STAR project

Guidelines on
Local Government Unit
Due Diligence
## Glossary

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<td>A.U</td>
<td>Administrative Unit</td>
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<tr>
<td>ACP</td>
<td>Agency of Consumer Protection</td>
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<td>Agency</td>
<td>Agency on Inventory and Administration of Public Property at the Ministry of Interior</td>
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<td>ALL</td>
<td>Albanian lek</td>
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<td>APP</td>
<td>Public Procurement Agency</td>
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<td>CD</td>
<td>Compact Disc</td>
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<td>CHUIA</td>
<td>Central Harmonization Unit of Internal Audit</td>
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<td>Cr</td>
<td>Credit</td>
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<td>DCM</td>
<td>Decision of the Council of Ministers of the Republic of Albania</td>
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<td>Debit</td>
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<td>Law</td>
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<td>FS</td>
<td>Financial statement</td>
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<td>FY</td>
<td>Financial year</td>
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<td>GoA</td>
<td>Government of Albania</td>
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<td>HR</td>
<td>Human Resources</td>
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<td>IT</td>
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<td>KKRT</td>
<td>National Council on Territory Regulation</td>
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<td>LGU</td>
<td>Local government unit</td>
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<td>MoF</td>
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<td>N/A</td>
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<td>NBV</td>
<td>Net book value</td>
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<td>Territorial and administrative reform</td>
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Introduction

Background

The Government of Albania (GoA) has undertaken the territorial and administrative reform (TAR), which aims at the establishment of larger units of local governments, administering a larger, reorganised and consolidated territory.

The anticipated benefits of such comprehensive reform are multi-fold, with a final objective of TAR to strengthen the efficiency of local administration, further democratise and strengthen the governance in the territory and encourage economic efficiency through the creation of premises for an integrated planning in a more consolidated administrative space.

In support to this reform, the donor community has established a multi-donor fund under the management of UNDP Albania, known as “Support to Territorial and Administrative Reform” (STAR) project. The STAR project was designed with the intention to provide coherent technical, operational and logistic support to the reform process through the Minister of State for Local Issues (MSLI) - the central institution responsible for the development and implementation of the reform.

Further, a dedicated Amalgamation Team of MSLI is being created and a pilot approach is being taken on the design and development of amalgamation modalities to be applied at a national / full scale. Two representative groups of twelve local government units (LGUs) have been selected and they will constitute the future municipalities of Pogradec and Ura Vajgurore.

KPMG Albania Shpk (KPMG) was appointed to assist in fulfilling the main objectives of the transitional phase of designing and testing the amalgamation approach by conducting a comprehensive due diligence of the twelve pilot LGUs. On this basis, a coherent approach, instructions and templates for replicating the due diligence exercise at a national / full scale were developed. KPMG also conducted a Train the Trainers session for creating capacity to carry on the amalgamation process.

Amalgamation process and timeline

The amalgamation process is set out in the following legislation:

- Law no. 115/2014, dated 31.07.2014, on “Administrative-territorial division”, and
- Law no. 8652, dated 31.07.2000, on “Organisation and functioning of the local government units”
- Draft Law amending the Law no. 8652, dated 31.07.2000, on “Organisation and functioning of the local government units” approved recently by the Albanian parliament (but not effective yet).

In accordance with the effective legislation and the expected amendments:

- 373 existing local government units shall be consolidated into 61 new municipalities to be constituted after the local elections on 21 June 2015
- Each of the new municipalities shall be composed of several administrative units and shall represent an administrative-territorial unity.
- The existing local government units shall continue their functioning until the constitution of the representative and executive bodies of the new municipalities.
- The amalgamation should take the form of a legal effective merger; due to its complexity, the process will require further steps to finalise the new structures in practice.
- The legal effective merger shall correspond to the constitution date of every new municipality which may vary depending on the election process.
- The amalgamation process and timeline are illustrated in the figure overleaf.
Figure: Amalgamation process and timeline

- Law on administrative territorial division: 31 Jul 2014
- Start of Pilot phase: 24 Nov 2014
- Local elections: April - May 2015
- Estimated date for constitution of new municipalities: 25 Jul 2015
- Estimated effective date of merger: 1 Sep 2015
- 21 Jun: Election Date
- 22 Jun: Election Results by local commissions
- 23 Jun: Submission of results to Central Election Commission ("CEC")
- 25 Jun: Issuance of Final official results by CEC
- Amendment to the law on organisation and functioning of local government
- Issuance of sublegal acts on procedures for transfer of rights and liabilities
- Administrative and judicial appealing periods
- Transfer of personnel
- Transfer of rights and liabilities
- Transfer of archives
- Estimated date for the first municipality council assembly and mayors’ oath giving
**Purpose of the Guidelines on Local Government Units Due Diligence**

- Undertaking a comprehensive due diligence of the state of affairs of each existing LGU is an essential step for having a clear picture of the operations of the amalgamating local governments and the problems that must be addressed in each specific case.

- The present Guidelines on Local Government Units Due Diligence (the Guidelines) will serve as a road map for:
  - performing the due diligence assignments
  - preparing the documents necessary for the legal effective merger and
  - outlining the next steps for completing the amalgamation smoothly in practice

- A diverse set of tools have been created to facilitate the fulfillment of tasks, including policies, methodologies, questionnaires, instructions, data books and a comprehensive financial model. They span from planning and information gathering to uniform analyses and reporting.

- The following documents necessary for the legal effective merger could be developed using the Guidelines:
  - List of fixed assets
  - List of economic inventory and materials
  - List of contracts with third parties
  - List of balances with debtors and creditors with reference to contracts
  - Inheritance Act reconciled with the Treasury
  - Revenues and expenses reconciliations
  - List of investment in subsidiaries
  - List of employees
  - List of litigations
  - List of Investment Projects
  - IT and Communication systems inventory
  - Approved budget for 2015

- The following reports for the post-merger phase could also be prepared:
  - Stand-alone financial statements for each existing LGU as at the effective date of merger
  - Consolidated financial statements for the new municipality as at the effective date of merger
  - Valuation of fixed assets
  - Consolidation of operations

- For the completion of the amalgamation process legal acts are expected to be amended and sublegal acts to be issued to provide for the procedures for the transfer of rights and liabilities, personnel and archives. Therefore, the present Guidelines may have to be amended to fully reflect the new legal requirements.
**Due Diligence approach**

The guidance is divided into the following steps in a consecutive order:

*Planning*

During the planning step the due diligence teams should carefully plan and initiate data collection, tailoring supplied standard questionnaires and arranging site visits and interviews with respective LGU representatives.

*Fieldwork and data collection*

Fieldwork and data collection activities should focus on both quantitative and qualitative information gathering as per the questionnaires.

Teams have to ensure that the personnel at LGUs understand all information requirements and data provided is complete and correctly presented. Arrangements should allow for several rounds of information circulation and interviews.

*Analysis and preparation for consolidation*

As part of the analysis and preparation for consolidation step due diligence teams will standardise, reconcile and analyse the operational and financial data of the LGUs.

The aim is to prepare coherent stand-alone reports for each LGU, which will allow for seamless consolidation of both operations and financials of the municipality to be newly formed.

The work performed will also prepare LGUs for the transfer of rights and obligations.

*Consolidation*

During the consolidation step due diligence teams are expected to summarise data and provide overview of the organisation, operations and financials of the new municipality.

A critical aspect of the work is to identify and address significant potential risks following the merger.

**Guidelines content**

The content is organized in three sections as follows:

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**Appendices in electronic form**

1: Questionnaire for information 7: Financial Due Diligence Report template
2: Legal Framework 8: Guidance on valuation of fixed assets
3: Operations Databook 9: Consolidation Financial Model
4: Operational Due Diligence report template 10: Descriptions of Financial Model content
5: Individual Financial Model 11: Descriptions of Consolidation Financial Model content
6: Templates for Notes to the financial statement

The Guidelines, including the appendices, are presented in a soft-copy on a CD, which is an integral part of this document. Due to their specifics, the appendices are presented in the soft-copy only.
Operational due diligence
Operational due diligence

An overview of the operational due diligence process and the main activities to be followed during each step are presented below.

With a click on the icon you may go to the respective section.

Planning

- Get acquainted with the Legal Framework
- Understand the Organisational Model
- Understand the legal requirements for personnel transfer
- Understand the legal requirements for archiving
- Understand the legal requirements for asset management
- Tailor the Questionnaire for information and the Operations Databook
- Present the Questionnaire for information and the Operations Databook
- Organise site visits and schedule meetings in advance

Fieldwork and Data collection

- Organisation and structure
- Personnel matters
- Information and technology
- Communication
- Archiving
- Asset management
- Investment projects
- Legal matters

Analysis and preparation for consolidation

- Organisation and structure
- Personnel matters
- Information and technology
- Communication
- Archiving
- Asset management
- Investment projects
- Legal matters

Consolidation

- Organisation and structure
- Personnel matters
- Information and technology
- Communication
- Archiving
- Asset management
- Investment projects
- Legal matters
1 Planning

1.1 Get acquainted with the Legal Framework

A common legal framework for Public Services (the “Legal Framework”) has been created following a review of the existing legislation in relation to local government matters, including:

- Law No. 115/2014, dated 31.7.2014, on “Administrative-Territorial Division of Local Government Units in the Republic of Albania”
- 34 industry sector laws
- 5 decisions of the Council of Ministers (DCM)
- 2 instructions of Central Government Institutions (ICGs)

The Legal Framework is presented in Appendix 2.

1.2 Understand the Organisational Model

Based on analyses performed during the pilot phase and best practices, an Organisational Model of the existing LGUs has been developed. Further, the drivers for change have been considered and the model adjusted to reflect the future required status of the LGUs.

The current organisational model consists of four elements: roles, functions, orientation and service delivery as shown in Figure 2. They will be analysed for each existing LGU organisation.

![Figure 2: Current Organisational Model](image)

**Roles**

The roles and their respective responsibilities are determined by the Legal Framework, and include:

- LGU Council
- Mayor
- Deputy Mayor
- Secretary to the LGU Council

**Functions**

The functions performed by the LGU are broadly classified as:

- Public Service Function, and
- Horizontal Functions

Further, the Organic Law defines the categories for provision of Public Service Functions to be own, shared and delegated.
**Orientation**

The orientation types widely used in the current organisational model are:

- **Divisional by sector**
  
  The divisional orientation refers to public service sectors delivered to the community. For example, the LGU administrative structures are organised to provide infrastructure planning and development, veterinary service, civil protection and others.

  The grouping of individual positions is oriented toward the whole delivery cycle of the specific service – from programme / common policies design to action plan and execution steps taken. Such structure enables clear accountability, improved coordination of activities, and builds expertise that helps to improve service delivery.

- **Functional**
  
  The functional structure grouping of individual positions is based on common functions such as HR, Finance, Information Technology, etc.

  The work is divided by tasks which are more technically rather than business oriented within the functional area. Such a structure enables efficiency and process / policy standardisation and optimisation.

**Service Delivery**

In delivering its functions, the local government administration can use:

- **Own resources in providing public services to the community and performing the horizontal functions**

- **Licensing private operators to deliver designated services (such as public transport)**

- **Contracting third parties or other public institutions**

**Figure 3: Future Organisational Model**

The organisational model of the new municipalities and administrative units will be driven by the need for change to achieve the objectives of the amalgamation process. The changes are stipulated in the Draft Law which will amend the Organic Law (the “Draft Organic Law”), approved recently by the Albanian parliament (but not effective yet).

Following an analysis of their nature and impact, the Future Organisational Model has been established as shown in Figure 3.

Some of the changes will be implemented immediately, while others will need short to medium-term preparatory work.
**Future roles**

The changes in roles will be implemented with immediate effect.

- The LGU Council will continue with the existing competences. To help improve the efficiency of the new municipality, its responsibilities will change as follows:
  - Approving the level of salaries and bonuses for employees and other persons elected or appointed, in line with the legislation
  - When approving the budget and its amendments, it will also approve the maximum number of employees and municipal budgetary units
- The Mayor will continue with the existing competences. To help improve the effectiveness of the new municipality, the Mayor will assume new responsibilities, namely:
  - Approve the organisational structure of the new municipality and any accompanying internal regulations on the organisation of the activities of the municipal administration and of the municipality budgetary units
  - Appoint and discharge the administrators of the administrative units and neighbourhoods.
- The Administrator is a new role. The person is appointed and discharged by the Mayor and carries out the following responsibilities:
  - Run the administrative unit and report to the Mayor on its functioning
  - Identify and review instances of administrative contraventions
  - Has the right to delegate their competencies in relation to identification and reviewing of instances of administrative contraventions to other employees of the administrative unit
- The Deputy Mayor will continue with the existing competences. They will be elected by the Mayor.
- The Secretary of the LGU Council will continue with the existing competences. They will be elected by the LGU Council.

**Future functions**

- The functions to be performed by the new municipalities and administrative units are currently being reviewed by the Government. A new Law on Organisation and Functioning of Local Government, introducing new public service functions and superseding the existing Organic Law, is expected to be approved. Therefore, future changes to functions as described in the current organisational model are not considered in the due diligence report.

**Future orientation**

- Based on the analysis performed, there are no legal or business reasons to change the existing division by sectors and functional orientation of the organisational model in respect of Public Services and Horizontal Functions.
- The amalgamation process, however, introduces a major change in the relationships between the new municipality and the administrative units:
  - The administrative units are considered public service offices and enable provision of public services to the community at the same level regardless of territorial location
  - The organic structure of the administrative units are part of the organic structure of the new municipality
  - The administration of the administrative unit supports the activities of the new municipality
- This change brings a new dimension to the orientation of the organisational model, i.e. the division by geography

As a consequence, there is a need to implement a matrix organisation structure combining the elements of division by sector, division by geography and functional orientation.

It will be a more complex orientation requiring multiple reporting lines, aligning of objectives across divisions and functions, planning and utilising of combined resources, decision making, coordination and communication. To achieve a positive impact of the change, a detailed analysis and design of the new work processes and staff layers will have to be performed after the effective legal merger.
Future service delivery

- Consideration shall be given to how the work is executed and distributed in delivering the public services and horizontal functions. Such considerations would help in improving the effectiveness and efficiency of service delivery.

- Such decisions cannot be reached in the short-term and preparatory work is needed to analyse the processes, assess the human resources and infrastructure capacity, including the information and communication technology in place.

- To facilitate this thought process, we have developed three questions to be used as design principles:
  - Does the work require physical presence?
  - Is there any reason (legal, strategic) to centralise the execution of the function?
  - Is the work scalable through remote / central processing?

- Applying the above design principles for each function will trigger development of alternative organisational structures, which then should be refined and the most feasible one selected.

For more details please refer to the Operations Databook, presented in Appendix 3.

1.3 Understand the legal requirements for personnel transfer

As of the effective date of the legal merger, the competent bodies of the new municipalities should take actions with regard to transfer of personnel from the LGUs that shall cease to exist to the new municipalities. This transfer will make it necessary to restructure the internal organisation of the municipalities. Hence, it might be necessary to terminate relationships with personnel.

LGU personnel is divided in two categories: civil servants whose relationship is governed by Law no. 152/2013, dated 30.05.2013, on “Civil Servants” and employees whose relationship is governed by the Labour Code. Therefore, different procedures should be followed by the competent bodies to reposition and terminate relationships with civil servants and employees.

In such cases, the provisions of Articles 105, 107, 143-145, 147 and 148 of the Labour Code are applicable for treatment of employees.

As regards civil servants, the provisions of the following legal and sub-legal acts shall be applicable:

- Article 50/1/6 and 7 of Law no152/2013, dated 30.05.2013, on “Civil Servants”, as amended
- DCM no. 118, dated 05.03.2014, on “Procedures for appointment, recruitment, management and termination of civil service relationships of high management level civil servants and members of TND”
- DCM no. 143, dated 12.03.2014, on “Procedures of recruitment, selection, probation period, parallel movement and promotion for civil servants of executive, middle and low management categories”

For more details please refer to the Operations Databook, presented in Appendix 3.

The purpose of gathering data on personnel is to prepare a full inventory of LGUs personnel to be transferred to the new municipality at the legal effective date of merger. On this basis, the competent bodies of the new municipality will be able to analyse and assess the treatment of personnel (i.e repositioning or termination of relationships) after the adoption of the organisational structure, with the aim to increase efficiency and capacities to provide public services at the same level in the new municipality territory of jurisdiction.

1.4 Understand the legal requirements for archiving

The establishment, organisation and functioning of archives is governed by Law no. 9154, dated 06.11.2003, on “Archives” (the “Law”). This Law is applicable to all state institutions, including LGUs. In accordance with Article 15 of this Law, the General Directory of Archives has issued “Technical-professional and methodological norms of archiving service in the Republic of Albania” (“Archiving Methodology”). The Archiving Methodology sets out the detailed
procedures to be followed and actions to be taken by state institutions, including LGUs, in their daily activities as well as rules and procedures in cases of mergers of state institutions.

Pursuant to Article 23 of the Law, the LGUs need to have within their organisational structure an archiving service. Depending on the volume of documents created, each LGU needs to have the following functions: secretariat and archive, secretariat-archive or an employee assigned to carry out the service of secretariat-archive.

As regards the archive functions, each LGU must perform the following:
• Evidence the correspondence sent or received by the LGU
• Carry out the archiving processing, safeguard and serve the documents administered by them
• Deliver the documents in the state archives, within the deadlines determined by the Law.

In accordance with Article 43, the administrative documents are to be handed over to the respective state archives determined by the Law upon the elapse of 10 years after the date of their creation.

According to Article 44, the documents of local institutions must be handed over in the regional state archives directly by the institutions which have created them. This means that each LGU is individually responsible for handing over the documents to the state archive of the respective district.

Pursuant to Article 45, when the attributes of one state institution are legally transferred to another institution, the latter may administer the inherited documents up to the completion of deadlines provided by Article 43 of the Law. In addition, Article 24 of the Archiving Methodology is also applicable.

Article 51 of the Law provides that, in case of changes in the administrative-territorial organisation, the General Directory of Archives or regional state archives must be notified to decide on the further administration of the documents.

The purpose is to gather data on archiving practices to check compliance with legal requirements. Based on this, an analysis of the archiving practices will be made and recommendations could be given on the preparatory actions to be taken in order to facilitate the transfer of archives in light of the amalgamation of the existing LGU with the new municipality.

1.5 Understand the legal requirements for asset management

The management of public assets by LGUs is governed by the Instruction of the Minister of Finance no. 30, dated 27.12.2011, on “Assets Management by Public Units”. It was issued in application of and based on Article 6/e of Law no. 10296, dated 08.07.2010, on “Financial Management and Control”.

The Law provides for the responsibility of the Minister of Finance to approve instructions and manuals related to the financial management and control in public units. Such instructions need to cover standard procedures on protection, documentation, circulation, sale and disposal of public assets. In addition, the Law sets out the direct responsibility of the heads of public units (in this case, the Mayors of LGUs) with regard to public asset management.

The Law and the abovementioned Instruction provide also the Mayors’ responsibility to approve specific rules and procedures for maintenance, protection and disposal of public assets as well as appointment of authorising officer.

The Instruction lays down detailed procedures on assets management as well as specific requirements on:
• Assets risk management
• Assets register
• Assets inventory

The Instruction prescribes the existence of objectives for use of assets, respective plans on which the objectives are based and control mechanism with regard to assets risk management.

