li> <li>○ FAQ</li> </ul> </li> <li>• GRS 2016 Annual Report</li> <li>• Business Perception Survey on Policy Reforms USAID Governing for Growth (G4G) in Georgia</li> <li>• Discussion with Business Association</li> </ul>  |
| 20. Accounting for revenue                           | <ul style="list-style-type: none"> <li>• Discussion with Revenue Services <ul style="list-style-type: none"> <li>○ Transfers, reconciliation and reports</li> </ul> </li> <li>• Data from Revenue Services</li> </ul>  |

| <b>List of documents/reports consulted</b>        |   |
|---|---|
| <b>Indicator</b>                                  | <b>Evidence</b>   |
|   | <ul style="list-style-type: none"> <li>○ Monthly revenue reports</li> </ul>   |
| 21. Predictability of in-year resource allocation | <ul style="list-style-type: none"> <li>● Discussion and data from Ministry of Finance</li> </ul>  |
| 22. Expenditure arrears                           | <ul style="list-style-type: none"> <li>● Discussion and data from Ministry of Finance</li> </ul>  |
| 23. Payroll controls                              | <ul style="list-style-type: none"> <li>● Discussion and data from Ministry of Finance</li> <li>● Discussion with State Audit Office of Georgia</li> </ul>   |
| 24. Procurement management                        | <ul style="list-style-type: none"> <li>● Discussion and data from the State Procurement Agency</li> <li>● Discussion with Ministry of Finance</li> </ul>  |
| 25. Internal controls on nonsalary expenditure    | <ul style="list-style-type: none"> <li>● Discussion and data from Ministry of Finance</li> <li>● Discussion with State Audit Office of Georgia</li> </ul>   |
| 26. Internal audit                                | <ul style="list-style-type: none"> <li>● Discussion and data from Internal Audit Center for Harmonization Unit, Ministry of Finance</li> <li>● Discussion and data from internal auditors in Ministry of Finance and Ministry of Defense</li> </ul> |
| 27. Financial data integrity                      | <ul style="list-style-type: none"> <li>● Discussion and data from Ministry of Finance</li> <li>● Discussion with State Audit Office of Georgia</li> </ul>   |
| 28. In-year budget reports                        | <ul style="list-style-type: none"> <li>● Discussion and data from Ministry of Finance</li> </ul>  |
| 29. Annual financial reports                      | <ul style="list-style-type: none"> <li>● Discussion and data from Ministry of Finance</li> <li>● Discussion with State Audit Office of Georgia</li> </ul>   |
| 30. External audit                                | <ul style="list-style-type: none"> <li>● Discussion and data from State Audit Office of Georgia</li> </ul>  |
| 31. Legislative scrutiny of audit reports         | <ul style="list-style-type: none"> <li>● Discussion and data from Parliament of Georgia (Budget and Finance Committee)</li> <li>● Discussion and data from State Audit Office of Georgia</li> </ul>   |

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

**Table 1**  
**Result matrix**

| Year | PI-1   | PI-2.1 | PI-2.3 |
|------|--------|--------|--------|
| 2014 | 98.8%  | 2.9%   | 1.0%   |
| 2015 | 100.3% | 2.5%   | 1.7%   |
| 2016 | 101.2% | 3.4%   | 1.9%   |

