Public Expenditure and Financial Accountability (PEFA) Assessment

2013

Republic of Armenia
(Central Government)

May 11, 2014

This PEFA self-assessment has been prepared by the staff of 6 appointed Assessment Teams from Ministry of Finance, Chamber of Control and the National Assembly

CURRENCY AND EXCHANGE RATES

Currency unit = Armenian Drams (AMD)

€1 = AMD 537.60 (as of 1 September 2013)

GOVERNMENT FISCAL YEAR (FY)

1 January – 31 December

PEFA ASSESSMENT PERIOD

FY 2010, FY 2011, FY 2012

Acknowledgment

The development of the RA (Central Government) Public Expenditure and Financial Accountability (PEFA) Assessment Report 2013 was a challenging process that took over a year, engaging in various capacities different RA Central Governance agencies, i.e. RA National Assembly, RA Control Chamber under the lead of the RA Ministry of Finance, as well as representatives of development partner agencies most active in the RA public finance management area.

Successful accomplishment of preparation of the given report would not have been possible without personal involvement and general coordination of the First Deputy Minister of Finance Mr. Pavel Safaryan, who provided guidance in settlement of controversies emerging between different parties during the assessment. Mr. Pavel Safaryan has coordinated the activities of the Oversight Team consisting of representatives of the RA Ministry of Finance, the EU Delegation to Armenia, World Bank and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

The daily communication and coordination of activities of various assessment teams, independent experts involved, development partners and PEFA Secretariat was carried out efficiently and in a warm atmosphere of partnership, the prime responsibility for this being entrusted to Mr. Makar Ghambaryan, head of the Public Internal Financial Control and Public Procurement Methodology Department of the RA Ministry of Finance.

The assessment activities were organized using the self-assessment method, and the indicators subject to assessment were divided into six groups, based on which six assessment teams were established. Due to efficient work of team leaders, in a short period of time the teams succeeded in accomplishing the collection and assessment of required information. The assessment team leaders were: Mrs Gayane Zargaryan (Assessment Team 1), Mr David Hambardzumyan (Assessment Team 2), Mr Makar Ghambaryan (Assessment Team 3), Mr Arman Poghosyan (Assessment Team 4), Mr Gagik Barseghyan (Assessment Team 5) and Mr Karen Arustamyan (Assessment Team 6).

EU Delegation to Armenia and GIZ have provided effective and ongoing support during the whole process of identification of targets, design and in further implementation of assessment activities. Namely, through the support of the EU Delegation to Armenia, the “Ecorys” international consultancy company (Mr. Peter Fairman, Team Leader/General Facilitator (GF), Mrs. Corina Certan and Mr. Aram Hovhannisyan) was engaged in the process, and local consultants, who have provided continuous facilitation to the assessment teams during the whole period of self-assessment, (Mr Vahan Sirunyan, Mr Suren Poghosyan) were involved through GIZ support to facilitate the assessment activities. In addition, the EU Delegation to Armenia and GIZ have provided support in organization of translation, publication as well as awareness raising activities.

Highly valuable is the personal input of Mr. Alessandro Zanotta (EU Delegation to Armenia), Mr. David Franzreb (GIZ) and Mrs. Varsenik Mnatsakanyan (GIZ) in the whole process of PEFA report development. Coordination of development partners and presentation of their common standpoint to the RA Ministry of Finance was steered by Mr. Alessandro Zanotta, and Mr. David Franzreb and Mrs. Varsenik Mnatsakanyan have provided invaluable support in organizational as well as professional matters.

Mr. Arman Vatyan and Mr. Garik Sergeyan (World Bank), staff members of DEVCO Unit 03 (Budget Support and Public Finance Management), Mrs. Teresa Daban Sanchez (IMF) and Mr. Mark Davis (EBRD), Mr. David Dole (ADB), Mr. Joop Vroljik, (SIGMA), Mr. Phil Sinnett and Ms. Helena Ramos (PEFA secretariat) also contributed to the assessment process through the review of draft and final reports.