Each LGU needs to create and update an accounting register of all assets it possesses or administers, including income generating public properties. The
authorising officer is responsible to appoint the executive employee for creation and maintenance of the Assets Register.

The LGU is also required to have separate registers for each of the owned leased properties, commercial companies where the LGU participates (i.e. own shares) and concessions/emphyteusis contracts.

As regard to the inventory of public assets, the Instruction provides that the inventory is made under the responsibilities and procedures approved in the Instruction and upon order/instruction approved by the LGU Mayors.

Each LGU is required to perform assets inventory at list once a year, carried out by a special commission consisting of at least three members and created by the LGU Mayor or an authorised officer of any level.

The disposal of the assets requires:

- A special commission for the evaluation of assets created upon the Mayor’s order
- A special commission for the disposal of assets in use by the LGU, whose chairperson is appointed upon the Mayor’s order

In some cases, the Mayor is entitled to create one commission for both inventory and evaluation of assets.

1.6 Tailor the Questionnaire for information and the Operations Databook

Use the Questionnaire for information presented within Appendix 1 and tailor it to the specific LGU.

Similarly, use the Operations Databook presented within Appendix 3 and tailor the information therein, if necessary.

1.7 Present the Questionnaire for information and the Operations Databook

The Questionnaire for information includes a detailed list of information to be presented by the LGU to the due diligence team.

The Operations Databook are empty templates for information to be provided in such format by the LGU.

This activity would ensure that the information would be gathered efficiently and in a timely manner.

The teams should provide detailed guidance into how the information is expected to be provided, ask for potential lack of information upfront and attempt to agree on a schedule for completion of the data gathering.

1.8 Organise site visits and schedule meetings in advance

Site visits and meetings with key personnel should be planned in advance in order to see all key areas covered.

Consider scheduling meetings in advance at minimum with the following personnel:

- Mayor(s) and/or Deputy Mayor(s)
- Heads of all administrative structures of the LGU
- Responsible person for Human Resources
- Responsible person for Legal
- Responsible person for Information Technology and Communication
- Responsible person for Archiving
- Responsible person for Asset Management
- Responsible persons Urban Planning
- Responsible person for Legal
2 Fieldwork and data collection

2.1 Organisation and structure

2.1.1 Administrative structures and responsibilities

- Obtain the internal regulations on the organisation of the activities of the LGU administration, approved by the LGU Council, to understand the administrative structures and their responsibilities.

- Obtain the Decision of the LGU Council on “Approval of the organic structure, number of employees and salaries of the LGU administration” for the current year.

- Obtain the Staff Listing for the current year containing information on employees such as full names and positions.

- Review administrative structure classification (directorate vs. lower units) per the requirements established by DCM no. 1619, dated 2.07.2008, on “Classification of functions, grouping of LGUs, in relation to salaries and identification of salary ceilings of LGU employees”, as amended by DCM no. 586, dated 17.07.2013, on “Amendments to DCM no. 1619”.

- Conduct interviews with the Mayor(s) and/or Deputy Mayor(s), and Heads of the administrative structures of the LGU to understand the following:
  - The responsibilities of the relevant administrative structure.
  - The number of employees under their management and supervision.

- Complete the template on “Description of the Responsibilities of Administrative Structures” in Appendix 3. Identify the directorate, comprising administrative structures, number of people and description of the responsibilities of the relevant structures. See the example for illustration:

<table>
<thead>
<tr>
<th>Directorate</th>
<th>Administrative Structure</th>
<th>No. of people</th>
<th>Description of responsibilities</th>
</tr>
</thead>
</table>
| Finance     |                          | 3             | - Compilation of the draft budget for municipal council approval and monitoring of budget execution.  
|             | Finance and Social Aid   | (1)           | - Accounting and record-keeping of obligations arising from the organisation’s activities and income generated from revenue sources as approved by the LGU council.  
|             |                          |               | - Relations with Treasury: periodic reporting and reconciliation with the designated treasury function of the Ministry of Finance; Completes the support documentation and formally requests periodicity, funding replenishment with the treasury function.  
|             |                          |               | - Compilation and submission of annual financial statements in line with the regulatory requirements of the Ministry of Finance.  
|             |                          |               | - Payroll Accounting.  
|             |                          |               | - Executes payments to fulfill the municipality obligations.  
| Social Aid  |                          | 1             | - Administration of social aid (excluding information collection, compilation of applications for social aid, verification of the claimant’s information in coordination with various government institutions such as Employment Office, Ownership Registration Office of Immovable Properties, etc).  
|             |                          |               | - Collaborates with different humanitarian and non-profit organizations.  |
• Prepare the existing organisational structure (unless provided by the LGU) and incorporate the number of employees in each administrative structure. Refer to the template “Organisational Structure” in Appendix 3 and see the example below.

Example:

![Organisational Structure Diagram]

2.1.2 Availability of public services and horizontal functions

- As per the inventory list of employees and the semi-structured interviews, complete the two templates on “Availability of Public Services” and “Availability of Horizontal Functions” in Appendix 2. The completed templates will display the allocation of people executing the public services and horizontal functions in the LGU.

- Mark ‘n/a’ for the number of people on those functions where allocation of personnel has not been made. For people who perform more than one function, assess the approximate time allocation that the person spends on a designated function, per information received from interviews.

- Functions which are either contracted or licensed are also noted for the relevant function. For some contracted or licensed public services, the LGU may have designed people to monitor the performance of the third party. The number of these people should be reflected as well, next to the word “Contracted” or “Licensed”.

- Also note that the number of people in the administrative structures might not always match the number of people allocated to the public service and horizontal functions described templates. The differences are due to the fact that the same person may carry out more than one function.

Example:

<table>
<thead>
<tr>
<th>Public Services Functions</th>
<th>No. of people</th>
<th>Infrastructure and public services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water supply</td>
<td></td>
<td>Contracted: 4,7</td>
</tr>
<tr>
<td>Sewage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drainage system and [food] protection canals in the residential areas</td>
<td></td>
<td>4,7</td>
</tr>
<tr>
<td>Construction of local roads, sidewalks and squares</td>
<td></td>
<td>Contracted: 2,2</td>
</tr>
<tr>
<td>Rehabilitation and maintenance of local roads, sidewalks and squares</td>
<td></td>
<td>1,3</td>
</tr>
</tbody>
</table>

Example:

<table>
<thead>
<tr>
<th>Horizontal Functions</th>
<th>No. of people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>40</td>
</tr>
<tr>
<td>Revenue Collection</td>
<td>40</td>
</tr>
<tr>
<td>Legal</td>
<td>0.60</td>
</tr>
<tr>
<td>Procurement</td>
<td>0.25</td>
</tr>
<tr>
<td>Public Lighting</td>
<td>0.03</td>
</tr>
</tbody>
</table>
2.3 Personnel matters

- Obtain the completed “Inventory of Personnel Template” by the person responsible for Human Resources. Refer to the file Operations Databook in Appendix 3 for the relevant template to fill in the information for the LGU personnel.

- Ensure completeness and accuracy of the information provided in the Inventory of Personnel Template by:
  - Reviewing the Internal Regulation of the LGU approved by the LGU Council for the current year and Decision of the LGU Council on “Approval of the organic structure, number of employees and salaries of the LGU administration” for the current year.
  - Interviewing the person responsible for Human Resources in order to finalise completion of the Inventory of the LGU’s personnel.

See the example below as an illustration to fill in the “Inventory of personnel” template.

Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Job position</th>
<th>Sector</th>
<th>Starting date</th>
<th>Type of job contract</th>
<th>Education</th>
<th>Protected categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>XXXX</td>
<td>Mayor</td>
<td></td>
<td>2013</td>
<td>Elected</td>
<td>University Degree in Business Administration / University Degree in Law</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>XXXX</td>
<td>Council Secretary</td>
<td></td>
<td>2006</td>
<td>Fixed Term Contract</td>
<td>High School</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>XXXX</td>
<td>Head of Finance</td>
<td>Sector on Finance</td>
<td>2003</td>
<td>Fixed Term Contract</td>
<td>University Economy / University Degree in Mathematics and Physics</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>XXXX</td>
<td>Finance Inspector and Supervisor of Administration</td>
<td>Sector on Finance</td>
<td>2000</td>
<td>Civil Servant</td>
<td>University Economy / University Degree in Mathematics and Physics</td>
<td></td>
</tr>
</tbody>
</table>
2.4 Information and technology

2.4.1 Inventory of information systems, hardware and maintenance contracts

The purpose is to collect inventory of information systems implemented in the LGU, hardware installed, software licenses and other agreements and contracts in place, including the provision of software maintenance and IT support, through the following means:

- Obtain the completed inventory of IT systems by the person responsible for IT
- Inquire of IT personnel to understand the current information systems and technology infrastructure implemented in the LGU. In case the LGU lacks IT personnel, the interview can be held with the Head of the Finance Department, as they usually have inventory and contract information
- Obtain an inventory of the following items:
  - IT personnel head count and organisational structure
  - Information systems implemented in the LGU
  - License agreements for each software
  - Contracts and agreements in place for software maintenance
  - Hardware categories and quantity such as: personal computers, printers, servers, copy machines, etc.
  - Service contracts for hardware maintenance

Refer to Operations Databook in Appendix 3 to be used for the relevant template used for the inventory of information systems. See also the examples below as an illustration.
2.4.2 *Assessment of IT controls implemented in information systems and IT environment*

This section is applicable when automated or semi-automated application controls are implemented in the software accounting information systems or other software data management systems.

The procedures to be executed are as follows:

- Obtain the documents, listed in the Information and Technology section from the *Appendix 1: Questionnaire for information*.
- Following the identification of the software accounting information systems, collaborate with LGU Finance department and the team responsible for financial due diligence in order to identify, if the system has implemented automated or semi-automated application controls for data processing and calculation
- List relevant automated and semi-automated application controls
- Upon verification of existence of automated or semi-automated controls review the documents required in section “General IT controls applicable items” (GITC Questionnaire) of the *Operations Databook*, presented in Appendix 3
- Run the “GITC Questionnaire” in order to test General IT Controls
- Document the results of General IT Controls review in the format provided

2.4.3 *Test automated controls surrounding financial data management and generation of financial reports.*

The procedures to be executed are as follows:

- Obtain the list of relevant automated or semi-automated application controls;
- In case there are no automated controls, this would not be applicable for the due diligence;
- Prepare and executed the appropriate review procedures to ensure correct design and operating effectiveness of the identified automated and/or semi-automated controls.

2.5 *Communication Systems*

2.5.1 *Inventory of the telephony and internet contractual agreements in place at the LGU*

- Obtain the completed checklist on the telephony and internet used by the LGU
- Through inquiry with IT Personnel or Head of Finance identify the service provider of the telephony and internet services.
- Built a list of telephony and internet service providers for the LGU.
- Assess geographical coverage of the telephony service for each LGU (local or national coverage).
- Obtain the contracts with the provider of the telephony and internet services.
- Fill in the template “Summary on communication systems” as shown below

<table>
<thead>
<tr>
<th>Objective</th>
<th>LGU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephony service</td>
<td>fix line/mobile line</td>
</tr>
<tr>
<td>Telephony/service providers for the LGU</td>
<td>national provider</td>
</tr>
<tr>
<td>Internet service</td>
<td>local internet service provider</td>
</tr>
<tr>
<td>Assess coverage of the telephony service for each LGU</td>
<td>local coverage</td>
</tr>
<tr>
<td>Internal communication lines</td>
<td>verbal/hard copy</td>
</tr>
</tbody>
</table>
2.5.2 Get an understanding of internal communication methods applied at LGUs in scope i.e. communication tools, formal protocol memos, emails etc.

Through inquiry with Head of Finance/Legal/IT personnel get an understanding of the current internal communication methods

Example:

<table>
<thead>
<tr>
<th>Objective</th>
<th>LGU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephony service</td>
<td>fix line/mobile line</td>
</tr>
<tr>
<td>Telephony/service providers for the LGU</td>
<td>national provider</td>
</tr>
<tr>
<td>Internet service</td>
<td>local internet service provider</td>
</tr>
<tr>
<td>Assess coverage of the telephony service for each LGU</td>
<td>local coverage</td>
</tr>
<tr>
<td>Internal communication lines</td>
<td>verbal/hard copy</td>
</tr>
</tbody>
</table>

2.6 Archiving

- Obtain the completed “Technical Requirements Checklist” template, by the person responsible for archive. Refer to the file *Operations Databook* in Appendix 3 for the relevant template
- Ensure completeness and accuracy of the information provided in Appendix 3: *Operations Databook* by:
  - Visiting the archiving premises and checking the existence of technical requirements
  - Reviewing registers and forms maintained in the LGU for the processing and serving the documents
  - Interviewing the person responsible for archive to see if the technical and methodological requirements for archiving are met and finalise the “Technical Requirements Checklist” template as shown in the example.

Example:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Number of offices having access to</th>
<th>Number of offices needing access to</th>
<th>Sandwich</th>
<th>Type</th>
<th>Provider</th>
<th>Contract</th>
<th>Note</th>
<th>Comments / Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>9</td>
<td>16</td>
<td>4 Mbps</td>
<td>DSL</td>
<td>XYZ</td>
<td>1 YEAR</td>
<td>No back-up line exists</td>
<td>Yes</td>
</tr>
<tr>
<td>Telephone</td>
<td>4</td>
<td>10</td>
<td>One line</td>
<td>Copper</td>
<td>Globecom</td>
<td>Unlimited</td>
<td>Phone bills are too high</td>
<td>No</td>
</tr>
<tr>
<td>Internet</td>
<td>9</td>
<td>15</td>
<td>4 Mbps</td>
<td>Fiber</td>
<td>XYZ</td>
<td>1 YEAR</td>
<td>Backup line exists</td>
<td>No</td>
</tr>
<tr>
<td>Telephone</td>
<td>4</td>
<td>19</td>
<td>One line</td>
<td>VoIP</td>
<td>XYZ</td>
<td>1 YEAR</td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

Archiving methodology requirements

- Documents stored in a hierarchical or linear structure (or when the public institution has a hierarchy of organizational structure).
- According to this scheme, all documents are found in the archive:
  - Firstly are classified (grouped) by year
  - Then, are classified based on structures (i.e., directories, departments, branches, etc.)

Note: When the organization has a two-tier structure (e.g., directorate and branches)
2.7 Asset management

- Obtain the completed “Asset Management Requirements Checklist” template, by the person responsible for asset management. Refer to Appendix 3: Operations Databook for the relevant template.

- Ensure completeness and accuracy of the information provided in the “Asset Management Requirements Checklist” by:
  - Reviewing any available internal regulations and registers in the LGU with regard to asset management.
  - Interviewing the person responsible for asset management in order to understand whether the asset management practices in the LGU are compliant with the legislation and finalise completion of the “Asset Management Requirements Checklist” template.

See the example below as an illustration how the “Asset Management Requirements Checklist” template should be filled in.

Example:

<table>
<thead>
<tr>
<th>ASSET MANAGEMENT</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopted rules and procedures on asset management</td>
<td>No</td>
</tr>
<tr>
<td>Adopted rules and procedures on asset management</td>
<td>No</td>
</tr>
<tr>
<td>Authoring Officer</td>
<td>Head of the Municipality, Sylvia Ormorial</td>
</tr>
<tr>
<td>Executing Officer</td>
<td>Head of Finance, Manje Baidasi</td>
</tr>
<tr>
<td>Adopted plan, objectives and control mechanisms related to risk</td>
<td>No</td>
</tr>
<tr>
<td>Assets Accounting Register</td>
<td>Yes, in hard copy</td>
</tr>
<tr>
<td>Leased Properties Register</td>
<td>No</td>
</tr>
<tr>
<td>Owned Companies Register</td>
<td>No</td>
</tr>
<tr>
<td>Register of concession/encumbrances contracts</td>
<td>N/A</td>
</tr>
<tr>
<td>Annual Assets Inventory</td>
<td>Yes</td>
</tr>
<tr>
<td>Assets Inventory Committee</td>
<td>Yes</td>
</tr>
<tr>
<td>Assets Evaluation Committee</td>
<td>Yes</td>
</tr>
<tr>
<td>Assets Disposal Committee</td>
<td>Yes</td>
</tr>
</tbody>
</table>

2.8 Investment projects

- Obtain the completed “Investment Projects” template, by the person responsible for Urban Planning. Refer to Appendix 1 Operations Databook for the relevant template.

- Ensure completeness and accuracy of the information provided in the “Investment Projects” template by interviewing the person responsible for Urban Planning.

See the example below as an illustration how the “Investment Projects” template should be filled in.

Example:
2.9 Legal matters

2.9.1 Public service arrangements

The purpose is to prepare an inventory of all ongoing contracts between the LGU and third parties related to provision of public services. It will be part of the list of contracts with third parties to be transferred to the new municipality.

- Obtain the completed “Public Services Arrangements” template, by the LGU lawyer or responsible person. Refer to Appendix 3: Operations Databook for the relevant template.

- Ensure completeness and accuracy of the information provided in the “Public Services Arrangements” by:
  - Interviewing the lawyer or responsible person with regard to the information needed to be filled in the template
  - Obtaining and reviewing the respective contracts related to public services, to understand the specifics of each contract, in order to finalise the completion of the “Public Services Arrangements” template

See the example below as an illustration how the “Public Services Arrangements” template should be filled in.

Example:

<table>
<thead>
<tr>
<th>Contract Title</th>
<th>Contracting Party</th>
<th>Contract Start Date</th>
<th>Contract End Date</th>
<th>Nature of Service</th>
<th>Parameters Schedules of Effect</th>
<th>Potential Expiration Date</th>
<th>Contract Value</th>
<th>Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurship contract</td>
<td>XXXX, Inc.</td>
<td>1-Jun-14</td>
<td></td>
<td>Road construction</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Service contract</td>
<td>XXXX Studio</td>
<td>27-Mar-14</td>
<td>25-Jul-14</td>
<td>Object supervision</td>
<td>N/A</td>
<td>N/A</td>
<td>XXXX</td>
<td>N/A</td>
</tr>
<tr>
<td>Service contract</td>
<td>XXXX, Inc.</td>
<td>5-Aug-14</td>
<td></td>
<td>Commissioning of the facility</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Service contract</td>
<td>XXXX, Inc.</td>
<td>5-Jan-14</td>
<td></td>
<td>Object supervision</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

2.9.2 Legal proceedings

The purpose is to prepare an inventory of all legal proceedings where the LGU is party. It will be part of the list of all legal proceedings to be transferred to the new municipality.

- Obtain the completed “Legal proceedings” template, by the LGU lawyer or responsible person, consisting of all court cases where the LGU acts as defendant, plaintiff or third party. Refer to Appendix 3: Operations Databook for the relevant template.

- Ensure completeness and accuracy of the information provided in the “Legal Proceedings” template through:
  - Interviewing the LGU lawyer or responsible person on court cases for which a final judgment is issued and enforcement procedures, either voluntarily or compulsory through bailiff, by or against the LGU have already initiated or its expecting to initiate
  - Obtaining and reviewing respective law suits/appeal/recourse and/or court decision if deemed necessary in order to finalise the completion of “Legal Proceedings” template

See the example below as an illustration how the “Legal Proceedings” template should be filled in.