GEL m

| 2014                            |                    |                    |            |                    |            |
|---------------------------------|--------------------|--------------------|------------|--------------------|------------|
| Functional classification codes | Approved budget    | Actual performance | Deviation  | Absolute deviation | Percentage |
| 701                             | 1,536,344.7        | 1,494,840.8        | -28,508.3  | 28,508.3           | 1.9%       |
| 702                             | 633,695.0          | 634,789.2          | 6,454.5    | 6,454.5            | 1.0%       |
| 703                             | 890,071.0          | 892,659.9          | 10,117.8   | 10,117.8           | 1.1%       |
| 704                             | 998,043.0          | 991,904.8          | 2,304.0    | 2,304.0            | 0.2%       |
| 705                             | 36,300.0           | 37,547.3           | 1,554.4    | 1,554.4            | 4.3%       |
| 706                             | 98,268.3           | 54,394.9           | -43,042.2  | 43,042.2           | 44.2%      |
| 707                             | 673,568.0          | 652,806.5          | -15,063.9  | 15,063.9           | 2.3%       |
| 708                             | 158,347.7          | 178,496.4          | 21,488.1   | 21,488.1           | 13.7%      |
| 709                             | 771,704.2          | 738,031.7          | -27,144.8  | 27,144.8           | 3.5%       |
| 710                             | 2,117,396.8        | 2,171,326.6        | 71,840.4   | 71,840.4           | 0.034218   |
| <b>Sum</b>                      | <b>7,913,738.7</b> | <b>7,846,798.1</b> | <b>0.0</b> | <b>227,518.4</b>   |            |
| Interest                        | 305,000.0          | 244,664.7          |            |                    |            |
| Reserve funds                   | 55,000.0           | 86,413.6           |            |                    |            |
| <b>Total expenditures</b>       | <b>8,273,738.7</b> | <b>8,177,876.3</b> |            |                    |            |

Deviation of indicator PI-1 98.8%

Structure of indicator PI-2.1 2.9%

Share of reserve funds in total expenditures 1.0%

| 2015                            |                    |                    |           |                    |            |
|---------------------------------|--------------------|--------------------|-----------|--------------------|------------|
| Functional classification codes | Approved budget    | Actual performance | Deviation | Absolute deviation | Percentage |
| 701                             | 1,711,199.9        | 1,634,698.6        | -71,443.1 | 71,443.1           | 4.2%       |
| 702                             | 644,279.9          | 653,720.7          | 11,345.2  | 11,345.2           | 1.8%       |
| 703                             | 932,217.0          | 953,841.0          | 24,379.6  | 24,379.6           | 2.6%       |
| 704                             | 936,449.3          | 914,394.4          | -19,286.8 | 19,286.8           | 2.1%       |
| 705                             | 42,970.0           | 44,794.9           | 1,951.9   | 1,951.9            | 4.6%       |
| 706                             | 49,748.3           | 48,382.5           | -1,218.8  | 1,218.8            | 2.5%       |
| 707                             | 822,513.0          | 855,131.6          | 35,049.9  | 35,049.9           | 4.3%       |
| 708                             | 199,641.1          | 215,905.7          | 16,854.8  | 16,854.8           | 8.5%       |
| 709                             | 848,327.5          | 831,111.4          | -14,708.5 | 14,708.5           | 1.7%       |
| 710                             | 2,203,241.0        | 2,213,804.1        | 17,075.8  | 17,075.8           | 0.007773   |
| <b>Sum</b>                      | <b>8,390,587.0</b> | <b>8,365,784.9</b> |           | <b>213,314.4</b>   |            |
| Interest                        | 364,000.0          | 326,517.5          |           |                    |            |
| Reserve funds                   | 55,000.0           | 145,869.4          |           |                    |            |
| <b>Total expenditures</b>       | <b>8,809,587.0</b> | <b>8,838,171.8</b> |           |                    |            |

Deviation of indicator PI-1 100.3%

Structure of indicator PI-2.1 2.5%

Share of reserve funds in total expenditures 1.7%

| 2016                            |                    |                    |                 |                    |            |
|---------------------------------|--------------------|--------------------|-----------------|--------------------|------------|
| Functional classification codes | Approved budget    | Actual performance | Deviation       | Absolute deviation | Percentage |
| 701                             | 1,382,611.4        | 1,339,513.4        | -39,011.1       | 39,011.1           | 2.8%       |
| 702                             | 646,209.0          | 721,656.7          | 77,357.8        | 77,357.8           | 12.0%      |
| 703                             | 1,021,568.0        | 1,004,075.7        | -14,472.7       | 14,472.7           | 1.4%       |
| 704                             | 1,088,828.4        | 1,072,357.7        | -13,252.2       | 13,252.2           | 1.2%       |
| 705                             | 47,400.0           | 60,027.4           | 12,767.5        | 12,767.5           | 27.0%      |
| 706                             | 57,957.6           | 51,407.1           | -6,379.2        | 6,379.2            | 11.0%      |
| 707                             | 862,563.0          | 947,504.0          | 87,490.7        | 87,490.7           | 10.2%      |
| 708                             | 197,268.0          | 201,900.5          | 5,215.6         | 5,215.6            | 2.7%       |
| 709                             | 1,056,507.0        | 1,024,138.0        | -29,246.0       | 29,246.0           | 2.8%       |
| 710                             | 2,404,029.0        | 2,406,270.6        | 9,347.7         | 9,347.7            | 0.0039     |
| <b>Sum</b>                      | <b>8,764,941.4</b> | <b>8,828,851.0</b> | <b>89,818.2</b> | <b>294,540.5</b>   |            |
| Interest                        | 473,700.0          | 397,647.5          |                 |                    |            |
| Reserve funds                   | 55,000.0           | 177,732.8          |                 |                    |            |
| <b>Total expenditures</b>       | <b>9,293,641.4</b> | <b>9,404,231.3</b> |                 |                    |            |