The PEFA Oversight Team and especially the RA Ministry of Finance would like to express its deepest gratitude to people and agencies engaged in the development of the Public Expenditure and Financial Accountability Assessment Report 2013 appreciating highly their input to implementation of quality assurance in line with the PEFA Secretariat requirements and to receiving as a result the "PEFA CHECK" certification.

RA Ministry of Finance	**EU Delegation to Armenia**	**Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)**	**World Bank Europe and Central Asia Region**

Foreword

Reasoning from the necessity to conduct an objective and sustainable assessment of the progress in PFM system reforms and of the system in general, the 2nd Public Expenditure and Financial Accountability (PEFA) Assessment was carried out under the coordination of the RA Ministry of Finance.

The first assessment was conducted in 2008. The given PEFA report as well as the preceding one was developed using the self-assessment method. The mentioned activities were carried out by the RA Ministry of Finance, Control Chamber, National Assembly and the appointed six assessment teams. International organizations active in this field, such as EU, GIZ and WB were also involved in the process to support the assessment teams and to validate the implemented activities. This gave an opportunity to develop a more credible and independent report. To this testifies also the quality assurance certification (PEFA CHECK) granted by the Public Expenditure and Financial Accountability Secretariat.

The given PEFA Assessment report is aimed at highlighting the developments and changes that have taken place in the PFM system since the first assessment. The report testifies to the fact that the ongoing reforms introduced in the PFM system contributed to improvement of the system efficiency, with the financial control remaining strong. The progress reported with respect to 11 indicators out of the 31, testifies to the above-stated. Key improvements have been reported due to the improvement of budget credibility, transparency, budget execution, and to a certain extent in the result of enhancement of IT system.

The given assessment is firstly, an important management tool for further review of the PFM Reform Strategy, as well as for revision and specification of the targets set. Moreover, it provides credible and impartial information about the PFM system to all stakeholders, i.e. to the general public, public administration, international organizations and development partners. The results of this repeated PEFA assessment will serve as a basis for further specification of action plans and development of activities for 2010-2020. In addition, the present assessment gives an opportunity to reduce the discrepancies in various PFM section indicators and to specify the main priorities in further activities.

Pavel Safaryan
RA First Deputy Minister of Finance

Public Expenditure and Financial Accountability
Assessment Oversight Team Leader

Abbreviations and Acronyms

ADB	Asian Development Bank
AFS	Annual Financial Statement
APSAS	Armenian Public Sector Accounting Standards
ASB	Authorised State Body
AT	Assessment Team
CBA	Central Bank of Armenia
CSC	Civil Service Council
CN	Concept Note
CoC	Chamber of Control
CJSC	Closed Joint Stock Company
CSO	Civil Society Organisation
DP	Development Partner
EBO	Extra-Budgetary Organisation
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
IFC	Inspectorate of Financial Control
FMC	Financial Management and Control
GF	General Facilitator
GoA	Government of Armenia
GFMIS	Government Financial Management Information System
GFS	Government Finance Statistics
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit/ German International Co-operation
IA	Internal Audit
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
KFW	Kreditanstalt für Wiederaufbau/German government-owned development bank
LOI	Letter of Intent
LoP	Law on Procurement

LTB	Local Treasury Body
MEFP	Memorandum of Economic and Financial Policies
MoF	Ministry of Finance
MTA	Ministry of Territorial Administration
MTEF	Medium Term Expenditure Framework
NA	National Assembly
NGO	Non-Government Organisation
OT	Oversight Team
PCRB	Procurement Complaint Review Board
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMS	Public Finance Management Strategy
PI	Performance Indicator
PIU	Project Implementation Unit
PMD	Personnel Management Department
PSA	Procurement Support Agency
RA	Republic of Armenia
SC	Scoring criterion
SHA	State Health Agency
SME	Small and Medium Scale Enterprise
SNCO	State Non Commercial Organisation
TI	Transparency International
TIN	Taxpayer Identification Number
TOD	Treasury Operations Day
TSA	Treasury Single Account
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
VFM	Value for Money
WB	World Bank

Table of contents

SUMMARY ASSESSMENT

(i) Integrated Assessment of PFM Performance

Summary

PFM system performance has remained strong (scores of at least B) for 16 out of the 28 performance indicators (PIs), the strengths falling mainly under PIs 1-17. The PEFA ratings have improved for nine PIs (excluding the improvements in two of the donor practice indicators), reflecting significant progress in implementing PFM reforms since 2008.