Example:

<table>
<thead>
<tr>
<th>No</th>
<th>Type of Legal proceeding</th>
<th>Defendant</th>
<th>Plaintiff</th>
<th>Defendant’s Case number</th>
<th>Plaintiff’s Case number</th>
<th>Description of the legal proceeding</th>
<th>Date of the legal proceeding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Executive</td>
<td>Defendant</td>
<td>Plaintiff</td>
<td>Case number</td>
<td>Case number</td>
<td>Two persons were arrested and convicted</td>
<td>Date</td>
</tr>
<tr>
<td>2</td>
<td>Legal action</td>
<td>Defendant</td>
<td>Plaintiff</td>
<td>Case number</td>
<td>Case number</td>
<td>Traditionally held</td>
<td>Date</td>
</tr>
</tbody>
</table>
2.9.3 Third party contracts

The purpose is to prepare an inventory of all ongoing contracts concluded between the LGU and third parties such as lease contracts. This inventory list shall be part of the list of contract with third parties that shall be transferred to the New Municipality.

- Obtain the completed “Third party contracts” template, by the LGU lawyer or responsible person. Refer to Appendix 3: Operations Databook for the relevant template.
- Ensure for completeness and accuracy of the information provided in the “Third party contracts” by:
  - Obtaining and reviewing the respective contracts to understand the specifics of each contract, in case of uncertainties, in order to finalise the completion of the “Third party contracts” template

See the example below as an illustration how the “Third party contracts” template should be filled in.

Example:

<table>
<thead>
<tr>
<th>Contract Title</th>
<th>Contracting Party</th>
<th>Contracting Start Date</th>
<th>Contract End Date</th>
<th>Nature of Service (Goods)</th>
<th>Payments Schedule (if given)</th>
<th>Potential Financial Liabilities arising from contract termination</th>
<th>Contract Value</th>
<th>Guarantors</th>
<th>LGU’s pre-termination right</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease contract</td>
<td>John Doe</td>
<td>XX.XX.2014</td>
<td>No ending date is determined</td>
<td>Technological vehicle</td>
<td>The price is paid daily when the vehicle is used</td>
<td>NA</td>
<td>XXXX</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Lease contract</td>
<td>Jane Smith</td>
<td>XX.XX.2015</td>
<td>House located at the bus station</td>
<td>Technological vehicle</td>
<td>The price is paid monthly</td>
<td>NA</td>
<td>XXXX</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Lease contract</td>
<td>John Doe</td>
<td>XX.XX.2014</td>
<td>Building</td>
<td>Technological vehicle</td>
<td>The price is paid monthly</td>
<td>NA</td>
<td>XXXX</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Lease contract</td>
<td>Jane Smith</td>
<td>XX.XX.2015</td>
<td>Building</td>
<td>Technological vehicle</td>
<td>The price is paid monthly</td>
<td>NA</td>
<td>XXXX</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>
3 Analysis and preparation for consolidation

3.1 Organisation and structure

Perform the analysis following the organisational model.

Roles

- Identify and summarise the responsibilities of the roles defined per the model in the existing organisation.

Example:

Roles

All roles are being performed in Lora, Vajgaro.

- LGU Council
  - The LGU Council consists of 17 members.
  - Their responsibilities include: adoption of the statute of the LGU and the internal regulations of functioning of the Local Council; approval of the organisational and administrative structure of the commune and municipality and its budgetary institutions, as well as the number of their personnel, the criteria for qualifications, salaries and criteria for their compensation.

- Mayor
  - The Mayor is in charge of a public administration of 84 employees, excluding the employee dealing with civil status matters, which is a delegated function and is administered by the central government.
  - The Mayor exercises all competencies for the carrying out of the functions of the LGU with the exception of those competencies that are exclusive to the Council.
  - The Mayor also exercises all rights and guarantees meeting all obligations of the local government due to its status of a legal entity.

- Deputy Mayor
  - The Mayor has appointed two Deputy Mayors.
  - One of them assists with overseeing the administrative structures related to public services, whereas the other - to horizontal functions.

- Secretary of the LGU Council
  - The Secretary of the LGU Council is appointed by the LGU Council.

Functions

- Provide the analysis on the public services and horizontal functions based on the information obtained.

Example:

<table>
<thead>
<tr>
<th>Public Services Functions</th>
<th>No. of people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure and public services</td>
<td></td>
</tr>
<tr>
<td>- Water supply</td>
<td>Contracted</td>
</tr>
<tr>
<td>- Sewage</td>
<td>47</td>
</tr>
<tr>
<td>- Drainage, system and (flood) protection canals in the residential areas</td>
<td>47</td>
</tr>
<tr>
<td>Construction of local roads, sidewalks and squares</td>
<td>Contracted</td>
</tr>
<tr>
<td>Rehabilitation and maintenance of local roads, sidewalks and squares</td>
<td>22</td>
</tr>
<tr>
<td>Public lighting</td>
<td>13</td>
</tr>
<tr>
<td>Public transport</td>
<td>Licenced</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Horizontal Functions</th>
<th>No. of people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>4</td>
</tr>
<tr>
<td>Revenue Collection</td>
<td>4</td>
</tr>
<tr>
<td>Legal</td>
<td>0.6</td>
</tr>
<tr>
<td>Procurement</td>
<td>0.2</td>
</tr>
<tr>
<td>Institutional Relations</td>
<td>0.25</td>
</tr>
<tr>
<td>Human Resources</td>
<td>0.6</td>
</tr>
</tbody>
</table>
• Summarise the functions for which there are no human resources allocated to execute them. These functions should be addressed in designing the organisation of the new municipality.

Example:
- The information indicates functions for which there are no human resources allocated to execute them, such as:
  - Housing
  - Saving and promoting the local cultural and historic values, organisation of activities and management of relevant institutions
  - Orphanages, elderly homes
  - Small business development as well as carrying out of promotional activities, such as fairs and advertisement in public places
  - Performance of services in support of the local economic development, such as information, necessary structures and infrastructure
  - Priority health service and protection of public health
  - Social services on domestic violence
  - Social service on protection of children’s rights

Orientation

• Conduct an analysis of the administrative structures of the organisational model of the LGU and identify any exceptions to the two orientation types:
  - Divisional by sectors for Public Services
  - Functional for the Horizontal Functions

• These exceptions should be addressed in designing the organisation of the new municipality.

Example:
- Two orientation types are used in the current organisational model in Ura Vojarore:
  - Divisional by sectors for the Public Services, and
  - Functional for the Horizontal Functions

- However, the analysis reveals some exceptions:
  - Social Aid is under the Directorate of Finance
  - Veterinary is under the Directorate of Revenue Collection
  - Education, cultural activities and day care are under the Directorate of Human Resources
  - Legal is under the Directorate of Urban Planning, Development Control

Services delivery

• Summarise the analysis on functions executed by the LGU through its own people, contracted and licensed.
3.2 Personnel matters

- Provide a summary of the information provided in the “Inventory of Personnel” template. This summary should contain information on type of relationship with personnel by describe the total number of civil servants, including specifications on those civil servants on probation period and employees. In addition, provide a summary on specific matters on personnel such as type of contracts used for employees by providing respective number, protected category of employees etc.

- Insert the completed table “Inventory of Personnel” as an Appendix to the report.

- Provide observations and respective recommendations in the tables down on the page.

Example:

<table>
<thead>
<tr>
<th>Observations</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer of personnel: Employees and Civil Servants</td>
<td>It would be recommendable respective amendments to the Law on ENS, dated 23.7.2003, on “Functioning and organization of the local government units” in order to regulate the transfer of employees and all rights and obligations deriving from the employment contract due to the reorganization. Considering the transfer of employees, payment of all civil servants as well as year-term employment contract. Under the article 144 of the Labor Code, it states, the employment contract should be concluded for indefinite term unless it is justified for objective reasons relative to the nature of work.</td>
</tr>
</tbody>
</table>

3.3 Information and technology

- Present the observations and recommendations based on the inventory of the IT business systems performed and assessment of the documented and information presented from the LGU for the items required in the questionnaire, e.g. IT hardware, security policies and disaster recovery, etc.

Example:

<table>
<thead>
<tr>
<th>Observation</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Security Policy</td>
<td>The LGU’s lack Information Security policies and procedures. There is no knowledge among LGUs employees related to basic information security principles.</td>
</tr>
<tr>
<td>Access to Program and Data</td>
<td>The LGU can consider commencing the design and implementation of Information Security policies and procedures on the relevant areas such as user access management and security computer equipment (desktop, laptop operating systems, password configurations).</td>
</tr>
<tr>
<td>Back-up and Disaster Recovery</td>
<td>The LGU can consider commencing the design and implementation of backup and disaster recovery policies and procedures taking into consideration the use status of the technology infrastructure.</td>
</tr>
<tr>
<td>Hardware inventory</td>
<td>The LGU does not maintain proper inventory of hardware, software and licenses in use at their premises and there is lack of record on hardware technical specifications.</td>
</tr>
<tr>
<td>The current LGU should consider preparing an inventory of all IT equipment and software.</td>
<td></td>
</tr>
</tbody>
</table>
3.4 Communication

- Present the observations and recommendations based on the inventory of the communication systems and methods implemented at the LGU.

Example:

4. Communication

4.1 Objectives of the analysis
- The assessment of the communication systems status of the LGU has the following main objectives:
  - Identification of the telephone and internet contractual agreements in place.
  - Understanding of internal communication methods applied at the LGU.

<table>
<thead>
<tr>
<th>Observation</th>
<th>Recommendation</th>
</tr>
</thead>
</table>
| Internal communication | The LGU has a mix of electronic communication methods.
- In cases where electronic communication systems are needed, printed and scanned hard copies are used for the exchange of information.
| |
| Internal communication | The LGU has a mix of electronic communication methods.
- In cases where electronic communication systems are needed, printed and scanned hard copies are used for the exchange of information.
|

3.5 Archiving

- Provide the analysis on archiving practices based on the information obtained.
- Insert in the report the completed table on “Technical Requirements Checklist” below the summary.
- Provide observation and respective recommendations, if any, in the tables down on the page.

Example:

5. Archiving (continued)

5.2 Analysis and recommendations (continued)

<table>
<thead>
<tr>
<th>Observations</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of records and inventory</td>
<td>It is recommendable to keep all required records in order, on the premises. Each and every transaction on the premises is an asset, and it is recommendable to keep them as such.</td>
</tr>
<tr>
<td></td>
<td>In addition, inventory of electronic forms is not completed. These forms should provide auditors, and the inventory should be performed.</td>
</tr>
<tr>
<td>Re-organization of archiving due to the merger</td>
<td>As a result of the merger, municipal archiving volume shall be increased. An archiving system is required for the transfer of the documents concerning the re-organization of the Municipal archive.</td>
</tr>
<tr>
<td></td>
<td>In consequence, considering the volume of documents and the current status of archiving systems, re-organization of the new municipal archive and its maintenance in current premises might result very difficult.</td>
</tr>
<tr>
<td></td>
<td>In addition, in order to re-organize the Municipal archive and to help in the digitization of archiving, in this regard, provisions of article 19 of the Law on Archiving are applicable.</td>
</tr>
</tbody>
</table>
3.6 Asset management

- Provide the analysis on asset management practices based on the information obtained.
- Insert in the report the completed table on “Asset Management Compliance Checklist” below the summary.
- Provide observation and respective recommendations, if any, in the tables down on the page.

Example:

6. Objectives of the analysis

- The analysis on the asset management has the following main objectives:
  - Analysis on the status of the asset management practices based on the legal and technical requirements provided by the effective legal framework applicable to asset management.
  - Preparations of a checklist on compliance with legal framework on asset management.
- The Mayor is the Accounting Officer while the role of Executive Officer is handled by the Chief of Finance. Provisions of Instruction No. 50 dated 27/12/2011 on “Asset Management in public sector” as amended, are applied by the LGU as of 2015, since no internal rules and procedures were adopted by the Mayor. However, certain requirements of the aforementioned instruction related to asset risk management, specific assets registers and evaluation of assets are partially met.

6.2 Analysis and recommendations

- Head of Finance Department is responsible for maintenance of the LGU’s Assets Accounting Register while there are specific required records maintained such as register on properties owned by the LGU and on leased properties. The Mayor issues by the end of each year specific order on asset inventory audit which is followed by the performance of asset inventory count at the beginning of coming year. Special committees were created for inventory count evaluation and disposal of assets. From the information obtained, the valuation of assets is performed only for the assets that need to be disposed, sold, put as collateral etc. Details with regard to the compliance with legal requirements on Asset Management are provided in the table 6 – “Asset Management Practices”, below.

<table>
<thead>
<tr>
<th>Observations</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>No specific registers on owned companies and leased properties are not maintained in the LGU.</td>
<td>It would be recommendable, that such registers to be maintained in accordance to the requirements of the Instructions No. 50, dated 27/12/2011, on “Assets management in public sector”.</td>
</tr>
<tr>
<td>Risk Management of Assets</td>
<td>It would recommendable, that such plans, objectives and mechanisms to be adopted by the Mayor’s Monopoly, in light also of the transfer of assets from other existing LGUs.</td>
</tr>
</tbody>
</table>

3.7 Investment projects

- Insert the completed table on “Project Investments”.

Example:

<table>
<thead>
<tr>
<th>Project title</th>
<th>Current status of project implementation</th>
<th>Actual cost incurred up to date</th>
<th>Approved total estimated funding required for the investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconstruction of road, Turning Point from Pau to Gimnobile</td>
<td>in process</td>
<td>outstanding request</td>
<td>140,332,289.09</td>
</tr>
<tr>
<td>Rehabilitation and fencing the surrounding area, construction of open facility “Makita - Bachman” neighborhood, “Bataan”</td>
<td>Not started, Contract agreement signed with the service provider</td>
<td>0</td>
<td>27,847,690.09</td>
</tr>
</tbody>
</table>
3.9 Legal matters

3.9.1 Public service arrangements

- Insert the completed table on “Public Service Arrangements”

Example:

<table>
<thead>
<tr>
<th>Contract Title</th>
<th>Contracting Party</th>
<th>Contract Start Date</th>
<th>Contract End Date</th>
<th>Nature of Service</th>
<th>Payments Schedule (if given)</th>
<th>Potential Financial Liabilities arising from contract termination</th>
<th>Contract Value</th>
<th>Guarantees</th>
<th>LGiA-A pro termino right</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment contract</td>
<td>XXXX</td>
<td>12-Mar-2014</td>
<td></td>
<td>Legal proceedings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service contract</td>
<td>XXXX</td>
<td>20-Jan-2014</td>
<td></td>
<td>Public service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service contract</td>
<td>XXXX</td>
<td>30-Jun-2014</td>
<td></td>
<td>Third party</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service contract</td>
<td>XXXX</td>
<td>15-Jul-2014</td>
<td></td>
<td>Legal proceedings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment contract</td>
<td>XXXX</td>
<td>01-Feb-2014</td>
<td></td>
<td>Public service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Legal proceedings

- Insert the completed table on “Legal Proceedings”

Example:

<table>
<thead>
<tr>
<th>Type of Legal Proceeding</th>
<th>Nature of the proceeding</th>
<th>Value of the proceeding</th>
<th>Contracting party</th>
<th>Relationship of the Losing and Winning parties</th>
<th>Value of the role of proceeding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Discrimination</td>
<td>Discrimination on the basis of gender</td>
<td>$10,000</td>
<td>XXXX</td>
<td>Losing party (employee)</td>
<td>Since the employer did not provide adequate remuneration</td>
</tr>
<tr>
<td>Civil penalties</td>
<td>Civil penalties for breach of contract</td>
<td>$50,000</td>
<td>XXXX</td>
<td>Losing party (contractor)</td>
<td>Since the contractor did not fulfill the obligations</td>
</tr>
</tbody>
</table>

Third party contracts

- Insert the completed table on “Third Party Contracts”

Example:

<table>
<thead>
<tr>
<th>Contract Title</th>
<th>Contracting Party</th>
<th>Contracting Short Date</th>
<th>Contract End Date</th>
<th>Nature of Service</th>
<th>Payments Schedule (if given)</th>
<th>Potential Financial Liabilities arising from contract termination</th>
<th>Contract Value</th>
<th>Guarantees</th>
<th>LGiA-A pro termino right</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease contract</td>
<td>XXXX, XXXY</td>
<td>30-JUL-2014</td>
<td></td>
<td>Building</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease contract</td>
<td>Fullframe</td>
<td>30-JUL-2014</td>
<td>30-JUL-2015</td>
<td>Building</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4 Consolidation

4.1 Organisation and structure

4.1.1 Future Organisational Model

- The four elements of the future organisational model shall be analysed in light of the amalgamation of the existing LGUs
- Observations and recommendations will be addressed in designing the organisation of the new municipality

Roles

- Summarise the roles performed in the existing LGUs to be amalgamated using the template “Roles in the existing LGUs” presented in Appendix 3. Note that the description of their existing responsibilities are prescribed in the Operational Due Diligence Report Template, in Appendix 4.

Example:

<table>
<thead>
<tr>
<th>Role</th>
<th>Ura Vajgurore</th>
<th>Poshnje</th>
<th>Kutalli</th>
<th>Cukalat</th>
</tr>
</thead>
<tbody>
<tr>
<td>LGU Council</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Mayor</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deputy Mayor</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secretary of the LGU Council</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Example:

- Make observations and recommendations to be considered by the new municipality on the roles:

Example:

<table>
<thead>
<tr>
<th>Observations</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measures should be taken to ensure that public services will continue to be normally delivered to the community.</td>
<td></td>
</tr>
<tr>
<td>Furthermore, preparatory work is necessary to analyse the processes, assess the financial and administrative capacity to improve the effectiveness and efficiency in execution of the functions.</td>
<td></td>
</tr>
<tr>
<td>The preparatory work should take into consideration the necessity for the standardization of the execution of functions across the community and territory administered by the New Municipality with its Administrative Units.</td>
<td></td>
</tr>
<tr>
<td>In light of the above, coordination and liaison with the process stakeholders (i.e. the Mayor, Administrative, the head of the administrative structure responsible for a public service sector’s audit become necessary to accomplish</td>
<td></td>
</tr>
</tbody>
</table>
Functions

- Summarise the standardized data on public services and horizontal functions executed in the existing LGUs using the template “Public Services in the existing LGUs to be amalgamated” provided in Appendix 3. There are certain functions that are not being executed by at least one of the existing LGUs. This matter should be addressed in designing the organisation of the new municipality.