Deviation of indicator PI-1 101.2%

Structure of indicator PI-2.1 3.4%

Share of reserve funds in total expenditures 1.9%

#### PI-2.2 GEL m

| Data for year - 2014            |                     |                     |                    |            |                    |         |
|---------------------------------|---------------------|---------------------|--------------------|------------|--------------------|---------|
| Economic head                   | budget              | actual              | adjusted budget    | deviation  | absolute deviation | percent |
| Labor remuneration              | 1,318,303.60        | 1,296,186.20        | 1,303,029.3        | -6,843.1   | 6,843.1            | 0.5%    |
| Goods and services              | 853,835.50          | 875,411.30          | 843,942.7          | 31,468.6   | 31,468.6           | 3.7%    |
| Interest                        | 305,046.70          | 244,841.30          | 301,512.3          | -56,671.0  | 56,671.0           | 18.8%   |
| Subsidies                       | 241,373.30          | 274,489.60          | 238,576.7          | 35,912.9   | 35,912.9           | 15.1%   |
| Grants                          | 1,111,779.30        | 1,067,744.10        | 1,098,897.9        | -31,153.8  | 31,153.8           | 2.8%    |
| Social security                 | 2,581,394.00        | 2,547,741.70        | 2,551,485.1        | -3,743.4   | 3,743.4            | 0.1%    |
| Other expenses                  | 1,127,881.00        | 1,173,012.10        | 1,114,813.0        | 58,199.1   | 58,199.1           | 5.2%    |
| Increase in nonfinancial assets | 734,125.30          | 698,450.10          | 725,619.5          | -27,169.4  | 27,169.4           | 3.7%    |
| <b>Total expenditures</b>       | <b>8,273,738.70</b> | <b>8,177,876.40</b> | <b>8,177,876.4</b> | <b>0.0</b> | <b>251,161.3</b>   |         |
| Overall variance                |                     |                     |                    |            |                    | 101.2%  |
| Composition variance            |                     |                     |                    |            |                    | 3.1%    |

| <b>Data for year - 2015</b>     |                     |                     |                    |                  |                    |         |
|---------------------------------|---------------------|---------------------|--------------------|------------------|--------------------|---------|
| Economic head                   | <b>budget</b>       | <b>actual</b>       | adjusted budget    | deviation        | absolute deviation | percent |
| Labor remuneration              | 1,281,379.60        | 1,376,776.90        | 1,266,533.1        | 110,243.8        | 110,243.8          | 8.7%    |
| Goods and services              | 941,743.30          | 946,218.80          | 930,831.9          | 15,386.9         | 15,386.9           | 1.7%    |
| Interest                        | 377,106.00          | 326,591.30          | 372,736.7          | -46,145.4        | 46,145.4           | 12.4%   |
| Subsidies                       | 236,526.90          | 245,745.20          | 233,786.4          | 11,958.8         | 11,958.8           | 5.1%    |
| Grants                          | 1,257,480.30        | 1,271,342.90        | 1,242,910.7        | 28,432.2         | 28,432.2           | 2.3%    |
| Social security                 | 2,783,632.80        | 2,802,402.00        | 2,751,380.7        | 51,021.3         | 51,021.3           | 1.9%    |
| other expenses                  | 1,132,624.30        | 1,188,921.30        | 1,119,501.3        | 69,420.0         | 69,420.0           | 6.2%    |
| Increase in nonfinancial assets | 699,093.90          | 680,173.30          | 690,994.0          | -10,820.7        | 10,820.7           | 1.6%    |
| <b>Total expenditures</b>       | <b>8,709,587.10</b> | <b>8,838,171.70</b> | <b>8,608,674.9</b> | <b>229,496.8</b> | <b>343,429.0</b>   |         |
| Overall variance                |                     |                     |                    |                  |                    | 98.5%   |
| Composition variance            |                     |                     |                    |                  |                    | 4.0%    |