Out of the 31 indicators, 13 score A, 8 score B or B+, 5 score C or C+, 5 score D or D+. Thus, close to half the scores are A and fully two-thirds are A, B+ or B. The scores have improved for 11 indicators, reflecting significant progress in implementing PFM reforms since 2008. Scores improved for 5 dimensions under 5 indicators, though overall ratings of the respective indicators did not change (PI-12, PI-14, PI-15, PI-20, PI-25). A strengthening trend (indicated by an upward pointing arrow) is underway for 3 indicators (PI-21, PI-24, PI-26). Progress could not be assessed for 2 indicators (PI-2, PI-19) due to changes in the scoring methodology.

The main improvements have been in the areas of budget credibility (expenditure and revenue performance), transparency (inter-governmental fiscal relations and procurement), revenue administration (PIs13-14), cash management (PI-17), internal audit (PI-21), accounting and reporting (PIs 22-24), and external audit (PI-26). Cash management and reporting and accounting have become more efficient and comprehensive, due to the advent of the Client-Treasury system in 2010. Under this system, public bodies can execute their budgets directly through the Treasury IT system (known as the Treasury Operations Day (TOD system) without having to go through Local Treasury Bodies (LTBs). Improvements have also come about due to periodic upgrading of the TOD system itself and through Development Partner (DP) funding increasingly being channeled through the Treasury. The procurement system is becoming more transparent in terms of reporting, significantly so within the last 12 months, facilitated by the advent of e-governance.

Core dimension (i), Credibility of the Budget (PIs 1-4): Budget outturns have remained reasonably close to approved budgets, in both aggregated and disaggregated terms and expenditure arrears are not an issue due to strong expenditure commitment controls. Underperformance of capital budget execution has on aggregate become less of an issue, though delays are still being experienced. An issue has been the pressure applied by State Revenue Committee on compliant taxpayers to pay a portion of their tax obligations in advance. This is perhaps less of an issue than a few years ago, but nevertheless, the GoA recognizes that such behaviour can harm the profitability of businesses. As elaborated on below, addressing this issue is part of a recent agreement with the IMF.

Credibility is assessed strictly in financial terms and implies little about the efficiency and effectiveness of expenditure, weaknesses in which are indicated under other core dimensions, as indicated below.

Core dimension (ii), Comprehensiveness and transparency of the budget (PIs 5-10): The comprehensiveness and transparency indicators score high for the most part, the main improvement being reporting on the operations of community governments (PI-8, dim. iii). The Ministry of Territorial Administration (MTA) is now able to consolidate the fiscal operations of all community governments into one annual report (also quarterly reports), and the Ministry of Finance (MoF) then including aggregated data from this report into the annual state budget execution report. The rating for dimension (iii) increased to A from D, causing the overall rating to increase to A from B. The reason was the connection of community government financial management systems to central government treasury systems in 2012, facilitated by the adoption by community governments of the GFS 2001 budget classification system in 2009.

The main issues are the possible risks posed to the budget by the extra-budgetary operations (EBOs) of State Non Commercial Organisations (SNCOs), Closed Joint Stock Companies (CJSCs) and the operations of community governments; the rating under PI-9 is D+, unchanged from the 2008 PEFA rating. As indicated under PI-7 (on EBO reporting), SNCOs and CJSCs provide periodic revenue and expenditure reports and financial statements and submit them to their Authorised Bodies and the MoF. A new fiduciary control framework for SNCOs was prepared through DP support in early 2013 by MoF. Implementation is still in a pilot phase. SNCOs are not, however, legally required to have their accounts audited. The Government's monitoring of the financial situation of these EBOs is not a sufficient substitute for the auditing of their accounts by impartial auditors.