Example:

<table>
<thead>
<tr>
<th>Public Services</th>
<th>Uga Vajpara</th>
<th>Pahala</th>
<th>Katalik</th>
<th>Calabat</th>
<th>Amalgamated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure and public services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water supply;</td>
<td>Contracted</td>
<td>Contracted and 15.4 (Note 1)</td>
<td>12</td>
<td>na</td>
<td>27.4</td>
</tr>
<tr>
<td>Sewage;</td>
<td>4.7</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>4.7</td>
</tr>
<tr>
<td>Drainage system and (flood) protection works in the residential areas;</td>
<td>4.7</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>4.7</td>
</tr>
<tr>
<td>Construction of local roads, sidewalks and squares;</td>
<td>Contracted</td>
<td>Contracted</td>
<td>Contracted</td>
<td>Contracted</td>
<td>Contracted</td>
</tr>
<tr>
<td>Rehabilitation and maintenance of local roads, sidewalks and squares;</td>
<td>2.2</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>2.2</td>
</tr>
<tr>
<td>Public lighting;</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Public transport</td>
<td>Licence</td>
<td>Licence</td>
<td>Licence</td>
<td>Licence</td>
<td>Licence</td>
</tr>
<tr>
<td>Cemeteries and floral services;</td>
<td>3.2</td>
<td>3.2</td>
<td>3.2</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>City/village decoration;</td>
<td>3.2</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>3.2</td>
</tr>
<tr>
<td>Parks and public spaces;</td>
<td>3.2</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>3.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Horizontal Functions</th>
<th>Uga Vajpara</th>
<th>Pahala</th>
<th>Katalik</th>
<th>Calabat</th>
<th>Amalgamated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>2.4</td>
<td>12.4</td>
</tr>
<tr>
<td>Revenue Collections</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Legal</td>
<td>5.8</td>
<td>0.5</td>
<td>0.6</td>
<td>na</td>
<td>1.5</td>
</tr>
<tr>
<td>Procurement</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>na</td>
<td>0.5</td>
</tr>
<tr>
<td>Institutional Relations</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>na</td>
<td>0.5</td>
</tr>
<tr>
<td>Human Resources</td>
<td>0.3</td>
<td>0.5</td>
<td>na</td>
<td>0.2</td>
<td>1.3</td>
</tr>
</tbody>
</table>

- Make observations and recommendations to be considered by the new municipality on the functions

Example:

- Certain public services are not currently being executed by one or more existing LGUs. Refer to tables 3 and 4 in section 2 “Organisation and Structure” for the public services in the four LGUs together with the human resources allocated to fulfill these functions. These functions are noted as “na” in instances where no human resources have been allocated to execute them.

- Note that the current allocation of human resources in executing these functions does not necessarily represent the most effective manner in executing these functions.

- The New Municipality can consider whether to establish and build capacity in its organisational structure to execute in the future also functions for which there is no allocation of human resources at present. Such action would enable the New Municipality to be fully compliant with the legal requirements on local government functions and responsibilities.

- Consideration to proceed with such actions should be based on comprehensive preparatory work comprising of, but not limited to:
  - an analysis of the prioritisation that each of these functions represent for the community;
  - Assessment of the human resources and infrastructure capacity in place should be also taken into account;
  - Assessment of the effective delivery of services at the lowest permissible cost (i.e. efficiency) is subject to a comprehensive analysis.
Orientation

- Summarise the exceptions from analysis on the two orientation types used in the current organisational model of the existing LGUs. This matter should be addressed in designing the organisation of the new municipality.

- Identify the list of positions held in the existing LGUs, whose reporting is likely to change, in light of the future matrix organisation structure.

- Make observations and recommendations to be considered by the new municipality on the orientation.

Example

<table>
<thead>
<tr>
<th>Observation</th>
<th>Recommendation</th>
</tr>
</thead>
</table>
| Orientation – Mixed orientation of certain administrative structures (divisional by sector and functional) | Specialisation:  
- The activities for which a single individual is held accountable should be similar.  
- Similar functions should be appropriately grouped around key competencies and reporting lines.  
- Specialisation of administrative structures as a potential public service sector or functional group may produce more effective service as designing the new work processes and staff layers in the new Municipality. |

Service delivery

- Summarise the analysis on functions executed by the LGU through its own people, contracted and licensed.

- Make observations and recommendations to be considered by the new municipality on the orientation.

Example

<table>
<thead>
<tr>
<th>Observations</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Delivery</td>
<td></td>
</tr>
<tr>
<td>As described in the future organisational model in this Guidelines on Local Government Unit Due Diligence, decisions for changes on service delivery cannot be reached in the short-term.</td>
<td></td>
</tr>
<tr>
<td>Preparatory work is needed to analyse the processes, assess the human resource and infrastructure capacity, including the information – communication – technology in place. Therefore, it is reasonable to assess that such changes to take place in a medium-term.</td>
<td></td>
</tr>
</tbody>
</table>
| To facilitate this thought process, we have developed three questions below to be used as design principles:  
1. Does the work require physical presence?  
2. Is there any reason (legal, strategic) to consolidate the execution of the function?  
3. Is the work scalable through remote / central processing? |
| Note that the illustrative answers provided to these design principles (see table 3 in section 1: “Organisation and Structure”), have been given without consideration of future strategic decisions to be taken by the New Municipality in changing the service delivery (design principle 2). |
| Per the illustrative responses on the horizontal functions, they appear to be subject to change.  
Hiring a functional orientation, horizontal functions carry out procedures and deliverables that are technical oriented in the relevant functional area (such as Finance, Legal, etc.). |

Public services:  
- As noted in the recommendations above, the positions executing public services in the existing LGUs can continue executing their tasks related to service delivery. It is reasonable that in response to the first design principle, these positions to remain physically present.  
- The way the public services will be delivered in the future, is subject to strategic objectives and preparatory work with an analysis on how these functions are executed.  
- This analysis will help in improving the effectiveness and efficiency of service delivery. |

Horizontal Functions
- Certain horizontal functions to be subject to change in the future. More specifically, the following functions appear subject to physical relocation, centralisation, or the execution of the function and remote / central processing:  
- Finance (assuming that Administrative Units will not be determined as budgetary institutions of dependence to the Municipality)  
- Legal  
- Procurement  
- Institutional relations  
- Human resources  
- Auditing  
- Internal Audit |
4.1.2 **Future Organisational structure**

Building on the future organisational model and best practices, we have developed a possible future organisational structure with the following characteristics:

- A matrix organisational structure combining the elements of division by sector, geography and functional orientation.

- Public services administrative structures from the Administrative units will have a primary reporting line to the respective administrative structures of the new Municipality.

- Simultaneously they will have a secondary reporting line to the administrators.

- Due to the complexity and larger scale it assumes there would be three deputy mayors with the following division of responsibilities:
  - Infrastructure and public services
  - Social, cultural and recreational functions, local economic development, and public order and protection
  - Finance, Revenue collection and other horizontal functions

- Internal audit function will report directly to the mayor.

An illustration of the possible future organisational structure is presented below and is also included in Appendix 3:

In developing the organisational structure of the new Municipality, please observe the following:

- Consistent with strategic direction: support the vision and strategic priorities of the amalgamated LGU

- Form follows function: the organizational structure should ensure quality public service delivery

- Accountability: there should be clear, well-defined accountabilities and decision-making authorities

- Span of control – Span of control should be as broad as possible without sacrificing efficiency. However, there is a limit to the number of positions
one person can effectively be responsible for. Spans of control should ensure proper performance monitoring and employee feedback (one person should generally manage not more than 10 employees)

- Specialization: the activities for which a single individual is held accountable should be similar. Similar functions should be appropriately grouped around key competences and reporting lines.

- Layers of supervision: the number of levels of authority should be held to a minimum (from top to bottom)

- Decision-making: the organisation design should facilitate effective and timely decision-making in support of day to day operations.

- Communication: communication is effective and efficient along reporting lines and service delivery.

- Coordination approach – Applicable especially for the newly established Administrators who will be responsible for running the regional units within the different public service and horizontal directorates. Clear rules and procedures should be developed in order to distinguish between the sectoral (functional) and the administrative responsibilities and lines of accountability.

- Spatial separation – The organizational design of the amalgamated LGU should appropriately reflect the separate and subordinate status of the regional administrative units (separate actions in separate locations).

- Future growth and change – The organizational structure should be flexible and adaptable to future growth and public service needs
4.2 Personnel matters

- Provide a summarised analysis on the personnel of the new municipality based on the analysis provided for each existing LGUs. This analysis should contain information on total number of personnel, type of relationships with personnel by describing the total number of civil servants, including specifications on those civil servants in probation period and employees. Provide summary on specific matters such as type of contracts used for employees, respective number, protected category of employees etc.

- Insert the four “Inventory of Personnel” templates as Appendix to the consolidated report.

4.3 Information and technology

- Insert the consolidated “Inventory of IT business systems” template. Refer to “Operational consolidated Due Diligence Templates” in Appendix 3, for the relevant template used for the consolidated “Inventory of information systems”. See also the example below as an illustration

- Provide a summarised analysis of the IT business systems of the new municipality based on the information and analysis for each existing LGUs

Example

<table>
<thead>
<tr>
<th>Objective of assessment</th>
<th>Ura Vajgurele</th>
<th>Poshnjë</th>
<th>Gjakal</th>
<th>Kshtilli</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>Microsoft Office Package</td>
<td>Microsoft Office Package</td>
<td>Microsoft Office Package</td>
<td>Microsoft Office Package</td>
</tr>
<tr>
<td>licences agreed</td>
<td>no licence agreement</td>
<td>no licence agreement</td>
<td>no licence agreement</td>
<td>no licence agreement</td>
</tr>
<tr>
<td>Hardware (in use)</td>
<td>1</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Computers (in use)</td>
<td>15</td>
<td>10</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Printers</td>
<td>15</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Servers</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>IT personnel/tech count</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Hardware maintenance</td>
<td>outsourcing for hardware maintenance</td>
<td>outsourcing for hardware maintenance</td>
<td>outsourcing for hardware maintenance</td>
<td>outsourcing for hardware maintenance</td>
</tr>
</tbody>
</table>

Example

<table>
<thead>
<tr>
<th>Objective of assessment</th>
<th>Ura Vajgurele</th>
<th>Poshnjë</th>
<th>Gjakal</th>
<th>Kshtilli</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephony service</td>
<td>fix line/mobile line</td>
<td>fix line/mobile line</td>
<td>mobile line only</td>
<td>mobile line only</td>
</tr>
<tr>
<td>Telephony/service providers for the LGU</td>
<td>national provider</td>
<td>national provider</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Internet service</td>
<td>Albipricom</td>
<td>local service provider</td>
<td>local service provider</td>
<td>local service provider</td>
</tr>
<tr>
<td>Assess coverage of the telephony service for each LGU</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Internet communication lines</td>
<td>verbal/hard copy</td>
<td>verbal/hard copy</td>
<td>verbal/hard copy</td>
<td>verbal/hard copy</td>
</tr>
</tbody>
</table>

4.4 Communication

- Provide a summarised inventory of the internal communication methods implemented at the LGUs based on the information collected.

- Provide a summary of observation and respective recommendations in light of the consolidation.
4.5 Archiving

- Provide a summarised analysis on archiving practices based on the analysis for each existing LGUs.

- Insert in the report the consolidated “Technical Requirements Checklist” below the summary. Refer to “Operational consolidated Due Diligence Templates” in Appendix 3, for the relevant template used for the consolidated “Technical Requirements Checklist”. See also the example below as an illustration.

- Provide summary of observations and respective recommendations in light of the consolidation, the table down on the page.

4.6 Asset management

- Provide a summarised analysis on archiving practices based on the analysis for each existing LGUs and Tec.

- Insert in the report the consolidated “Asset Management Compliance Checklist” below the summary. Refer to “Operational consolidated Due Diligence Templates” in Appendix 3, for the relevant template used for the consolidated “Asset Management Compliance Checklist”.

- Provide summary of observations and respective recommendations in light of the consolidation

4.7 Investment projects

- Insert consolidated table “Project Investments”. Refer to the file “Operational consolidated Due Diligence Templates” in Appendix 3, for the relevant template used for the consolidated table “Project Investments”.

4.8 Legal matters

4.8.1 Public service arrangements

- Insert the consolidated table on “Public Service Arrangements”.

4.8.2 Legal proceedings

- Insert the consolidated tables on “Legal Proceedings”.

4.8.3 Legal proceedings

- Insert the consolidated table on “Third parties contracts”.

<table>
<thead>
<tr>
<th>Technical requirements for the archive premises and documents maintenance methodology</th>
<th>Ura Vajgure</th>
<th>Poshnjë</th>
<th>Kutalli</th>
<th>Cukalat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire protection, shells protection from sun, dust and any other physical and biological agents</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Secured doors and windows with a metallic net and automatic door closure</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Cardboard folders for putting the documents, placed in metallic shells and painted against rust</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Vertically oriented shells to the windows with a distance 40-60 cm from the wall and 80 cm from each other</td>
<td>Yes, but no distance from the wall</td>
<td>Yes, but no distance from the wall</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Presence of heaters or any other item that can cause fire present in the archive premises</td>
<td>No</td>
<td>Yes</td>
<td>n/a</td>
<td>No</td>
</tr>
</tbody>
</table>
Financial due diligence
Financial due diligence

An overview of the financial due diligence process and the main activities to be followed during each step are presented below.

With a click on the icon you may go to the respective section.

Planning
- Get acquainted with the Reporting Framework
- Tailor the Questionnaire for information and Templates for Notes to the Financial statements for the LGU
- Present the Questionnaire for information including the templates to the LGU
- Organize the site visits and schedule meetings in advance

Fieldwork and Data collection
- Obtain data as per Questionnaire and ensure for completeness and accuracy
- Ensure performance of the prescribed procedures for Assets, Liabilities, Income and Expenses

Analysis and preparation for consolidation
- Prepare stand-alone financial statements for each LGU based on collected data
- Input data into the Financial Model
- Perform accounting adjustments, reflect them into the restated figures and check for coherence
- Analyse the financial statements
- Prepare documents for transfer of rights and obligations

Consolidation
- Summarise stand-alone fixed asset registers and proceed with valuation
- Reflect valuation results in stand-alone financial statements and the Financial Model
- Completion of the Consolidation Financial Model
- Analyse the consolidated financial standing
- Point out significant potential risks for the new municipality following the merger
5 Planning

5.1 Get acquainted with the Reporting Framework

The reporting framework has been created following a review of the existing legislation in relation to reporting:

- Instruction 29 dated 24.12.2013 “For closing procedures of budget annual accounts for 2013”, and
- Instruction No.14 dated 28.12.2006 on ‘Preparing and presenting the financial statements of budgetary institutions at all levels’.
- Instruction No.28 dated 18.12.2014 “For closing procedures of budget annual accounts for 2014”

Read and get acquainted with the law and instructions presented above.

5.2 Tailor the Questionnaire for information and Templates for Notes to the financial statements

Use the Questionnaire for information presented within Appendix 1 and tailor it to the specific LGU.

Similarly use the Templates for Notes to the financial statements presented within Appendix 6 and tailor them if necessary.

5.3 Present the Questionnaire for information including the Templates for Notes to the financial statements

The Questionnaire for information, presented in Appendix 1, includes detailed list of information to be presented by the LGU to the due diligence team.

The Templates for Notes to the financial statement, presented in Appendix 6, are empty templates for financial information to be provided in the such format by the LGU

This activity would ensure that the information would be gathered efficiently and in a timely manner.

The teams should provide detailed guidance into how the information is expected to be provided, ask for potential lack of information upfront and attempt to agree on a schedule for completion of the data gathering.

5.4 Organize the site visits and schedule meetings in advance.

Site visits with the key personnel should be planned in advance in order to see all key areas covered.

Consider scheduling meetings in advance at minimum with the following personnel:

- Mayor and Deputy mayor
- Head of Finance Directorate and other finance personnel
- Head of Revenue Collection Directorate
- Responsible person for budgeting
- Responsible person for fixed assets, if available
- Representative from Urbanism regarding work-in-progress projects
6 Fieldwork and Data collection

6.1 Obtain data as per Questionnaire for information and ensure for completeness and accuracy

At this stage, the team should conduct the site visits and attend scheduled meetings with key personnel. The team should ensure once again that the personnel at LGUs understand all requirements as per Appendix 1: Questionnaire for information.

Collect the data as per Appendix 1: Questionnaire for information and ensure data provided is complete and correctly presented.

Based on the information gathered the team should perform the prescribed analysis and procedures as explained in the following sections.

6.2 Perform the prescribed procedures for Assets, Liabilities, Income and Expenses

Below is presented a list of suggested procedures for respective captions of financial statements that needs to be considered when performing the due diligence on the selected LGUs.

Budget

Obtain the approved budget for FY 2015

Through inquiries understand the overall budgeting process including the participants in the process and also who approves the budget

Obtain analysis of budget vs. actual and discuss and comment on the differences

Obtain budget revisions for 2013 and 2014 and discuss and comment on the reasons for the revisions

Fixed assets

Through inquiry understand the current procedures and comment on the compliance with the regulatory requirements

Obtain any written procedures for the recording, keeping, maintaining and performing an inventory of fixed assets

Inquire the responsible person regarding the valuation policy, depreciation policy, impairment testing

Inquire the responsible person regarding the supporting documents for the recorded fixed assets e.g. whether the largest assets are supported with proper documentation, where is the documentation kept and etc.

Inquire whether the LGU performs annual (or other periodical) inventory counts of the fixed assets and obtain the reports for the inventory counts for 2014

Obtain the list of fixed assets that have been transferred from the central government, obtain the respective documentation and support for these assets

Obtain the completed register of fixed assets (template provided along with the Appendix 1: Questionnaire for information)

Check the applied depreciation policy (inquiry and recalculation) and comment whether the appropriate useful lives have been applied.

Reconcile cost and depreciation additions during the year with information in F4, F8, and N12

Inventory

Obtain the completed template N2 List of inventory, provided to the LGU with the Appendix 6: Templates for Notes to the financial statements.

Reconcile the balance as per completed N2 List of inventory and the inventory balances presented in F1 Statement of Assets. Understand and comment on the differences.

Reconcile the increase/ (decrease) in inventory during the year with account 841 or 842 in F3-1/2
Reconcile the increase/ (decrease) in inventory during the year with T8

**Debtors and other receivables**

Obtain the detailed list of debtors as presented in *Appendix 6: Templates for Notes to the financial statements.*

Reconcile the information provided with *N3 Receivables from Employees* and *N4 Different debtors*

Reconciliation of the breakdown to the trial balance / accounting books and the financial statements

Analyse the content and the structure of these items, describe the largest items, and comment on the accounting policy and compliance with relevant regulation.

**Cash balance**

Obtain the signed inheritance act prepared by the LGU according to *N5 Inheritance Act* of *Appendix 6: Templates for Notes to the financial statements.*

**Creditors, loans and borrowings**

Obtain the detailed list of creditors presented in the *Appendix 6: Templates for Notes to the financial statements* provided to the LGU along with the *Questionnaire for information*, which should include a list of all invoices which have been received by the LGU, that have not been paid and/or not being recorded (as at the latest available date)

Request the LGU to identify overdue payments by analysing the invoice data and the payment data and estimate necessary penalties

Obtain the breakdown of all loans and borrowings, including the details presented in the *Appendix 6: Templates for Notes to the financial statements* provided to the LGU.

Request a repayment schedule for all loans, borrowings and leases (as at the latest available date)

Request a list of all "active" projects - the tender procedure has finished, are undergoing, and for which not all liabilities are settled (as at the latest available date)

Analyses of liabilities for 2014 and based on the walkthrough and the inquiry of the responsible persons understand whether there are liabilities which are not recorded.

Based on the contracts for loans and leases understand whether there are liabilities which are not recorded

Based on the analysis of the liabilities understand the classification of the short term and long term contracts. In case there is no such classification propose procedures for classification of the short vs. long term liabilities.