| <b>Data for year - 2016</b>     |                     |                     |                    |                  |                    |         |
|---------------------------------|---------------------|---------------------|--------------------|------------------|--------------------|---------|
| Economic head                   | <b>budget</b>       | <b>actual</b>       | adjusted budget    | deviation        | absolute deviation | Percent |
| Labor remuneration              | 1,442,604.30        | 1,452,292.50        | 1,425,889.8        | 26,402.7         | 26,402.7           | 1.9%    |
| Goods and services              | 1,107,393.80        | 1,117,790.30        | 1,094,563.2        | 23,227.1         | 23,227.1           | 2.1%    |
| Interest                        | 473,757.00          | 397,707.30          | 468,267.9          | -70,560.6        | 70,560.6           | 15.1%   |
| Subsidies                       | 262,976.00          | 333,993.00          | 259,929.1          | 74,063.9         | 74,063.9           | 28.5%   |
| Grants                          | 960,931.60          | 960,452.60          | 949,797.9          | 10,654.7         | 10,654.7           | 1.1%    |
| Social security                 | 3,096,999.00        | 3,150,058.10        | 3,061,116.1        | 88,942.0         | 88,942.0           | 2.9%    |
| Other expenses                  | 1,326,606.80        | 1,329,537.00        | 1,311,236.3        | 18,300.7         | 18,300.7           | 1.4%    |
| Increase in nonfinancial assets | 713,700.90          | 662,400.40          | 705,431.7          | -43,031.3        | 43,031.3           | 6.1%    |
| <b>Total expenditure</b>        | <b>9,384,969.40</b> | <b>9,404,231.20</b> | <b>9,276,232.0</b> | <b>127,999.2</b> | <b>355,183.0</b>   |         |
| Overall variance                |                     |                     |                    |                  |                    | 99.8%   |
| Composition variance            |                     |                     |                    |                  |                    | 3.8%    |

**PI-3 Data on Taxes GEL m**

| <b>Data for year - 2014</b>               |                    |                    |                    |            |                    |         |
|---|--------------------|--------------------|--------------------|------------|--------------------|---------|
| Economic head                             | <b>budget</b>      | <b>actual</b>      | adjusted budget    | deviation  | absolute deviation | percent |
| <b>Tax revenues</b>                       |                    |                    |                    |            |                    |         |
| Taxes on income, profit and capital gains | 2,682,000.0        | 2,619,202.7        | 2,724,374.7        | -105,172.1 | 105,172.1          | 3.9%    |
| Taxes on goods and services               | 4,013,000.0        | 4,108,727.4        | 4,076,404.1        | 32,323.3   | 32,323.3           | 0.8%    |
| Other taxes                               | 125,000.0          | 119,034.1          | 126,975.0          | -7,940.9   | 7,940.9            | 6.3%    |
| <b>Grants</b>                             |                    |                    |                    |            |                    |         |
| Grants from foreign governments           | 144,000.0          | 278,734.5          | 146,275.2          | 132,459.3  | 132,459.3          | 90.6%   |
| <b>Other revenue</b>                      |                    |                    |                    |            |                    |         |
| Property income                           | 89,600.0           | 28,663.6           | 91,015.7           | -62,352.0  | 62,352.0           | 68.5%   |
| Sales of goods and services               | 68,700.0           | 83,426.9           | 69,785.4           | 13,641.5   | 13,641.5           | 19.5%   |
| Fines, penalties and forfeits             | 100,000.0          | 73,912.3           | 101,580.0          | -27,667.7  | 27,667.7           | 27.2%   |
| Sum of rest                               | 96,700.0           | 122,936.4          | 98,227.8           | 24,708.6   | 24,708.6           | 25.2%   |
| <b>Total revenue</b>                      | <b>7,319,000.0</b> | <b>7,434,637.9</b> | <b>7,434,637.9</b> | <b>0.0</b> | <b>406,265.3</b>   |         |
| Overall variance                          |                    |                    |                    |            |                    | 101.6%  |
| Composition variance                      |                    |                    |                    |            |                    | 5.5%    |