Tight administrative controls, legislative restraints on attracting debt and significant levels of controlled financial contributions from the central authorities limit the fiscal risk posed by community governments to some extent, but explicit financial monitoring is incomplete, not even covering their net financial position. The 2002 Law on Self Governance provides a possibility for external audits to be conducted, but it has not been widely implemented yet, mainly because of capacity constraints. Formal external audits would enable a more rigorous assessment of risk. The exception to this situation is the city of Yerevan, which, since December 2008, has operated under the Law on Local Governance in Yerevan. Under the Law, the city is required to have its annual accounts audited. Yerevan's expenditure comprises 60% of total local government expenditure.

Core dimension (iii), Policy-based budgeting (PIs 11-12): Annual budget preparation processes continue to be strong ("A" rating for PI-11 under both 2008 and 2013 assessments), and continue to have a medium term focus through the MTEF (overall B rating for PI-12 under both assessments). The rating for dimension (iii) on the costing and fiscal realism of sector strategies improved to B from C, thus pointing the way towards an overall strengthened medium perspective in budgeting in the future. Dimension (iv) on the inclusion into forward estimates of the future recurrent costs implied by capital investments continues, however, to score low.

The budget preparation processes nevertheless need to be improved in terms of supporting efficiency and effectiveness. The PFMS is rather focused on quality, while the amendment to the Budget System Law as of April 2013 has provided the legal framework for the formal introduction of programme budgeting, starting with the 2014 budget. This follows an informal period since 2010 when programme budgets were prepared in parallel with the line item format presented to the National Assembly. It will be a few years before it completely replaces the traditional format due to the need to adjust the chart of accounts to formally accommodate programme budgeting and other aspects of the budget cycle to integrate programme based approaches. Programme budgeting will greatly add to the value of the MTEF.

Core dimension (iv), Predictability and control in budget execution Revenue administration (PIs 13-15)

Some progress has been made in strengthening revenue administration. Performance improved under PI-13 through improved tax payer services and establishment of an independent tax appeals council. Performance also improved under dimension (iii) of PI-14 due to more emphasis being placed on risk-based auditing. The establishment of the Taxpayer 3 e-management system in 2011 has enabled the electronic processing of tax returns and automated processing of invoices, thus enhancing the efficiency of the revenue administration system. An immediate gain has been the improved monitoring of tax arrears that has enabled the correct scoring of PI-15, on the collection of tax debts. The D+ rating for PI-15 is mainly due to difficulties in collecting the tax debts owed by a small number of large companies.

Challenges remain in reducing the levels of discretion provided by the tax legislation (PI-13), and in enforcing compliance with tax laws in terms of registration and declaration (PI-14). An issue has been the pressure applied by State Revenue Committee (SRC) on compliant taxpayers to pay a portion of their tax obligations in advance, as also alluded to by Civil Society Organisations (CSO) met by the PEFA assessment team in expressing their concerns about the transparency and effectiveness of the tax administration system. The significance of the issue has diminished somewhat since the 2008 assessment, but nevertheless it was highlighted in the Letter of Intent submitted by GoA to the IMF in February, 2014 as part of the request for financial support under the IMF's Extended Fund Facility programme, the request being approved by IMF on 7th March 2014. One of the conditionalities is further reforms to the tax administration system so that it reduces tax non-compliance rather than targeting already compliant taxpayers.

On-going and planned activities, supported by DPs (IMF, World Bank, USAID) are addressing the remaining tax administration issues noted above.