Reconcile the creditors with information in *N12 Reconciliation of FS with Treasury*

**Expenses**

Obtain the monthly reconciliations (cumulative) with Treasury for year-end 2014 as provided in *N7 Expense Reconciliation*, included in *Appendix 6: Templates for Notes to the financial statements.*

Check whether the reconciliations were properly reviewed and approved

Discuss any differences identified during the reconciliations with the representatives from LGU and the Regional Treasury Department

Reconcile the breakdown of expenses as per the reconciliation with Treasury to the trial balance / accounting books and the financial statements

Analyse the major items of expenses (including their structure/content)

Reconcile the *N12 Reconciliation of FS with Treasury*

**Revenues**

Obtain the monthly reconciliations (cumulative) with Treasury for year-end 2014, prepared by the LGU as requested in *N8 Revenue reconciliation*, included in *Appendix 6: Templates for Notes to the financial statements.*
Check whether the reconciliations were properly reviewed and approved.

Discuss any differences identified during the reconciliations with the representatives from LGU and the Regional Treasury Department

Reconcile the breakdown of revenues as per the reconciliation with Treasury to the trial balance / accounting books and the financial statements

**Investment in subsidiaries**

Obtain the completed template for Investment in Subsidiaries, provided along with the Appendix 6: Templates for Notes to the financial statements.

Reconcile the breakdown provided in the template, to the trial balance / accounting books and the financial statements

**Grants from foreign donors**

Obtain a breakdown of the grants from foreign donors, prepared by the LGU as per N11 Donor Grants, included in Appendix 6: Templates for Notes to the financial statements

Reconciliation of the breakdown to the trial balance / accounting books and the financial statements

Analyse and comment on the accounting policy and compliance with MoF instructions.

Reconciliation of capital grants to F4 and F8, and reconciliation of current grants from foreign donors to F3/2.
7 Analysis and preparation for consolidation

7.1 Obtain stand-alone financial statements for each LGU based on collected data

Obtain the completed set of financial statements for the year ending 31 December 2014, in both electronic and paper format.

Obtain the trial balances, and reconcile to the financial statements for 2014 (if available)

Compare and ensure that electronic version is the same with the one signed by the LGU and the Treasury representatives.

Analyse the composition of the financial statements (which reports and statements are included as part of the financial statements) and check whether it is in compliance with the financial format as prescribed by MoF.

Through inquiries understand based on which documents the financial statements have been prepared (trial balance, other excel reports, accounting books etc.)

7.2 Input data into the Financial Model

In this section the data obtained from the LGU would be transferred into the Financial Model to facilitate the analysis and reporting, and to point out reconciliation errors and areas for further enquiry.

The Financial Model is excel based tool aimed at facilitating the data gathering, reconciliation and reporting for the financial due diligence. It contains pre-formatted tables for reporting of the Financial statements and the Notes to the financial statements. Further, an automatic reconciliation has been prepared to check for general consistency of different sources of data, i.e. Financial statements, Notes to the financial statements, other gathered evidence. Upon completion of the data gathering, the teams should prepare accounting adjustments (if any) and reflect them on the impacted Financial statements. Except for the adjustments, all data input cells in the LGU FS Form sheet, the Notes 1 to 12 and the input sheets in the Evidence provided section are painted in yellow to ease the users in filling in data in the correct cells. A summary description of sheets and content of the Financial model are presented in Appendix 10: Descriptions of Financial Model content

An illustration on the flow of information in the Financial model is presented below:
**Data input into the General Information and the FS Form sheets.**

**General information**

In this section, the user should complete information in the yellow cells only (Column H). In section 1.1 General of the Financial Model are included the Project name, the name of the LGU subject to the due diligence, the name of the persons preparing the checklist and the name of the approver and date of approval for project management purposes. The name of the LGU set in this section would be automatically populated in the reporting tables, as well as in other sections of the model.

**Example:**

<table>
<thead>
<tr>
<th>Project STAR</th>
<th>XXX</th>
<th>General information</th>
<th>Reconciliation error</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General Information</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project name</td>
<td>name</td>
<td>date</td>
<td></td>
</tr>
<tr>
<td>Local government unit</td>
<td>name</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Checklist prepared by:</td>
<td>name</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Checklist approved by:</td>
<td>name</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2 Site visits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dates of site visits:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 1</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 2</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 3</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 4</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 5</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 6</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 7</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 8</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 9</td>
<td>date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visit 10</td>
<td>date</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Section 1.1 General of the Financial Model is followed by input cells for dates of the site visits (Section 1.2 Site visits).

Section 1.3 Interviewed personnel is completed with the names of the persons interviewed at the LGU visits.

**Example:**

<table>
<thead>
<tr>
<th>Project STAR</th>
<th>XXX</th>
<th>General information</th>
<th>Reconciliation error</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3 Interviewed personnel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marie Reddick</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mengenee Shuck</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Humansh, Wade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance Director</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vice Mayor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director of Finance Department</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In section 1.4 Financial periods are filled in the reporting dates of the financial information presented in the Due Diligence report. In cell H63 should be included the reporting date of the current reporting period, while in H64 should be included the beginning period date of the current reporting period, i.e. 30 June 2015 and 1 January 2015 if the reporting period is the first 6 months of 2015.

In cell H66 should be included the reporting date of the previous reporting period, for example 31 December 2014, following the example given above.

In Section 1.5 Presentation the reporting currency should be chosen, i.e. in thousands, in million, in billions, by entering the respective number in cell H70 – for example enter 1000, if you want to present your data in thousands, or 1000000, in case you want to present in millions.

Example:
Transfer data to Financial statement form

Go to sheet **LGU’s FS 2014 Form**. In this sheet is inputted the data obtained from the FS Template received from the LGU. Data is filled in the empty yellow boxes in columns E to N, depending on the template. The user should not add or delete any columns or rows or adjust specific cells, which are containing preset data, i.e. names, periods, accounting numbers, cells containing formulas, etc.

Example:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Template no. 1</td>
<td>Assets 2014</td>
<td>(in ALL)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Nr.</td>
<td>Account number</td>
<td>EMERTIMI I LLOGARITVE TE AKTIVIT</td>
<td>Closed exercise</td>
<td>Previous exercise</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>A</td>
<td>AKTIVE TE QENDRUESHE</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
<td>203</td>
<td>2.15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>204</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>5</td>
<td>202</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>6</td>
<td>203</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>7</td>
<td>209</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>8</td>
<td>230</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>9</td>
<td>22.23/24/25</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Transfer data to the evidence received

Following the **LGU’s FS 2014 Form** sheet, to the right are left sheets for include the copies of the supporting documentation, either direct extracts in excel or scanned copies in PDF.

Using the automatic reconciliation tool

There is a built-in automatic function on several sheets which allow for automatic reconciliation of the specific item and the financial statements (refer to sheet **Checks**). To use it simply paste the extracts as provided by the client, or write in a cell the total amount as per supporting documentation, select the cell with the total amount to be reconciled and press the grey button (containing instruction) at the top of the sheet. The amount selected should appear in the blue ribbon under the title **Macro**. The selected amount would appear automatically in the corresponding reconciliation in sheet **Checks**.

Example:
Populating notes to the financial statement

Notes are prepared to provide further detail into key sections of the financial statements. The notes should have been provided along with the Appendix 1: Questionnaire for information to be completed by the LGU representatives.

As obtained, the notes to the financial statements, i.e. sheets N1-N13, are transferred to the model manually. For description and methodology on how to transfer the Notes to the financial statement into the Financial model, refer to 3.3

Control check for financial statements

General description

The Checks sheet has pre-set reconciliation between the tables in sheets F1-F11, the notes to the financial statements in sheets N1-N13 and the supporting documentation in the Evidence received section in the model. The pre-set reconciliations would serve the user in general guidance on where possible misstatements exist and would assist the user in identifying and correcting the mistakes. It should be noted that some mistakes may appear due to incorrect data provided by the LGU and would not necessarily relate to incorrect completion of the financial model.

The user should not modify the reconciliations within the check list.

Guidance on checking financial statements

In this section the user would assess if the information is transferred correctly from the LGU financial statement template to the model.

Since the model allows the user to have automatic checking depending on the availability of information, the first step in using the automatic checks would be setting the reporting date. In case the user obtains information for 2014 in Forms 1 to 3, however the rest of the tables (F4 to F9) are completed with information regarding the previous reporting period, say FY 2013, then the leading reconciliations would be for FY 2013. The user would receive information in the blue ribbon at the top of each sheet on errors – either “All checks ok” or “Reconciliation error”.

Go to sheet Checks and assess if the supporting documentation reference date is set correctly (Cell E7). For example, if the information in Forms 4 to 9 and the notes refer to the current reporting period, say 30 June 2015, the user should type 30 Jun 2015 in cell E7.

The next step would be to review on the amount of reconciliation error in cell I9. Even if the reconciliation error is 0, the user should confirm that the sums of the elements in the individual checks correspond to the ones in the financial statements and the data provided by the LGU. For example the user should observe if the amount of total assets quoted row 16 corresponds to the total amount as per sheet F1 and as per the financial statement template provided by the LGU. This should be done for all items to confirm the consistent input in the model.

Example:
Automatic population of the FS templates

This section explains how the automatic population of Forms 1-11 is performed.

Automatic population of FS Template

The Tables in sheets F1-F11 are automatically populated with the historical information as at current and previous reporting period dates. The user should only confirm if data is correctly presented and should not modify formulas or input data into the tables.

The Restated columns, where present in the tables, should be completed manually with the identified adjustments/restatements. For more information, refer to Section 3.4. The Notes to the financial statement, i.e. sheets N1-N13, are not populated automatically and the user should complete the required information in those sheets manually.

Example:

Automatic population of sheet Checks

The Checks sheet is prepared automatically when all data is inputted into the respective locations within the model. It should serve as a general guidance on completeness and consistency of the input data, however the user should address critically all data presented for completeness and correctness.

The user is expected to refer to the sheet Checks at completion of each stage to assess the correctness of the work performed.

The user should not modify the reconciliations within the check list.

Example:
Analyse the evidence obtained to support the completeness and accuracy of Financial Statements

This section explains the basic methodology to consult when analysing the evidence obtained as part of data collection and also provides guidance on how to complete the respective notes and link to the figures presented in the financial statements of the LGU.

The methodology included in this section is based on the suggested procedures described in section 2.2 and it follows the requirements set in the following instructions issued by the Ministry of Finance (“MoF”):

- Directive No.26 dated 26.12.2007 on few changes to the Directive No.14 dated 28.12.2006. Based on our analysis of the accounting and record keeping practices of the Municipality, as well as taking into consideration the above requirements, we have proposed specific adjustments to the FY 2013 financial statements (hereafter “Directive 26”).

The completed notes to the financial statements will be copied to the Due Diligence report, described in section 4. Refer to section 3.6 for a detailed guidance on how to copy these notes.

N1 Fixed assets register

Navigate to sheet N1. Depending on the information provided by LGU, add as many rows between row 17 and row 21 as necessary to fit the data provided. Select the top rows and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows.

Data should be filled in columns B to F, H, and columns Q to T and column V. The user should confirm that the summation formula in the final row sums all the rows containing data in column V.

In the columns X to AA, are presented the categories of assets with the respective code, the respective depreciation method and depreciation rate which are set in Directive No.14 dated 28.12.2006, refer to section II, chapter 1, page 4, paragraph 3.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of fixed assets and fixed assets balances as per sheet F1.

In case of differences, the user should follow up with the LGU as to the nature of the error.

Both intangible and tangible fixed assets are presented at cost in the financial statements, Form 1 Statement of Assets and Form 6 Statement of Fixed Assets' Balance and Changes during the year, in group accounts 20 and 21,23,24,28 respectively.
Accumulated amortization is presented in account number 209 in Form 1, while accumulated depreciation is presented in account number 219.

Changes of accumulated depreciation and amortization are presented in Form 7 Statement of Fixed Assets’ depreciation.

As per Directive 14, work-in-progress projects are presented under account 230 and 231 for Intangible Fixed Assets and Tangible respectively. As soon as the projects are completed, they are transferred to respective fixed assets account.

From the pilot phase, we understand that LGUs do not keep records of the stage of transfer of individual assets, the ownership to which was entrusted to the LGU by the Council of Ministers. It was represented by the LGU officials that major part of the assets subject to transfer are recorded on the LGU financial statements.

In appendix 4, it is presented a short guidance regarding the valuation of assets transferred by the central government that the LGUs should consider when valuing these assets.

example:

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>Category</th>
<th>Category or Location</th>
<th>Purchase Date</th>
<th>Date</th>
<th>Value</th>
<th>Accumulated depreciation</th>
<th>Accumulated Depreciation from 1 Jan 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle (car)</td>
<td>Motor</td>
<td></td>
<td>12/31/2012</td>
<td>100</td>
<td>20,000</td>
<td>10,000</td>
<td>13,000</td>
</tr>
<tr>
<td>Vehicle (truck)</td>
<td>Motor</td>
<td></td>
<td>01/01/2013</td>
<td>80</td>
<td>15,000</td>
<td>7,500</td>
<td>6,500</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>Stationary</td>
<td></td>
<td>11/22/2012</td>
<td>80</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

N2 List of inventory

Navigate to sheet N2. Depending on the information provided by LGU, add as many rows between row 17 and row 22 as necessary to fit the data provided. Select the top rows and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows. Data should be filled in columns C to F and columns H and I. The user should confirm that the summation formula in the final row sums all the rows containing data in column I.

Next the user should check if the information reconciles with the financial statements, table 1 statement of assets, accounts 31-39. Sheet Checks provides a pre-set reconciliation of the total amount of inventory balances as per sheet F1.

In case of differences, the user should follow up with the LGU as to the nature of the error.
At the year end, the difference between total inventory of the current year and the previous year is presented under account 63 in Form 3-1 Statement of Expenses. If the total inventory is larger in the current year, then the balance in account 63 should be negative, and the opposite. For more refer to Directive 14 section II, chapter 2, page 6, paragraph 4.

At the end of the year, in order to prevent the impact of changes in inventory to the year’s result, as per directive 14, LGUs need to make adjustments using account 8423 or 841 and transfer the impact to base fund using the accounts 1011 and 1012. For more details refer to section II, chapter 3, page 12, paragraph 1 of Directive 14.

Example:

N3 Receivables from employees, prepayments and penalties

Navigate to sheet N3. Depending on the information provided by LGU, add as many rows between row 27 and row 88 as necessary to fit the data provided. Select the top rows (row 27) and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows. Data should be filled in columns C,D and columns I to L, starting from row 27. The user should confirm that the summation formula in the final row sums all the rows containing data in column L.

Summarized data should be presented in rows 17-21 and be linked to the data in the table below.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of receivables from employees’ balances as per sheet F1.

In case of differences, the user should follow up with the LGU as to the nature of the error.

Review the breakdown received and presented under this note, understand the nature of these receivables and discuss the aging with the representatives of the LGU in relation to the ability to collect.

Regarding the accounting policy for receivables and also impairment policy, refer to Note 4 Different debtors.

Example:
**N4 Different debtors**

Navigate to sheet N4. Depending on the information provided by LGU, add as many rows between row 16 and row 36 as necessary to fit the data provided. Select the top rows (row 16) and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows. Data should be filled in columns C, D and columns I to L, starting from row 16. The user should confirm that the summation formula in the final row sums all the rows containing data in column L.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of different debtors balances as per sheet F1.

In case of differences, the user should follow up with the LGU as to the nature of the error.

Review the breakdown received and presented under this note, understand the nature of these receivables and discuss the aging with the representatives of the LGU in relation to the ability to collect.

Currently there are no instructions from MoF in relation to impairment of assets. If new instructions are issued, consult their requirements and assess any potential adjustments to be reflected in the restated 2014 figures.

Although Statement of Revenues is prepared on cash basis, as required by the Law No 9936/26.6.2008, ‘On management of budgetary system in the Republic of Albania’, the LGUs are still required to recognize receivables balances and present in their statement of assets.

The instructions in Directive 14 and Directive 26, do not clearly specify were to account for on credit side.

If new instructions or further clarifications are issued, consult their requirements and assess any potential adjustments to be reflected in the restated 2014 figures.

This is applicable to all receivable balances recognized including those presented in note 3 and note 4.

**Example:**

![Example image of a spreadsheet]

Back to main index
**N5 Inheritance act**

Navigate to sheet N5. Data should be filled in the blank cells in columns Q, R, U, V, Y and Z.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of inherited balances as per sheet F1.

In case of differences, the user should follow up with the LGU as to the nature of the error.

Inheritance act is signed between the LGU and the Treasury at the end of each year, confirming the movements in cash.

In more details, this note will provide evidence on the cash balance brought forward from the previous year and also the cash balance at year end, presented in table Statement of Asset under account 520, which is carried forward to the next year. It also provides movements of cash held as guarantee for completion of work, presented in table 2 Statement of Funds and Liabilities under account no 466.

Opening and closing cash balances as per inheritance act should also be reconciled with table 5 Statement of Cash Flows.

---

**N6 Creditors**

Navigate to sheet N6. Depending on the information provided by LGU, add as many rows between row 17 and row 300 as necessary to fit the data provided. Select the top rows (row 17) and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows. Data should be filled in columns C to H and columns M to O, starting from row 17. The user should confirm that the summation formula in the final row sums all the rows containing data in column L.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of creditors’ balances as per sheet F2.

In case of differences, the user should follow up with the LGU as to the nature of the error.

Review the breakdown received and presented under this note, understand the nature of these payables and discuss the reason why they haven’t already been paid.

---

Example:
In relation to the invoices that are overdue in respect to payment date, discuss with the LGU and request them to review the respective contract’s terms and conditions, along with issued invoices and request the LGU to estimate the potential penalties that may be incurred due to the fact that payment is still due. Review the estimated penalties and assess the need to recognize record and present a provision in table 2 Statement of funds and liabilities.

Currently there are no instructions from MoF in relation to recognition, measurement and presentation of provisions. If new instructions are issued, consult their requirements and assess any potential adjustments to be reflected in the restated 2014 figures.

Example:

N7 Expense reconciliation

Navigate to sheet N7. Data should be filled in columns $M$, $N$ and $Q$, starting from row 19.

Next the user should check if the information reconciles with the financial statements. *Sheet Checks* provides a pre-set reconciliation of the total amount of expenses as per *sheet N12 Rec. of FS with Treasury and F3-1*.

In case of differences, the user should follow up with the LGU as to the nature of the error.

This note presents the reconciliation with treasury on cash basis it should reconcile to the signed reconciliation forms.

Refer to *Note 12* for reconciliation between expenses on cash basis presented in *Note 7* and expenses presented in *F3-1 Statement of Expense* on accrual basis.
N8 Revenue reconciliation

Navigate to sheet N8. Data should be filled in columns M, N and P starting from row 16.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of revenue as per sheet F3-2.

In case of differences, the user should follow up with the LGU as to the nature of the error.

This note reconciles revenue as per Treasury report and Form 3-2 Statement of Revenues.

This template includes the reconciliation of the following:
- Total revenue received at bank, which should reconcile to accounts 700-719 in F3-2;
- Other transfers from the government budget - chapter 7, which should reconcile to accounts 720 in F3-2.
- The revenue that is collected by the LGU but it pertains to the government budget; therefore it is transferred to the budget at the end of the year, which should reconcile to account 8420 in F3-1.

Example:

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
<th>Supporting Evidence</th>
<th>Revenue reconciliation</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>700-719</td>
<td>Bank revenue</td>
<td>Revenue reconciliation with Treasury</td>
<td>Total revenue received</td>
<td>Notes</td>
</tr>
</tbody>
</table>

N9 Subsidiaries

Navigate to sheet N9. Depending on the information provided by LGU, add as many rows between row 17 and row 19 as necessary to fit the data provided.