| <b>Data for year - 2015</b>               |                    |                    |                    |            |                    |         |
|---|--------------------|--------------------|--------------------|------------|--------------------|---------|
| Economic head                             | <b>budget</b>      | <b>actual</b>      | adjusted budget    | deviation  | absolute deviation | percent |
| <b>Tax revenues</b>                       |                    |                    |                    |            |                    |         |
| Taxes on income, profit and capital gains | 2,985,000.0        | 3,077,616.9        | 3,014,702.2        | 62,914.8   | 62,914.8           | 2.1%    |
| Taxes on goods and services               | 4,476,000.0        | 4,376,186.5        | 4,520,538.3        | -144,351.9 | 144,351.9          | 3.2%    |
| Other taxes                               | 139,000.0          | 95,805.6           | 140,383.1          | -44,577.5  | 44,577.5           | 31.8%   |
| <b>Grants</b>                             |                    |                    |                    |            |                    |         |
| Grants from foreign governments           | 215,000.0          | 315,593.2          | 217,139.4          | 98,453.8   | 98,453.8           | 45.3%   |
| <b>Other revenue</b>                      |                    |                    |                    |            |                    |         |
| Property income                           | 54,000.0           | 69,550.2           | 54,537.3           | 15,012.9   | 15,012.9           | 27.5%   |
| Sales of goods and services               | 72,650.0           | 76,297.0           | 73,372.9           | 2,924.0    | 2,924.0            | 4.0%    |
| Fines, penalties and forfeits             | 80,000.0           | 63,501.4           | 80,796.0           | -17,294.6  | 17,294.6           | 21.4%   |
| Transfers not elsewhere classified        | 1,700.0            | 25,533.9           | 1,716.9            | 23,817.0   | 23,817.0           | 1387.2% |
| Sum of rest                               | 66,650.0           | 70,414.7           | 67,313.2           | 3,101.5    | 3,101.5            | 4.6%    |
| <b>Total revenue</b>                      | <b>8,090,000.0</b> | <b>8,170,499.3</b> | <b>8,170,499.3</b> | <b>0.0</b> | <b>412,448.0</b>   |         |
| Overall variance                          |                    |                    |                    |            |                    | 101.0%  |
| Composition variance                      |                    |                    |                    |            |                    | 5.0%    |

Table 5

| <b>Data for year - 2016</b>               |                    |                    |                    |            |                    |         |
|---|--------------------|--------------------|--------------------|------------|--------------------|---------|
| <b>Economic head</b>                      | <b>Budget</b>      | <b>Actual</b>      | Adjusted Budget    | Deviation  | Absolute Deviation | Percent |
| <b>Tax revenues</b>                       |                    |                    |                    |            |                    |         |
| Taxes on income, profit and capital gains | 3,066,000.0        | 3,034,072.9        | 3,074,971.2        | -40,898.3  | 40,898.3           | 1.3%    |
| Taxes on goods and services               | 4,814,000.0        | 4,356,051.5        | 4,828,085.9        | -472,034.4 | 472,034.4          | 9.8%    |
| Other taxes                               | 100,000.0          | 596,625.9          | 100,292.6          | 496,333.3  | 496,333.3          | 494.9%  |
| <b>Grants</b>                             |                    |                    |                    |            |                    |         |
| Grants from foreign governments           | 255,000.0          | 296,827.0          | 255,746.1          | 41,080.9   | 41,080.9           | 16.1%   |
| <b>Other revenue</b>                      |                    |                    |                    |            |                    |         |
| Property income                           | 64,500.0           | 71,727.2           | 64,688.7           | 7,038.5    | 7,038.5            | 10.9%   |
| Sales of goods and services               | 75,900.0           | 80,627.4           | 76,122.1           | 4,505.3    | 4,505.3            | 5.9%    |
| Fines, penalties and forfeits             | 70,000.0           | 57,418.7           | 70,204.8           | -12,786.2  | 12,786.2           | 18.2%   |
| Transfers not elsewhere classified        | 2,400.0            | 23,054.8           | 2,407.0            | 20,647.7   | 20,647.7           | 857.8%  |
| Sum of rest                               | 107,200.0          | 63,626.7           | 107,513.7          | -43,887.0  | 43,887.0           | 40.8%   |
| <b>Total revenue</b>                      | <b>8,555,000.0</b> | <b>8,580,032.1</b> | <b>8,580,032.1</b> | <b>0.0</b> | <b>1,139,211.6</b> |         |
| Overall variance                          |                    |                    |                    |            |                    | 100.3%  |
| Composition variance                      |                    |                    |                    |            |                    | 13.3%   |