Select the top rows (row 17) and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows. Data should be filled in columns B to I and columns O to R, starting from row 17. The user should confirm that the summation formula in the final row sums all the rows containing data in column R.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of subsidiaries balances as per sheet F1.

In case of differences, the user should follow up with the LGU as to the nature of the error.

Currently there are no instructions from Ministry of Finance (“MoF”) on how to account for Investments in Subsidiaries and it is not clear whether a value for the investments (e.g. in water waste entities) should appear in the assets and how the value should be measured.

If new instructions or further clarifications are issued, consult their requirements and assess any potential adjustments to be reflected in the restated 2014 figures.

Example:
N10 Loans and borrowings

Navigate to sheet N10. Depending on the information provided by LGU, add as many rows between row 17 and row 19 as necessary to fit the data provided. Select the top rows (row 17) and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows. Data should be filled in columns B to I and columns O to R, starting from row 17. The user should confirm that the summation formula in the final row sums all the rows containing data in column R.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of loans and borrowings balances as per sheet F2.

In case of differences, the user should follow up with the LGU as to the nature of the error.

Example:

N11 Donor grants

Navigate to sheet N11. Depending on the information provided by LGU, add as many rows between row 17 and row 19 as necessary to fit the data provided. Select the top rows (row 17) and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows. Data should be filled in columns B to I and columns N to P, starting from row 17. The user should confirm that the summation formula in the final row sums all the rows containing data in column R.

Next the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of donor grants as per sheet F3-2.

In case of differences, the user should follow up with the LGU as to the nature of the error.

Special care should be taken to reconcile the N11 with information in F3-2 and F8.

Example:
Navigating the process:

**N12 Rec. of FS to Treasury**

Navigate to sheet N12. Depending on the information provided by LGU, add as many rows between row 17 and row 19 as necessary to fit the data provided. Select the top rows (row 17) and then extend the selection to include all the rows up to the “Total” row. Press Ctrl+D to populate the formulas across the new rows. Data should be filled in columns B to I and columns N to P, starting from row 17. The user should confirm that the summation formula in the final row sums all the rows containing data in column R.

Next, the user should check if the information reconciles with the financial statements. Sheet Checks provides a pre-set reconciliation of the total amount of expenses as per sheet N7.

In case of differences, the user should follow up with the LGU as to the nature of the error.

The template presented in this note, reconciles expenses on cash basis presented in note 7 (and treasury report) and expenses presented in F3-1 Statement of Expense on accrual basis. It is also applicable to capital expenditures. This reconciliation template was suggested by Star team, to assist the LGUs in correctly accounting for accruals and ensure completeness of liabilities and expenses.

Liabilities in this template are split into Outstanding Liabilities and Unsettled Invoices. Refer to Directive 28, dated 18.12.2014, for more details on the above.

**Example:**

```
<table>
<thead>
<tr>
<th>Capital expenditure type</th>
<th>Description</th>
<th>Balance at start of year</th>
<th>Balance at end of year</th>
<th>Increase/ Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>301</td>
<td>Notes &amp; warranty</td>
<td>0</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>302</td>
<td>Interest, interest, other similar income</td>
<td>0</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>303</td>
<td>Expense in excess of turnover</td>
<td>0</td>
<td>1,500</td>
<td>1,500</td>
</tr>
</tbody>
</table>
```

**N13 Template for trial balance**

This template contains the full list of accounts as per approved chart of accounts by the Ministry of Finance, and could be used as a Trial Balance by the LGUs.
7.3 Perform accounting adjustments, reflect them into the restated figures and check for coherence

Navigate to the sheet Summary of adjustments. In this sheet are presented in a table all envisaged adjustments that have been identified during the process, along with supporting explanations, accounting operations, type of adjustment and the corresponding financial statement to be affected by it.

Adjustments may arise due to erroneous interpretation of the guidance on completion of the financial statements or due to inconsistent application of the guidance. In both cases, the user should propose adjustments in order to meet the guidance on financial reporting for the identified misstatements.

The user should prepare detailed description of the misstatements identified and include them at the beginning of each section in the table in column C. Following the description, the user should prepare accounting entries regarding the adjusting entry for the identified misstatement using Debit and Credit accounts and include the amounts (in reporting currency) in columns F and H. In column E the user should fill in the type of adjustment as per description. In Column J are filled in the names of the affected financial statements.

Following the detailed description of the misstatement and adjusting entries in the table, the user should apply the adjustments in the corresponding statements in the financial model. Sheets F1, F2, F3-1, F3-2 and F8 contain “Restated” sections in which the user would insert the adjustments. It is advised to use formulas to equate the unaffected figures from the unadjusted column, i.e. if assets are not affected, write a formula to equal the assets of the restated statement to the assets of the non-restated one. For the accounts which are affected by adjustments, the user should prepare a formula using the unadjusted balance and then subtracting the adjustment as per sheet Summary of adjustments.

At each adjusting entry the user should revisit the Checks sheet and observe the reconciliations in the “Restated” column to assess if the statements affect the coherence of the statements. In case the adjustments affects the coherence of the statements, the user should correct the restatement or reassess the adjusting entry.

Example:
**Review checks for coherence and enquire the LGU with regard to reconciliation errors, if any**

Go to sheet *Checks*. In this sheet are pre-set basic reconciliations to track for consistency of the information. The user should follow the reconciling difference and investigate to the nature of the error – whether it is a result of incorrect input of data or inconsistencies in the data as provided by the LGU.

In case the inconsistencies are related to the quality of information as provided by the LGU, the team should follow up further with the LGU’s representatives.

**Copying Forms to report**

Select the respective Form in the Financial model starting from the cell containing “*(Amounts in ALL’000, unless otherwise stated)*”. Ensure you have selected only the data you need, i.e. omit unnecessary columns, show/hide columns with the desired language/undesired language.

Copy the Form and paste it in the respective section in the Due diligence report. At the top right-hand side of the table right-click the grey selection box and from the drop down menu go to *AutoFit* and select *AutoFit* to window (for visual description, refer to the figures presented after the section).

Select the top rows containing column headings, right-click on the selection and go to *Table Properties*. In the *Row* tab select the option “Repeat as a header row at the top of each page”. This should allow the table to have column headings across other pages automatically (for visual description, refer to the figures presented after the section).

Check for consistency of the content in the Due diligence report and the financial model, and if necessary delete the table and repeat the steps.

Here follow detailed examples on how to format the tables.

---

Example on selecting the table in word:

```
Table 1: Balance Sheet – Statement of Assets

The statement of assets is prepared on actual basis and it includes non-current and current assets, cash balance and receivable balance.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount (IN ALL'000)</th>
<th>Notes</th>
<th>Apr 15th 2015</th>
<th>Apr 14th 2015 (Revised)</th>
<th>Apr 16th 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1b.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. A.</td>
<td>2a.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>9.6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>9.6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>9.6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>9.6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>9.6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>9.6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>9.6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>9.6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Table image]
```
Example on using auto-fit:

Example on selecting Table properties:

Example on using making the heading rows repeat across the pages:
7.4 Analyse the financial statement

This step provides detailed guidance in completing the due diligence report template, provided in Appendix 7.

Recent Financial performance

On the left side of the page, copy the table from sheet “Financial performance” within the Financial Model.

In the empty section to the right, prepare an analysis on the sources of funds, outlining the main sources and their participation.

As per the table populated in the financial model, the sources of funds are split in the following four categories:

- Conditional government grant
- Unconditional government grant
- Own source revenues
- Participation of institution in national taxes

On the next page, prepare an analysis on how the LGU has spent its funds during the financial year. The following main categories of expenses are presented on the table:

- Capital investments
- Wages and salaries
- Goods and services
- Subsidies and transfers

Example:

1 Finance function and performance

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conditional government grant</td>
<td>38,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Unconditional government grant</td>
<td>25,000</td>
<td>22,000</td>
</tr>
<tr>
<td>Own source revenues</td>
<td>12,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Participation of institution in national taxes</td>
<td>9,000</td>
<td>7,000</td>
</tr>
<tr>
<td><strong>Total of funds</strong></td>
<td><strong>84,000</strong></td>
<td><strong>84,000</strong></td>
</tr>
</tbody>
</table>

Cash of LGU:

- **Revenue earned by government:** Y2 40,000
- **Revenue earned by LGU:** Y2 10,000
- **Current deficit:** Y2 (30,000)

Further details on revenue is presented in Table 3.1: Statement of Revenue.
Identified weaknesses in accounting processes

In this section, summarize all the findings noted from the analysis on the financial statements and the supporting notes. This section should be completed Present the findings in the following categories:

- Unclear MoF instructions regarding reporting and budgeting

Present in this section the analysis of issues identified related to unclear instructions for reporting and budgeting, if any.

- The financial statements are not supported by comprehensive sets of data

Present in this section the analysis of issues identified related to record keeping and supporting documentation, if any.

Example:

- Several control weaknesses were identified during process walkthroughs

Present in this section the analysis of control weaknesses identified, if any.

Example:
Financial statements

This section of the due diligence report presents the financial statements *Forms 1 to 11* of the LGU, including the approach, the proposed adjustments and separate analysis of each of the tables.

Every adjustment made and presented in the restated figures should be explained in each section, including the cause of the error requiring an adjustments and how this adjustment impacts the various tables of the financial statements.

Approach to presentation

Describe the approach to presentation of Financial Statements, including the references to the legislation requirements. Consider referring to the following laws and directives:

- Directive 29 dated 24.12.2013 “ For closing procedures of budget annual accounts for 2013”, and
- Directive No.26 dated 26.12.2007 on few changes to the Directive No.14 dated 28.12.2006. Based on our analysis of the accounting and record keeping practices of the Municipality, as well as taking into consideration the above requirements, we have proposed specific adjustments to the FY 2013 financial statements.

In this section, copy the “Summary of adjustments” table from the financial model, which should contain the following types of adjustments:

- Policy Modification ("PM"), where we have observed inconsistent or erroneous application of the policies and instructions;
- Reclassifications ("RE"), where we have identified misclassifications between the different categories and accounts; and
- Omissions ("OM"), where we have identified transactions which have not been recorded on the financial statements at all.

Note that these adjustments should be reflected below in the restated figures of the respective financial statement *Forms 1 to 11*.

Example:

<table>
<thead>
<tr>
<th>Table II. Summary of adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period:</td>
</tr>
<tr>
<td>FY 2013</td>
</tr>
<tr>
<td>FY 2014</td>
</tr>
</tbody>
</table>

64
Form 1: Balance Sheet - Statement of Assets

The Statement of Assets, prepared on accrual basis, presents the assets of the LGU including non-current and current assets, cash balances and receivable balances, mainly in relation to taxes and tariffs charged to various businesses and citizens.

Copy the Balance Sheet - Statement of Assets table from the Financial Model sheet F1, to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 1, pages 13-14.

Example:

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Assets (amounts in ALL, unless otherwise stated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.12.201</td>
</tr>
<tr>
<td>2</td>
<td>2.13.201</td>
</tr>
</tbody>
</table>

Form 2: Balance Sheet - Statement of Fund and Liabilities

The Statement of Fund and Liabilities, prepared on accrual basis, presents the own funds and liabilities of the LGU. The year-on-year movements on the Municipality’s own funds, are presented in more details in Form 8 – Statement of Changes in Funds.

Copy the Statement of Fund and Liabilities table from the Financial Model sheet F2, to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 2, pages 15-17. For detailed instructions on few specific accounts about own fund and capital grants, refer to Directive 14 section II, chapter 2, pages 4-6.

Example:

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Liabilities (amounts in ALL, unless otherwise stated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>3.14.201</td>
</tr>
<tr>
<td>4</td>
<td>4.15.201</td>
</tr>
</tbody>
</table>

Table 2: Balance Sheet - Statement of Fund and Liabilities
Statement of Fund and Liabilities is prepared on accrual basis and presents the own funds and liabilities of the Municipality.

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Liabilities (amounts in ALL, unless otherwise stated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>5.16.201</td>
</tr>
<tr>
<td>6</td>
<td>6.17.201</td>
</tr>
</tbody>
</table>

Table 3: Balance Sheet - Statement of Changes in Funds
Statement of Changes in Funds summarizes the year-on-year movements on the Municipality’s own funds.

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Changes in Funds (amounts in ALL, unless otherwise stated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>7.18.201</td>
</tr>
<tr>
<td>8</td>
<td>8.19.201</td>
</tr>
</tbody>
</table>

Table 4: Balance Sheet - Statement of Capital Grants
Statement of Capital Grants summarizes the year-on-year movements on the Municipality’s capital grants.

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Capital Grants (amounts in ALL, unless otherwise stated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>9.20.201</td>
</tr>
<tr>
<td>10</td>
<td>10.21.201</td>
</tr>
</tbody>
</table>

Appendix:

Appendix A - Guidelines on Local Government Unit Due Diligence

Appendix B - Financial Model sheet F1

Appendix C - Financial Model sheet F2
Form 3-1: Statement of Expenses

Statement of Expenses is prepared on accrual basis, as required by the Law No 9396/26.6.2008, ‘On management of budgetary system in the Republic of Albania’.

Copy the Statement of Expenses table from the Financial Model sheet F3-1 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 3, pages 17-18.

Example:

Table 3-1: Statement of Expenses

<table>
<thead>
<tr>
<th>Account</th>
<th>Description of Expenses</th>
<th>Notes FY 2014</th>
<th>FY 2013</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Office Use</td>
<td>-</td>
<td>107,900</td>
<td>127,900</td>
</tr>
<tr>
<td>2</td>
<td>Services purchased</td>
<td>-</td>
<td>20,583</td>
<td>20,804</td>
</tr>
<tr>
<td>3</td>
<td>Other recurrent expenses</td>
<td>-</td>
<td>25,893</td>
<td>26,024</td>
</tr>
<tr>
<td>4</td>
<td>Property, plant and equipment</td>
<td>-</td>
<td>2,939</td>
<td>2,950</td>
</tr>
<tr>
<td>5</td>
<td>Other</td>
<td>-</td>
<td>9,973</td>
<td>9,721</td>
</tr>
<tr>
<td>6</td>
<td>Goods</td>
<td>-</td>
<td>7,221</td>
<td>2,211</td>
</tr>
<tr>
<td>7</td>
<td>Services provided by the state</td>
<td>-</td>
<td>1,541</td>
<td>1,491</td>
</tr>
<tr>
<td>8</td>
<td>Other expenses</td>
<td>-</td>
<td>47,723</td>
<td>47,723</td>
</tr>
<tr>
<td>9</td>
<td>Special services</td>
<td>-</td>
<td>2,042</td>
<td>2,009</td>
</tr>
<tr>
<td>10</td>
<td>Services from third party</td>
<td>-</td>
<td>5,049</td>
<td>5,068</td>
</tr>
<tr>
<td>11</td>
<td>Services from third party</td>
<td>-</td>
<td>4,128</td>
<td>4,128</td>
</tr>
<tr>
<td>12</td>
<td>Special services</td>
<td>-</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>13</td>
<td>Goods</td>
<td>-</td>
<td>1,031</td>
<td>1,015</td>
</tr>
<tr>
<td>14</td>
<td>Goods</td>
<td>-</td>
<td>3,455</td>
<td>3,455</td>
</tr>
<tr>
<td>15</td>
<td>Services provided by the state</td>
<td>-</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>16</td>
<td>Services from third party</td>
<td>-</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>17</td>
<td>Goods</td>
<td>-</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Form 3-2: Statement of Revenues

Statement of Revenues is prepared on cash basis, as required by the Law No 9396/26.6.2008, ‘On management of budgetary system in the Republic of Albania’.

Copy the Statement of Revenues table from the Financial Model sheet F3-2 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 4, pages 19-21. For detailed instructions on few specific revenue accounts, refer to Directive 14 section II, chapter 2, pages 7-9.

Example:

Table 3-2: Statement of Revenues

<table>
<thead>
<tr>
<th>Account</th>
<th>Description of Revenues</th>
<th>Notes FY 2014</th>
<th>FY 2013</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Income from trade</td>
<td>-</td>
<td>14,792</td>
<td>16,720</td>
</tr>
<tr>
<td>2</td>
<td>Income from fees for government services</td>
<td>-</td>
<td>4,971</td>
<td>4,771</td>
</tr>
<tr>
<td>3</td>
<td>Income from property</td>
<td>-</td>
<td>4,772</td>
<td>4,772</td>
</tr>
<tr>
<td>4</td>
<td>Income from other sources</td>
<td>-</td>
<td>4,493</td>
<td>4,493</td>
</tr>
<tr>
<td>5</td>
<td>Income from property</td>
<td>-</td>
<td>2,240</td>
<td>2,240</td>
</tr>
<tr>
<td>6</td>
<td>Income from other sources</td>
<td>-</td>
<td>2,212</td>
<td>2,212</td>
</tr>
<tr>
<td>7</td>
<td>Income from other sources</td>
<td>-</td>
<td>4,060</td>
<td>3,960</td>
</tr>
<tr>
<td>8</td>
<td>VAT</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Special taxes</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Other taxes</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>Income from other sources</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Income from other sources</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>Income from other sources</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>14</td>
<td>Income from other sources</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

For detailed instructions on few specific revenue accounts, refer to Directive 14 section II, chapter 2, pages 7-9.
Form 4: Funds and Expenses Related to Investments

Funds and expenses related to investments present all capital expenditure items under construction that are not completed and transferred to Fixed Assets yet.

Copy the Funds and Expenses Related to Investments table from the Financial Model sheet F4 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapters 3-6, pages 22-23 and Directive 26, pages 3-4

For detailed instructions on few specific accounts about own fund and capital grants, refer to Directive 14 section II, chapter 2, pages 4-6.

Example:

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Description</th>
<th>Opening Balance 31 Dec 2015</th>
<th>Transaction during the year</th>
<th>Closing Balance 31 Dec 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Source of funds</td>
<td>-</td>
<td>2,300</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Acquired capital grants</td>
<td>20,000</td>
<td>2,300</td>
<td>20,200</td>
</tr>
<tr>
<td>6</td>
<td>New franchise contracts</td>
<td>20,200</td>
<td>2,300</td>
<td>20,200</td>
</tr>
<tr>
<td>7</td>
<td>New franchise contracts</td>
<td>20,200</td>
<td>2,300</td>
<td>20,200</td>
</tr>
<tr>
<td>8</td>
<td>Acquired capital grants</td>
<td>20,200</td>
<td>2,300</td>
<td>20,200</td>
</tr>
<tr>
<td>9</td>
<td>New franchise contracts</td>
<td>20,200</td>
<td>2,300</td>
<td>20,200</td>
</tr>
<tr>
<td>10</td>
<td>New franchise contracts</td>
<td>20,200</td>
<td>2,300</td>
<td>20,200</td>
</tr>
</tbody>
</table>

Form 5: Statement of Cash Flows

Statement of Cash Flows presents the cash movement during the year, including the opening cash balance, brought forward from the previous year and the cash balance at year end, carried forward to the next year.

Copy the Statement of Cash Flows table from the Financial Model sheet F5 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 7, pages 23-24.

Example:

Table 5: Statement of Cash Flows
Statement of Cash Flows presents the cash movement during the year, including the opening cash balance, brought forward from the previous year and the cash balance at year end, carried forward to the next year.

<table>
<thead>
<tr>
<th>Description</th>
<th>Opening Balance</th>
<th>Net Cash Flow</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operating balance</td>
<td>20,200</td>
<td>-</td>
<td>20,200</td>
</tr>
<tr>
<td>2. Cash flow from operating activities</td>
<td>20,200</td>
<td>-</td>
<td>20,200</td>
</tr>
<tr>
<td>3. Net increase (decrease) in cash</td>
<td>20,200</td>
<td>-</td>
<td>20,200</td>
</tr>
<tr>
<td>4. Net increase (decrease) in cash</td>
<td>20,200</td>
<td>-</td>
<td>20,200</td>
</tr>
<tr>
<td>5. Net increase (decrease) in cash</td>
<td>20,200</td>
<td>-</td>
<td>20,200</td>
</tr>
<tr>
<td>6. Net increase (decrease) in cash</td>
<td>20,200</td>
<td>-</td>
<td>20,200</td>
</tr>
</tbody>
</table>

Example:
Form 6: Statement of Fixed Assets' Balance and Changes during the year

This Statement of Fixed Assets' Balance and Changes during the year presents all the changes to tangible and intangible non-currents assets during the year, measured at cost.

Copy the Statement of Fixed Assets' Balance and Changes during the year table from the Financial Model sheet F6 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 8, page 24.

Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Operating balance</th>
<th>Additions during the year</th>
<th>Decrease during the year</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Intangible</td>
<td></td>
<td></td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>2</td>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Form 7: Statement of Fixed Assets' depreciation

This statement presents all the changes during the year to accumulated depreciation of tangible and intangible non-currents assets, including the depreciation charges for the respective additions and disposals.

Copy the Statement of Fixed Assets' depreciation table from the Financial Model sheet F7 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 9, pages 24-25.

Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Operating accumulated depreciation at the start</th>
<th>Additions during the year</th>
<th>Decrease during the year</th>
<th>Closing accumulated depreciation at the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Intangible</td>
<td>10,000</td>
<td></td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>2</td>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comments:
The balances of accumulated depreciation and amortization presented in the table above, are reconciled to the figures presented in table 1 Statement of Assets.
Form 8: Statement of Changes in Fund

The Statement of Changes in Fund presents all the fixed assets additions, disposals, and depreciation charge for the year and all other changes that impact the LGU’s fund.

Copy the Statement of Changes in Fund table from the Financial Model sheet F8 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 10, page 25.

Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Account Number</th>
<th>Description</th>
<th>Opening balances (31 Dec 14)</th>
<th>Revised</th>
<th>Closing balances (31 Dec 15)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Credit</td>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>1</td>
<td>101</td>
<td>STATE FUND</td>
<td>$500,000</td>
<td>$100,000</td>
<td>$610,000</td>
</tr>
<tr>
<td>2</td>
<td>100A</td>
<td>State of the fund</td>
<td>$300,000</td>
<td>$200,000</td>
<td>$500,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>101A</td>
<td>Administrative expenses</td>
<td>-</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>4</td>
<td>102</td>
<td>Decrease in fund</td>
<td>-</td>
<td>$300,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>5</td>
<td>100B</td>
<td>Decrease in non-fund revenue</td>
<td>-</td>
<td>$500,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>6</td>
<td>100C</td>
<td>Decrease in other revenue</td>
<td>-</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>7</td>
<td>100D</td>
<td>Decrease in non-fund expenses</td>
<td>-</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>8</td>
<td>100E</td>
<td>Decrease in non-fund expenses</td>
<td>-</td>
<td>$500,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>9</td>
<td>100F</td>
<td>Decrease in non-fund expenses</td>
<td>-</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>10</td>
<td>100G</td>
<td>Decrease in non-fund expenses</td>
<td>-</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>11</td>
<td>100H</td>
<td>Decrease in non-fund expenses</td>
<td>-</td>
<td>$500,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>12</td>
<td>100I</td>
<td>Decrease in non-fund expenses</td>
<td>-</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>13</td>
<td>100J</td>
<td>Decrease in non-fund expenses</td>
<td>-</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Form 9: Statement of number of employees and personnel expenses

This statement presents information about number of employees per different positions, with respective salary and other related expenses.

Copy the Statement of number of employees and personnel expenses table from the Financial model sheet F9 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

For detailed instructions on completing this table, refer to Directive 14 section III, chapter 11, pages 25-26.

Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Category</th>
<th>Employee category</th>
<th>Number of employees</th>
<th>Total salary</th>
<th>Additional benefits</th>
<th>Social and health insurance</th>
<th>Other benefits</th>
<th>Income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Directors</td>
<td>High level designation</td>
<td>5</td>
<td>$50,000</td>
<td>5,000</td>
<td>15</td>
<td>20</td>
<td>2,000</td>
</tr>
<tr>
<td>2</td>
<td>Teachers</td>
<td></td>
<td>10</td>
<td>$20,000</td>
<td>2,000</td>
<td>30</td>
<td>40</td>
<td>4,000</td>
</tr>
<tr>
<td>3</td>
<td>Clerical</td>
<td></td>
<td>5</td>
<td>$15,000</td>
<td>1,500</td>
<td>10</td>
<td>12</td>
<td>1,200</td>
</tr>
</tbody>
</table>

Example:
Notes to the financial statements

Notes to the financial statement are presented in the Appendices section of the due diligence report. Below follows a detailed instruction on completion of this section of the report.

Note 1: Fixed assets register

Fixed assets register presents detailed information of the fixed assets of the LGU, including the following:

- Historical cost, presented in F1 Statement of Assets and F6 Statement of Fixed Assets' Balance and Changes during the year
- Accumulated depreciation, presented in F1 Statement of Assets and F7: Statement of Fixed Assets' depreciation
- Depreciation charge for the year, presented in F7: Statement of Fixed Assets' depreciation

Copy the Fixed assets register table from the Financial Model sheet N1 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>Category</th>
<th>Location</th>
<th>Purchase Date</th>
<th>Depreciation</th>
<th>Days</th>
<th>Unit Price</th>
<th>Cost</th>
<th>Accumulated Depreciation</th>
<th>1 Jan 2013</th>
<th>Depreciation for Year 2013</th>
<th>31 Dec 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>123</td>
<td>4</td>
<td>123</td>
<td>123</td>
<td>123</td>
<td>123</td>
<td>123</td>
<td>123</td>
<td>123</td>
<td>123</td>
<td>123</td>
<td>123</td>
</tr>
<tr>
<td>456</td>
<td>7</td>
<td>456</td>
<td>456</td>
<td>456</td>
<td>456</td>
<td>456</td>
<td>456</td>
<td>456</td>
<td>456</td>
<td>456</td>
<td>456</td>
</tr>
<tr>
<td>789</td>
<td>9</td>
<td>789</td>
<td>789</td>
<td>789</td>
<td>789</td>
<td>789</td>
<td>789</td>
<td>789</td>
<td>789</td>
<td>789</td>
<td>789</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Consumer:

We were not provided with a completed detailed Fixed Assets Register. A sample template of a fixed asset register is presented above.
Note 2: List of inventory

List of inventory presents a breakdown of the inventory balances of the LGU, presented in F1 Statement of Assets.

Copy the List of inventory table from the Financial Model sheet N2 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

Note 2: List of Inventory [template]
The note presents a detailed breakdown of inventory balances.

<table>
<thead>
<tr>
<th>Account number</th>
<th>Balance as at 31 Dec 2014</th>
<th>Balance as at 31 Dec 2015</th>
<th>Balance as at 31 Dec 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>2</td>
<td>200</td>
<td>300</td>
<td>400</td>
</tr>
<tr>
<td>3</td>
<td>300</td>
<td>400</td>
<td>500</td>
</tr>
<tr>
<td>Total</td>
<td>800</td>
<td>900</td>
<td>1000</td>
</tr>
</tbody>
</table>

Example:

Note 3: Receivables from employees, prepayments and penalties

Receivables from employees, prepayment and penalties presents the breakdown of these receivables balances of the LGU, presented in F1 Statement of Assets.

Copy the breakdown of these receivables from the Financial Model sheet N3 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:
Note 4: Different debtors
List of debtors presents the breakdown of debtors’ balances of the LGU
Copy the Different debtors table from the Financial Model sheet N4 to this section of the report.
Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

Note 5: Inheritance Act
Inheritance act presents the breakdown of inherited balances of the LGU, and is a document that is prepared at year end and is signed by both LGU and the Treasury.
Copy the Inheritance Act table from the Financial Model sheet N5 to this section of the report.
Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:
Note 6: Detailed list of outstanding creditor invoices

Detailed list of outstanding creditor invoices presents a breakdown of outstanding payable balances of the LGU.

Copy the Detailed list of outstanding creditor invoices table from the Financial Model sheet N6 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

<table>
<thead>
<tr>
<th>No</th>
<th>Creditor</th>
<th>Originating Date</th>
<th>Payment Date</th>
<th>Overdue (Y/N)</th>
<th>Amount as per invoice (yen)</th>
<th>Estimated penalty (if applicable)</th>
<th>Balance as of 31 Dec 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Name 1</td>
<td>17-01-2012</td>
<td></td>
<td></td>
<td>1,086</td>
<td>0</td>
<td>1,086</td>
</tr>
<tr>
<td>2</td>
<td>Name 2</td>
<td>27-02-2013</td>
<td></td>
<td></td>
<td>2,214</td>
<td>0</td>
<td>2,214</td>
</tr>
<tr>
<td>3</td>
<td>Name 3</td>
<td>27-03-2013</td>
<td></td>
<td></td>
<td>4,214</td>
<td>0</td>
<td>4,214</td>
</tr>
<tr>
<td>4</td>
<td>Name 4</td>
<td>27-04-2013</td>
<td></td>
<td></td>
<td>7,214</td>
<td>0</td>
<td>7,214</td>
</tr>
<tr>
<td>5</td>
<td>Name 5</td>
<td>27-05-2013</td>
<td></td>
<td></td>
<td>10,214</td>
<td>0</td>
<td>10,214</td>
</tr>
<tr>
<td>6</td>
<td>Name 6</td>
<td>27-06-2013</td>
<td></td>
<td></td>
<td>13,214</td>
<td>0</td>
<td>13,214</td>
</tr>
<tr>
<td>7</td>
<td>Name 7</td>
<td>27-07-2013</td>
<td></td>
<td></td>
<td>16,214</td>
<td>0</td>
<td>16,214</td>
</tr>
<tr>
<td>8</td>
<td>Name 8</td>
<td>27-08-2013</td>
<td></td>
<td></td>
<td>19,214</td>
<td>0</td>
<td>19,214</td>
</tr>
<tr>
<td>9</td>
<td>Name 9</td>
<td>27-09-2013</td>
<td></td>
<td></td>
<td>22,214</td>
<td>0</td>
<td>22,214</td>
</tr>
<tr>
<td>10</td>
<td>Name 10</td>
<td>27-10-2013</td>
<td></td>
<td></td>
<td>25,214</td>
<td>0</td>
<td>25,214</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>138,000</td>
<td>0</td>
<td>138,000</td>
</tr>
</tbody>
</table>

Comment:
The list of payables is summarised and presented on an invoice basis, showing the balance of the larger 10 items. Detailed list, including names of creditors, is available in electronic form.

Star Project
Guidelines on Local Government Unit Due Diligence
April 2015

Note 7: Expenses reconciliation [cash basis; Treasury vs. LGU bank book]

Expenses reconciliation presents the reconciliation between the Treasury information and the bank book of the LGU.

Copy the Expenses reconciliation table from the Financial Model sheet N7 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

<table>
<thead>
<tr>
<th>Group Description</th>
<th>Balance as per Treasury</th>
<th>Balance as per LGU’s supporting documents</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>001 Expenditure (excluding salaries)</td>
<td>1,000</td>
<td>1,000</td>
<td>0</td>
</tr>
<tr>
<td>002 Salaries and wages</td>
<td>500</td>
<td>500</td>
<td>0</td>
</tr>
<tr>
<td>003 Capital expenditures</td>
<td>200</td>
<td>200</td>
<td>0</td>
</tr>
<tr>
<td>004 Transfer of funds to other accounts</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>005 Transfer of funds to other LGUs</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>006 Transfer of funds to foreign governments</td>
<td>20</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>007 Total</td>
<td>2,000</td>
<td>2,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Comment:
No difference in reconciliation of expenses between Treasury and the LGU accounting records.
Note 8: Revenue reconciliation

Revenue reconciliation presents the reconciliation of revenue between Treasury and the LGU.

Copy the Revenue reconciliation table from the Financial Model sheet N8 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

### Note 8: Revenue reconciliation

<table>
<thead>
<tr>
<th>Account number</th>
<th>Description</th>
<th>Total revenue received at banks</th>
<th>Total revenue transferred to LGU</th>
<th>Total revenue transferred to budget</th>
<th>Total revenue transferred to LGU</th>
<th>Total revenue transferred to budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>Total</td>
<td>4,187</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
</tr>
<tr>
<td>101</td>
<td>Total</td>
<td>4,187</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
</tr>
<tr>
<td>102</td>
<td>Local share of Municipal Revenue</td>
<td>4,187</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
</tr>
<tr>
<td>103</td>
<td>Local share of Provincial Revenue</td>
<td>4,187</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
</tr>
<tr>
<td>104</td>
<td>Local share of National Revenue</td>
<td>4,187</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
<td>2,192</td>
</tr>
</tbody>
</table>

This note presents breakdown and other detail of investments in subsidiaries including the carrying value of these investments at year end.

Copy the Subsidiaries table from the Financial Model sheet N9 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

### Note 9: Subsidiaries

<table>
<thead>
<tr>
<th>Year of establishment</th>
<th>Year of acquisition</th>
<th>% of ownership</th>
<th>Total equity</th>
<th>Share of net profit</th>
<th>Carrying value of investment at 30 Dec 20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2003</td>
<td>54.9%</td>
<td>12,123</td>
<td>4,123</td>
<td>8,123</td>
</tr>
</tbody>
</table>

Total investment in subsidiaries: 8,123

Comment:

The subsidiary Uyugnono Ltd is subject to the requirements for consolidation in the financial statements of Uyugnono. There are no instructions from Ministry of Finance on how to account for Investments in Subsidiaries and it is not clear whether a value for the investments (e.g. in fixed assets) should appear in the notes and how the value should be measured.

Note: The values in the above tables are illustrative and may not reflect actual figures.
Note 10: Loans and borrowings

Loans and borrowings note presents detailed information about each loan or borrowing that the LGU has an outstanding liability for.

Copy the Loans and borrowings table from the Financial Model sheet N10 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

<table>
<thead>
<tr>
<th>Note 10: Loans and borrowings</th>
</tr>
</thead>
<tbody>
<tr>
<td>The note presents a breakdown and description of outstanding loans and borrowings.</td>
</tr>
<tr>
<td>Supporting evidence: Loans and borrowings</td>
</tr>
<tr>
<td><strong>Type of Facility</strong></td>
</tr>
<tr>
<td>Total loans and borrowings:</td>
</tr>
</tbody>
</table>

Comments:
According to the representation of the Finance director of the LGU, there are no loans and borrowings.

Note 11: Donor grants

Donor grants presents a breakdown of outstanding grants balances of the LGU.

Copy Donor grants table from the Financial Model sheet N11 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

<table>
<thead>
<tr>
<th>Note 11: Donor Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>The note presents a breakdown of outstanding donor grants.</td>
</tr>
<tr>
<td>Supporting evidence: Donor grants</td>
</tr>
<tr>
<td><strong>Type of Facility</strong></td>
</tr>
<tr>
<td>Total grants:</td>
</tr>
</tbody>
</table>

Comments:
According to the representation of the Finance director of the LGU, there are no donor grants.
Budget FY 2015

This section presents the budget as prepared by the LGU.

Copy the Budget table from the Financial Model sheet Budget FY 2015 to this section of the report.

Below the table in the grey box area in the report, comment about any deviations to accounting policies, errors and any differences identified when comparing to supporting documentation.

Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Total Budget</th>
<th>From Grant</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Municipal Services Administration</td>
<td>2,000</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>General capital development</td>
<td>1,000</td>
<td>0</td>
<td>1,000</td>
</tr>
<tr>
<td>9</td>
<td>General operating expenses</td>
<td>3,000</td>
<td>3,000</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Civil Contingency Fund</td>
<td>500</td>
<td>500</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Authority for families in need</td>
<td>500</td>
<td>500</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Reserve Fund</td>
<td>500</td>
<td>500</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Annual budget for items</td>
<td>500</td>
<td>500</td>
<td>0</td>
</tr>
</tbody>
</table>

7.5 Prepare documents for transfer of rights and obligations

At this stage, the user should use the information gathered to prepare the required information as per the agreed procedure for transfer of rights and obligations from the LGU to the new Municipality. The Notes to the financial statements, presented in Appendix 6 and completed by the LGU, should be considered as a relevant source of information in this respect.
8 Consolidation

8.1 Summarise stand-alone fixed asset registers and proceed with valuation

At this stage all individual lists of fixed assets prepared by the individual LGUs are to be summarized and prepared for handling to the valuation teams. The process of summarizing the lists should reflect the anticipated new structure and the new municipality.

The lists of fixed assets should contain information as at 31 December 2014 as suggested in the “Summary of expected documents, reports and deliverables for LGU due diligence” in the beginning of the present guidelines. Note that 31 December 2014 is an indicative date and another date can be decided subject to amendments of legal and sublegal acts to be issued on the Amalgamation process.

Indicative valuation methodology guidance is presented in Appendix 8. These process can be applied either on a central level (for all LGUs) or at local level by each LGU.

8.2 Reflect valuation results in stand-alone financial statements and the Financial model

Once valuation results become available, these need to be reflected in the in the stand-alone financial statements of the LGUs.

As a first step the values of the fixed assets lists have to be adjusted to bring asset values in line with valuation results.

The total adjustment by category of fixed assets has to be reflected in the individual accounts in the Summary of adjustments in the stand-alone financial model of the LGUs.

Navigate to the sheet Summary of adjustments. In this sheet are presented in a table all envisaged adjustments that have been identified during the process, along with supporting explanations, accounting operations, type of adjustment and the corresponding financial statement to be affected by it.

The user should clearly indicate that the adjustments to respective accounts in fixed assets and own funds aim to reflect the valuation results and include such a section in the table in column C. Following the description, the user should prepare accounting entries regarding the adjusting entries using Debit and Credit accounts and include the amounts (in reporting currency) in columns F and H. In column E the user should fill in the type of adjustment as per description. In Column J are filled in the names of the affected financial statements.

Following the detailed description of the adjusting entries in the table, the user should apply the adjustments in the corresponding statements in the financial model. Sheets1, 2 and 8 contain “Restated” sections in which the user would insert the adjustments. It is advised to use formulas to equate the unaffected figures from the unadjusted column, i.e. if assets are not affected, write a formula to equal the assets of the restated statement to the assets of the non-restated one. For the accounts which are affected by adjustments, the user should prepare a formula using the unadjusted balance and then subtracting the adjustment as per sheet “Summary of adjustments”.

At each adjusting entry the user should revisit the Checks sheet and observe the reconciliations in the “Restated” column to assess if the statements affect the coherence of the statements. In case the adjustments affects the coherence of the statements, the user should correct the restatement or reassess the adjusting entry.