**Results Matrix**

| <b>Year</b> | <b>Total Revenue Deviation</b> | <b>Composition Variance</b> |
|-------------|--------------------------------|-----------------------------|
| 2014        | 101.6%                         | 5.5%                        |
| 2015        | 101.0%                         | 5.0%                        |
| 2016        | 100.3%                         | 13.3%                       |



| Economic head                  | 2017 second year projection (BDD 2016-2019) | 2017 first year (budget) projection (BDD 2017-2020) | adjusted budget | deviation  | absolute deviation | percent       |
|--------------------------------|---|---|-----------------|------------|--------------------|---------------|
| Parliament                     | 63.0  | 60.0  | 65.58           | -5.6       | 5.6                | 8.5%          |
| President Administration       | 10.0  | 10.0  | 10.41           | -0.4       | 0.4                | 3.9%          |
| State Security                 | 2.0   | 2.0   | 2.08            | -0.1       | 0.1                | 3.9%          |
| Government Administration      | 20.0  | 16.0  | 20.82           | -4.8       | 4.8                | 23.1%         |
| Supreme Audit                  | 15.0  | 15.0  | 15.61           | -0.6       | 0.6                | 3.9%          |
| Election Commission            | 61.0  | 61.0  | 63.50           | -2.5       | 2.5                | 3.9%          |
| Const. Court                   | 3.0   | 4.0   | 3.12            | 0.9        | 0.9                | 28.1%         |
| Supreme Court                  | 8.0   | 8.0   | 8.33            | -0.3       | 0.3                | 3.9%          |
| General Courts                 | 55.0  | 69.0  | 57.25           | 11.7       | 11.7               | 20.5%         |
| Justice Council                | 3.0   | 3.0   | 3.12            | -0.1       | 0.1                | 3.9%          |
| MOF                            | 95.0  | 82.0  | 98.89           | -16.9      | 16.9               | 17.1%         |
| MOED                           | 107.0                                       | 365.0   | 111.38          | 253.6      | 253.6              | 227.7%        |
| MRDI                           | 255.0                                       | 350.0   | 265.44          | 84.6       | 84.6               | 31.9%         |
| MOJ                            | 70.0  | 59.0  | 72.87           | -13.9      | 13.9               | 19.0%         |
| Ministry of Penitentiary       | 160.0                                       | 139.0   | 166.55          | -27.6      | 27.6               | 16.5%         |
| MFA                            | 125.0                                       | 110.0   | 130.12          | -20.1      | 20.1               | 15.5%         |
| MOI                            | 620.0                                       | 585.0   | 645.40          | -60.4      | 60.4               | 9.4%          |
| Intelligence Service           | 17.0  | 14.0  | 17.70           | -3.7       | 3.7                | 20.9%         |
| MOES                           | 1,029.0                                     | 1,018.0   | 1,071.15        | -53.1      | 53.1               | 5.0%          |
| State Security Service         | 110.0                                       | 118.0   | 114.51          | 3.5        | 3.5                | 3.1%          |
| Ministry of Culture            | 97.0  | 100.0   | 100.97          | -1.0       | 1.0                | 1.0%          |
| Ministry of Occupied Territory | 95.0  | 85.0  | 98.89           | -13.9      | 13.9               | 14.0%         |
| MOLHSA                         | 3,326.0                                     | 3,416.0   | 3,462.23        | -46.2      | 46.2               | 1.3%          |
| Ministry of Environment        | 35.0  | 31.0  | 36.43           | -5.4       | 5.4                | 14.9%         |
| Ministry of Environment        | 43.0  | 31.0  | 44.76           | -13.8      | 13.8               | 30.7%         |
| MOA                            | 300.0                                       | 223.0   | 312.29          | -89.3      | 89.3               | 28.6%         |
| Ministry of Sport & Youth      | 101.0                                       | 137.0   | 105.14          | 31.9       | 31.9               | 30.3%         |
| Security                       | 55.0  | 55.0  | 57.25           | -2.3       | 2.3                | 3.9%          |
| Ombudsman office               | 5.0   | 5.0   | 5.20            | -0.2       | 0.2                | 3.9%          |
| Broadcaster Public             | 48.0  | 47.0  | 49.97           | -3.0       | 3.0                | 5.9%          |
| Patriarch office               | 25.0  | 25.0  | 26.02           | -1.0       | 1.0                | 3.9%          |
| <b>Total</b>                   | <b>6,958.0</b>                              | <b>7,243.0</b>                                      | <b>7,243.0</b>  | <b>5.6</b> | <b>766.7</b>       |               |
| <i>Overall variance</i>        |   |   |                 |            |                    | <i>104.1%</i> |
| <i>Composition variance</i>    |   |   |                 |            |                    | <i>10.6%</i>  |