The end result of this activity is that the stand-alone financial statement of the LGUs and the respective Financial Models would now reflect values of fixed assets and will be ready for consolidation.
8.3 Completion of the Consolidation Financial model

The Consolidation Financial Model to facilitate the aggregation of data, analysis and reporting.

The Consolidation Financial Model is excel based tool aimed at facilitating the data aggregation between the individual LGUs to provide consolidated data. The tool is further designed to facilitate transfer of adjusting entries and report writing and analysis. The Consolidation Financial model is completed in three steps:

- Transfer of stand-alone LGU FS templates from stand-alone Financial models of the LGUs
- Transfer adjusted figures
- Prepare graphs for report

A description of the additional content of the Consolidation Financial Model is presented in Appendix 11

An illustration on the flow of information in the Financial model is presented below:
Transfer completed stand-alone financial statements from the individual Financial model to the Consolidation Financial model

Copy the LGU FS Forms from the stand-alone Financial model to the Consolidation Financial model. All sheets should be transferred after sheet Forms \( \rightarrow \) in the Consolidation Financial model.

Transferred correctly, the information from the individual LGU FS Form would be consolidated in sheets \( F1 \) to \( F11 \)

To copy a whole sheet to another workbook, i.e. sheet LGU FS Template to a section in the Consolidation Financial model, you need to have both files open – the stand-alone model and the consolidation model. Then in the stand-alone model go to the LGU FS form sheet and right-click on the name of the sheet and choose Move or copy from the pop-up menu.

Example:

From the pop-up window choose the desired destination workbook, i.e. Consolidation Financial model and click in the Create a copy box

Example:
In the Consolidation Financial model the financial information of all LGU FS Forms moved after the Forms--> sheet would be consolidated into the Forms 1 to 11.

Transfer adjusted figures

The adjustments of the individual financial statements should be prepared before you transfer data to the Consolidation Financial model.

Data is transferred by copying data from sheets F1, F2, F3-1, F3-2 and F8 from the Restated sections in the respective sheets and pasting it as values in the provided sections in the sheets Restated section of the Consolidation Financial model.

Restated figures from F1 of the stand-alone financial statement should be copied and pasted to F1 restated in the Consolidation Financial model.

Restated figures from F2 of the stand-alone financial statement should be copied and pasted to F2 restated in the Consolidation Financial model.

Restated figures from F3-1 of the stand-alone financial statement should be copied and pasted to F3-1 restated in the Consolidation Financial model.

Restated figures from F3-2 of the stand-alone financial statement should be copied and pasted to F3-2 restated in the Consolidation Financial model.

Restated figures from F8 of the stand-alone financial statement should be copied and pasted to F8 restated in the Consolidation Financial model.

Upon completion of the transfer of the LGU FS form from the stand-alone Financial model to the Consolidation Financial model, the user should observe in sheets F1-F11, Balance sheet and PnL if the numbers appear correct and complete.
Completing sheet F1 restated, F2 restated, F3-1 restated and F3-2 restated

In the respective sheet select all data in column N, starting from cell N13 until the last available data row. Right click on the selection and choose Copy.

Example:

Navigate to the respective sheet in the Forms section of the Consolidation Financial model. Starting from row 13 in column F paste the data as values.

In Row 9 above the paste area is left an empty cell, painted in yellow to write in the name of the LGU, for which you are pasting data below. Be careful to input the name of the LGU above the corresponding data as this is linked to the Analysis section in the Consolidation Financial model.
You can paste as values by right-clicking on the destination cell, and choosing Paste Special option from the drop-down menu and choosing Values and clicking the OK button.

Another way to paste as values is to choose the destination cell and use the shortcut combination Ctrl + Alt +V, which will also return the option menu presented below.

Example:

**Completing sheet F8 restated**

In the respective sheet select all data between columns T to Y (Restated section), cells T16 to Y37. Right click on the selection and choose Copy.

Navigate to the respective sheet in the Forms → section of the Consolidation Financial model. Starting from row 16 in column F paste the data as values.

In Row 9 above the paste area is left an empty cell, painted in yellow to write in the name of the LGU, for which you are pasting data below. Be careful to input the name of the LGU above the corresponding data as this is linked to the Analysis section in the Consolidation Financial model.

For instruction on how to paste as values, follow the instructions from the previous section.

Example:
Prepare graphs for report

In this section the user should prepare graphs which present consolidated figures on LGU basis. In the Analysis section of the Consolidation Financial model, there are five sheets which summarise data:

- Receivables
- Tangible assets
- Payables
- Revenue
- Expenses

In this section, the user should prepare pie charts based on the pre-set information in columns E and F. Starting from cell E10, the user should select all cells in column E and F, which contain data and then should press the grey button in the blue ribbon Pie chart. A graph would be generated automatically and the user should copy it to the due diligence report. Copying can be done by right-clicking on the graph and selecting Copy from the drop-down menu.

Example:
8.4 Analyse the consolidated financial standing

Transfer tables to the Consolidated Financial Due diligence report

Aggregated financial statements

In the Consolidation Financial model, navigate to the sheet Balance sheet. Select the table with the respective reporting periods’ data.

Example

Copy the selected table and paste it in the respective section of the report. Then navigate to the sheet PnL in the Consolidation Financial model and repeat the steps to copy and paste it in the respective section of the Consolidated due diligence report.
Analysis

Navigate to the Analysis section of the Consolidation Financial model. There are 5 sheets containing breakdowns of balances, revenues and expenses by LGU. Confirm if all LGU data is present and correct. If there are discrepancies, there could be errors in the transfer of Restated figures.

After confirming all data is complete and correct, the user should follow the instructions to copy the tables and paste them in the respective sections in the Consolidation due diligence report.

While pasting, the user can use the Paste as picture option which appears when right-clicking on the destination page in the report. This would ease the sizing and formatting of the graphs.

In the respective section the user should comment and analyse on the major balances.

Example:

**Appendices**

**Forms 1 to 11**

The financial statements contained in sheets F1 to F11 should be transferred to the Appendices section on the Consolidated due diligence report. The tables can be copied and pasted using the same steps as described in the previous section.
8.5  **Point out significant potential risks for the new municipality following the merger**

There are various sources of potential risks to the new municipality. The user should start the analysis with an overview of the accounts payables.

Different LGUs might have large balances of outstanding accounts payables due to insufficient historical financing or inadequate tax collection results.

Moreover, overdue accounts payable may pose a threat of significant penalties, which could impact the new municipality. It is, therefore, essential that large outstanding balances are identified and analysed. The analysis should also include recommendations on addressing accounts payable issues and, if applicable, timeline for resolving of the issues.

Users should also perform analysis of sources and uses of funds based on the indicative historical aggregation.

Such an analysis will reveal if LGUs, now part of the new municipality, have followed the Ministry of Finance requirements for uses of funds. It will also show if the structure of expenses for some of the LGUs is unsustainable and needs to be revised.

An analysis of consolidated revenues will present the structure and sufficiency of own source revenue and grants (both conditional and unconditional).

A relative analysis of own source revenues for the LGUs for the historical period will indicate the tax collection performance of the individual LGUs and will streamline improvement initiatives and efforts of the new municipality. The analysis should clearly indicate underperformers and should investigate, to the extent possible, the reasons for the tax collection underperformance.
Appendices on a soft copy

Below is presented a list of appendices provided in soft copy on a CD which should be considered an integral part of this guideline.

Appendix 1: Questionnaire for information

Appendix 2: Legal Framework

Appendix 3: Operations Databook

Appendix 4: Operational Due Diligence report template

Appendix 5: Individual Financial Model

Appendix 6: Templates for Notes to the financial statement

Appendix 7: Financial Due Diligence Report template

Appendix 8: Guidance on valuation of fixed assets

Appendix 9: Consolidation Financial Model
Appendices on hard copy

Appendix 10: Descriptions of Financial Model content

**Detailed description of workbook content**

Below you can find a brief description of the sheets, contained in the Financial model.

**General background**

The sheet includes space to be filled in regarding the project name, municipality name, names of the people who prepared the check list and names of the people who approved the checklist. Further, the sheet contains cells to be filled in with the exact dates of site visits, interviewed personnel (name and position), the dates of the financial information included in the following templates (the current reporting periods’ beginning and closing dates as well as the corresponding reporting period date). Further below can be set the report’s presentation currency (i.e. in thousands, millions, billions, etc.)
### Financial performance
The sheet contains a table summarizing sources and uses of funds for the LGU for the two reporting periods.

#### Summary of the financial performance
All checks ok

#### Summary of the financial performance
For the year ended 30 Jun 2016
(Amounts in ALL'000, unless otherwise stated)

<table>
<thead>
<tr>
<th>Sources of funds</th>
<th>As at 30 Jun 2015</th>
<th>As at 31 Dec 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unconditional government grant</td>
<td>132</td>
<td>-</td>
</tr>
<tr>
<td>Conditional government grant</td>
<td>132</td>
<td>-</td>
</tr>
<tr>
<td>Own source revenues</td>
<td>132</td>
<td>-</td>
</tr>
<tr>
<td>Taxes</td>
<td>132</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses of funds</th>
<th>As at 30 Jun 2015</th>
<th>As at 31 Dec 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>N7</td>
<td>-</td>
</tr>
<tr>
<td>Goods and services</td>
<td>N7</td>
<td>-</td>
</tr>
<tr>
<td>Subsidies and transfers</td>
<td>N7</td>
<td>-</td>
</tr>
<tr>
<td>Payments from 5% completion guarantees</td>
<td>N4</td>
<td></td>
</tr>
</tbody>
</table>

### Summary of adjustments
Summary of adjustments summarizes all identified misstatements and provides explanation as to the rationale behind the adjustment. The user would link the identified adjustments.

#### Summary of adjustments
For the year ended 30 Jun 2016
(Amounts in ALL'000, unless otherwise stated)

<table>
<thead>
<tr>
<th>No</th>
<th>Amounts and description</th>
<th>Type of Adjustments</th>
<th>Debit</th>
<th>Credit</th>
<th>Impacted statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-</td>
<td>Policy Modification (&quot;PM&quot;)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>-</td>
<td>Reclassification (&quot;RC&quot;)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>-</td>
<td>Elimination (&quot;EL&quot;)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Notes
1. In relation to item 1, and following the requirement of Directive 14 dated 28-Dec-2009, to present these balances as receivables in the statement of assets and also as expected income in Statement of Revenue, as in conflict with the Law No 9516, dated 26-Jun-2008. Therefore we propose the following adjustment:
   - Debit 7006 Expected financing from budget
   - Credit 4342 Other operations with the government (debits)
   - Debit 51 Result from Pension in Liabilities
   - Credit 51 Result from Pension in Statement of Expenses
   - Debit 81 Result from Expenditure in Liabilities
   - Credit 81 Result from Expenditure in Liabilities
Index – Templates
The Index sheet contains a list of all sheets contained in this section of the model – i.e. Table 1-11. The individual items in the list are links to the respective sheet and can be used to navigate the user to the desired sheet by clicking on the specific.

Checks
The sheet contains reconciliation between the different elements in the templates, the notes and the evidence provided. Depending on the available information, the user can choose the reporting date to which the checks are applied by writing the date in cell E7.
Sheet T1-T11
The sheets T1 to T11 contain formatted tables with the financial statements and contain data as per the FS template, prepared by the LGU. These sheets are populated automatically upon completion of the procedures for inputting data into the model.

Sheet T1
Sheet T1 contains Table 1 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL. In the column labeled Evidence provided reference the user can use links to other sheets with supporting information regarding the financial statements item.

Sheet T2
Sheet T2 contains Table 2 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL. In the column labeled Evidence provided reference the user can use links to other sheets with supporting information regarding the financial statements item.

Sheet T3-1
Sheet T3-1 contains Table 3-1 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.
Sheet T3-2
Sheet T3-2 contains Table 3-2 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

Sheet T4
Sheet T4 contains Table 4 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

Sheet T5
Sheet T5 contains Table 5 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

Sheet T6
Sheet T6 contains Table 6 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.
**Sheet 7**

Sheet 7 contains Table 7 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

<table>
<thead>
<tr>
<th>Ac.</th>
<th>No.</th>
<th>Description</th>
<th>Opening accumulated depreciation 30 Jun 2015</th>
<th>Additions during the year</th>
<th>Decrease during the year</th>
<th>Closing accumulated depreciation 30 Jun 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Depreciation change for the year</td>
<td>Other</td>
<td>Total</td>
<td>Sales</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>Intangible</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>219</td>
<td>Tangible</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>(1 + 2)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Sheet 8**

Sheet 8 contains Table 8 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Debt</td>
<td>Credit</td>
<td>Debt</td>
</tr>
<tr>
<td>1</td>
<td>01</td>
<td>Raw fuels</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>301</td>
<td>Vegetable oil</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>411</td>
<td>Tobacco and tobacco products</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>412</td>
<td>Consumer goods</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>611</td>
<td>Investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>612</td>
<td>Financial activities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>613</td>
<td>Other investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>614</td>
<td>Investments in share capital and reserves</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>100</td>
<td>Other current assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>110</td>
<td>Capital internal funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Sheet T9**

Sheet T9 contains Table 9 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

<table>
<thead>
<tr>
<th>No.</th>
<th>Categories</th>
<th>Annual average number of employees</th>
<th>Turnover of employees during the year</th>
<th>Number of employees at year end</th>
<th>Salaries and contributions</th>
<th>Immediate social assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Director</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Specialist</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Technical</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Ordinary officers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Employees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Temporary employees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
### Sheet T10
Sheet T10 contains Table 10 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

<table>
<thead>
<tr>
<th>No</th>
<th>Acc. No.</th>
<th>Description</th>
<th>Notes</th>
<th>YTD 2015</th>
<th>FY 2014 Restated</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>Assets</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>Current Assets</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>50</td>
<td>Securities settlement</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>51</td>
<td>Liquid and current</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>512</td>
<td>Bank accounts</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>520</td>
<td>Other liquidity</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>531</td>
<td>Petty cash</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>532</td>
<td>Other amounts</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>54</td>
<td>Incomes and prepayments</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>56</td>
<td>Accounts in Lending Institutions</td>
<td>3</td>
<td>-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 11
Sheet T11 contains Table 11 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

<table>
<thead>
<tr>
<th>No</th>
<th>Acc. No.</th>
<th>Description</th>
<th>Notes</th>
<th>YTD 2015</th>
<th>FY 2014 Restated</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>TOTAL REVENUES</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>75.76.77</td>
<td>1. REVENUES AND CONTRIBUTES</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>70</td>
<td>1. Revenue from sales</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>700</td>
<td>Revenue, profit and capital income</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>702</td>
<td>Wealth tax</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>703</td>
<td>Tax on goods and services within the country</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>704</td>
<td>Tax on export and international transactions</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>705</td>
<td>Road tax</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>706</td>
<td>Other taxes</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>709</td>
<td>Revenue from services provided</td>
<td>4</td>
<td>-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Index – Notes to FS
The Index sheet contains a list of all sheets contained in this section of the model – i.e. Notes 1-13. The individual items in the list are links to the respective sheet and can be used to navigate the user to the desired sheet by clicking on the specific item.

Sheet N1 – N13
The sheets N1 to N13 are templates, that are provided to the LGU to complete and inserted back to the Financial model. The information contained in those templates serve the purpose to provide further detail into key financial statement items and is supposed to reconcile with the information in the financial statements (Sheets T1-T11).

Sheet N1 Fixed assets register
Sheet N1 contains Note 1 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.
Sheet N2 List of inventory
Sheet N2 contains Note 2 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

<table>
<thead>
<tr>
<th>No.</th>
<th>Item description</th>
<th>Location</th>
<th>No of items</th>
<th>Cost per item</th>
<th>Closing balance 30 Jun 2014</th>
<th>Opening balance 30 Jun 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>2</td>
<td></td>
<td>3 x 2</td>
<td>3 x 2</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td>3</td>
<td></td>
<td>4 x 2</td>
<td>4 x 2</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>4</td>
<td></td>
<td>5 x 2</td>
<td>5 x 2</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sheet N3 Receivables from employees, prepayments and penalties
Sheet N3 contains Note 3 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

Sheet N4 Different debtors
Sheet N4 contains Note 4 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

<table>
<thead>
<tr>
<th>Debtors</th>
<th>Originating amount 2014</th>
<th>Additional charge for the year</th>
<th>Payments during the year</th>
<th>Closing balance 30 Jun 2014</th>
<th>Originating amount 2014</th>
<th>Additional charge for the year</th>
<th>Payments during the year</th>
<th>Closing balance 30 Jun 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sheet N5 Inheritance act
Sheet N5 contains Note 5 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.
Sheet N6 Creditors
Sheet N6 contains Note 6 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

Sheet N7 Expense reconciliation
Sheet N7 contains Note 7 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

Sheet N9 Subsidiaries
Sheet N9 contains Note 9 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.
Sheet N10 Loans and borrowings
Sheet N10 contains Note 10 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

Supporting evidence to be provided by the LGU

Sheet N11 Donor grants
Sheet N11 contains Note 11 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

Supporting evidence to be provided by the LGU

Sheet N12 Rec. of FS to Treasury
Sheet N12 contains Note 1 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.

This template is only for illustrative purposes, to show the LGUs an example of a Trial Balance.

Sheet N13 Template for trial balance
Sheet N13 contains Note 1 in English and Albanian, as well as data in reporting number format as well as in original number format, i.e. in ALL.
Appendix 11: Descriptions of Consolidation Financial Model content

The Consolidation Financial Model follows the same general structure as the Financial Model. There are two more sections:

- **Restated**
- **Analysis**

**Restated**

In this section are presented sheets in which should be inserted restated data from the prepared Financial model of the LGUs.

**Analysis**

In this section are presented five sheets in which summary data is automatically presented by LGU. The user should use the built-in tool to prepare graphs for the report.
Disclaimer

The content of this file is strictly confidential. This file has been prepared on the basis of the Contract between UNDP, Albania and KPMG Albania Shpk, dated 24 November 2014 ("Contract").

It is for the benefit and information of UNDP, Albania in regard to the contemplated regional reform of Albania only and it should not be quoted or referred to or copied or disclosed, in whole or in part, without our prior written consent, except as may be provided in the Contract.

This file represents guidelines on LGU due diligence, due diligence report templates, and a draft financial model. As you are aware we are still in the process of developing the model and we have not finalized with the undertaken detailed testing of the model or the quality assurance review. You need to bear in mind that you should not place reliance on the output information of this draft deliverable. This applies to the copy of the financial model appended to this letter and any future draft copies of the model that we agree to release to you.

The outputs may well change, a) as the model is refined and b) if any miscalculations are corrected. We would appreciate feedback on any odd results that you find but do bear in mind that any areas for improvement may be quite subtle. It is your responsibility to satisfy yourselves that the Model has been constructed in such a way as to materially meet your objectives.

It should be noted that it is not practicable to test a computer model to an extent whereby it can be guaranteed that all errors have been detected. The input data used in running the Model are solely your responsibility. Our responsibility is to assist you in building the Model based on your inputs and specifications. We cannot be held responsible for the use to which the output data is put. Our work is limited to the matters set out in our Contract and accordingly we do not provide any confirmation of the commercial merits, technical feasibility, compliance with applicable legislation, the factual accuracy of the input data or the validity that may be used to derive assumptions, or the interpretation of documentation in arriving at assumptions and input data.