# Annex 5: Public sector financial management reform action plan 2017

Each area of reform activity has a responsible body for implementation (shown in brackets for the overall reform theme).

1. Improvement of Budget Management (Budget Department, Macroeconomic Analysis and Forecasting Department (involved parties: Spending agencies, the Government of Georgia, the Parliament of Georgia, The State Audit Office)

1.1 Preparation of the draft annual budget law

1.2 Medium-Term Planning (MTEF)

1.3 Improvement of the Program Budgeting in Local Municipalities

1.4 Ensure the Transparency of the Budget Process 2

1.5 Further Aligning of Fiscal Management Principles to International Standards

1.6 Annual and quarterly reports on budget execution, strengthening the accountability towards to the controller

1.7 Capital / Investment Projects Management Guide and Methodology Introduction

1.8 Budgets Complete Conversion of the Budget of Local Self-Government and its Sub-agencies

1.9 The Budget Process Support with the Corresponding of the Relevant Legislation

II - Taxation Policy and Custom Issues (Tax Policy Department, The Revenue Service)

1. Improvement of Legislative Base

1.1 The Income Tax Reform - Growth-oriented Tax System Formation

1.2 Further Improvement of Tax Legislation

1.3 Harmonization of the Tax Legislation with the EU Directives within the Framework of the Association Agreement

1.4 International Tax Policy Improvement

1.5 Preparing of the Customs Code and accompanying projects subsequent to the legislative acts of Georgia, also preparing the vested normative act draft related to the Customs Code 2. Improvement of Tax and Customs System

2.1 The fight against the Avoidance of the Tax Payment

2.2 Promotion of the EU Integration Process

2.3 Improvement of the Standards of Service

2.4 Increase of the Tax Awareness of the Taxpayers

2.5 Improvement of Trade Facilitation Instruments and Implementation of Customs, Sanitary, Phyto-sanitary and Border control

2.6 Analytical Center Establishment

III - Macroeconomic Forecasting and Analysis (Macroeconomic Analysis and Forecasting Department)

1. Improvement of Macroeconomic Forecasting and Analysis

1.1 Improvement of the Analysis of the Macroeconomic Forecasting and the Increase of Analytical Information

1.2 Learning the new analytical indicators of economic activity on the basis of the information received from the administrative sources

1.3 Periodic analysis and Periodic Dimensions of Economic Conditions

1.4 Periodic analysis of the Fiscal Policy

1.5 Macroeconomic Modeling

- 1.6 Vulnerability Detection
- 2. Improvement of Revenue Forecasting and Analysis
  - 2.1 Improvement of Budget Revenue Forecasting
  - 2.2 Information Reception of the Accrued Taxes, Processing and Analysis
- 3. Fiscal risk detection and assessment
  - 3.1 Macroeconomic risk assessment
  - 3.2 Assessment of the contingent liabilities of enterprises
- IV – Public Debt Management (Public Debt and External Financing Department)
  - 1. Improvement of the State Securities Market
    - 1.1 Study of the Best Practices and International Experiences for further implementation
    - 1.2 Introduction of New Instruments to the State Securities Market
  - 2. Increase of Effectiveness of Cooperation with Donors
    - 2.1 Cooperation with Donors in order to implement the projects and programs prioritized by the Government of Georgia
  - 3. Euro-integration
    - 3.1 Coordination of the Implementation of the Competence of the Ministry of Finance of Georgia provided by the documents of Deep and Comprehensive Free Trade Agreement (DCFTA) The Association Agreement (AA)
- V - Accounting and Reporting (State Treasury Service, LEPT - The Academy of the Ministry of Finance. Financial Analytical Service)
  - 1. Development of IPSAS standards related to the accrual concept
    - 1.1 In the instruction of accounting and financial reporting IPSAS (IPSAS 1, IPSAS 5, IPSAS 9, IPSAS 14, IPSAS 16, IPSAS 36, IPSAS 37) public sector accountants' awareness about the requirement of standards, preparing the training programs and re-training.
    - 1.2 Analytics of the Introducing Standards by the Detailed Action Plan 2018 (IPSAS 25, IPSAS 28, IPSAS 29, IPSAS 30, IPSAS 33) and Reflection of its demands in their Accounting and Financial Reporting Regulations
    - 1.3 Increase of Awareness of IPSAS Standards of Self-government Representatives
    - 1.4 Preparation of Draft Strategy for Developing IPSAS Standards for local authorities of self-government units
  - 2. Development of the integrated informational system of the Public Finance Management
    - 2.1 Management module evaluation / analytics of the incomes in the public organizations at the TSA
    - 2.2 Integration of the bookkeeping entries in the General Ledger of Treasury from a variety of modules
  - 3. Formation of the Reform of Cash Management
    - 3.1 Cash Management Strategy Approval by the Treasury Service
    - 3.2 Training for Cash Management Department staff on financial markets issues
    - 3.3 Development of Technical Reference of the Cash Management Module
- VI – Public internal control over financial reform (Central Harmonization Unit)
  - 1. The development of public internal control
    - 1.1 Public Internal Financial Control reform development planning, assessment and awareness raising
    - 1.2 Financial Management and Control system implementation and effective functioning promotion in the public sector

1.3 Development of internal audit activities and promotion of effective functioning in the public sector

VII - Informational Technologies (LEPL Financial-Analytical Service)

1. Development and Support of the integrated Public Financial Management Information System

1.1 eBudget - System Development and Addition of New Features

1.2 eTreasury - System Development and Addition of New Features

1.3 eDMS - System Development and Addition of New Features

1.4 eHRMS - System development and addition of new features

1.5 Ensure the sustainability of ICT infrastructure of Ministry of Finance

VIII – Resource Management (Finance Ministry of Georgia / Macroeconomic Analysis and Forecasting Department, the relevant agencies. The Academy of the Ministry of Finance, LEPL - Service Agency of the Ministry of Finance of Georgia)

1. Development of strategies related documents

1.1 Implementation of the Socio-Economic Development Strategy of Georgia “Georgia 2020” and According to its Participation in Document Development

1.2 Within the competence participation in the country's pension reform (including the development of the strategy and action plan)

1.3 Within the competence taking participation in the drawing out the development of capital market reform strategy in country and action plan

1.4 Within the Competence about the Public-Private Partnership, Participation in Development of the Relevant Legal Framework, Policy Documents and Draft Law

1.5 Take Participation in the Relevant Measures for Development of Regulatory Impact Assessment System in the Country within the Competence.

1.6 On the basis of the order #1355 of 25 June, 2015 Implementation Appropriate Changes in the Socio-economic Development Strategy of Georgia “Georgia 2020”

2. LEPL - Academy of the Ministry of Finance

2.1 Increase of Qualification of the Staff of the Local Municipal Units

2.2 Cooperation with the Dutch Ministry of Finance to organize the trainings and consultation meetings for the purpose of improvement of financial management

3. eauction.ge – system modernization

3.1 Improve the quality of services

3.2 eauction.ge System Improvement/ Modernization

3.3 eauction.ge - Attracting new partners