Budget execution and cash/debt management (PIs 16-17)

The in-year predictability of resource availability for budget execution continues to be strong (unchanged A ratings for all 3 dimensions of PI-16). The efficiency of budget execution processes has strengthened through the advent of the Client-Treasury system in 2010. The main improvement is the growing use by DPs of the treasury system, whereby, beginning in 2011, expenditures on projects and programmes are increasingly being financed through DP funds deposited in Project Implementation Unit (PIU) bank accounts controlled by the Treasury under the Treasury Single Account (TSA) system, rather than, as before, being deposited in accounts outside the system. The rating of PI-17 (ii) has therefore increased to A from B, enabling an increase in the overall rating to A from B+. Debt management remains strong, as indicated by Armenia's successful issue of a Eurobond in September 2013.

Internal controls (PIs 18-21)

Payroll control (PI-18) is considered by the Chamber of Control and Inspectorate of Financial Control in MoF (by DPs also) to be relatively stronger than some other internal control systems. However, a D rating for dimension (i) on the timeliness and frequency of reconciliation between the payroll and personnel records and a C rating for dimension (iii) on the strength of controls on changes to personnel records and the database indicates potential for risk in the payroll system. An *ex-post* reconciliation exercise, though time consuming as the linkages between the personnel records and the payroll are manual, would detect any inconsistencies.

Procurement (PI-19) has been significantly reformed in recent years in pursuit of increased efficiency in terms of value for money. A new Law on Procurement (2010) led to the decentralisation of procurement responsibilities to line ministries, the establishment of the Procurement Support Agency (PSA) in MoF as an advisory body and the establishment of an independent Procurement Complaint Review Board (PCRB). The degree of independence of the PCRB is a contentious issue for some DPs, as the PSA provides secretariat services to it. Moreover, though it has private sector representatives, these are NGOs rather than businesses. Capacity constraints in both line ministries and PSA are apparently hindering the realisation of the efficiency benefits of decentralisation.

The transparency of the procurement system has increased significantly in the last year, aided by developments in the IT industry; the rating for dimension (iii) on transparency is B. The availability to the public of procurement-related information increased significantly and an e-procurement system was established. Technical difficulties precluded e-tendering at first, but the system became functional in early 2014.

Evidence suggests that sole sourcing is still significantly practised. Obtaining information on the extent of sole sourcing is problematic, partly because of the decentralisation of procurement responsibilities. Thus dimension (ii) is rated D, causing the overall rating to be limited to B.

Expenditure commitment controls (PI-20 i) have strengthened to A from B due: (i) to the introduction of the Client-Treasury system in 2010 (whereby public bodies can process payments directly through the Treasury Operations Day (TOD) software system, rather than having to go through Local Treasury Bodies (LTB)); (ii) the periodic upgrading of the TOD system itself; and (iii) the increasing inclusion of PIUs in its coverage.

The Chamber of Control observes in its annual reports instances of non-compliance with other non-wage internal control systems (dim. iii), including procurement, thereby raising the risk of inefficient expenditures. Ratings for dimensions (ii) and (iii) remain unchanged at C, resulting in an overall unchanged rating of C+.

The internal audit (IA) function (PI-21) is still being developed, following the adoption of the RA Law on Internal Audit in 2012. Significant progress has been made from a very low level since the 2008 assessment, the overall rating increasing to C from D+, the improvements coming under dimension (i) on coverage and quality and dimension (iii) on the extent of management response to audit findings.

The development of the IA function is an integral part of the new Public Internal Financial Control (PIFC) Strategy (as discussed under (iii) below), under which management is to be decentralised in order to enable strengthened focus on cost-effective service delivery. Institutional structures and audit standards have been established. The IA function is directly accountable to the head of a specified organization, thereby ensuring its functional independence. An internal audit information management system was introduced in January 2013. Internal audit units have been established in most public bodies. Professional standards and internal audit manuals have been developed and adopted, according to the standards set by the International Institute of Internal Auditors. Quality assurance systems are in place, though by the results of 2012 (2013) they were practically used only in 7 (36) state agencies. The internal audit committees of public bodies are still being defined.

Core dimension (v), Accounting and reporting (PIs 22-25): Supported by the Treasury IT-system, bank account reconciliation for Treasury-managed accounts is frequent and timely (PI-22). Performance improved under dimension (i) on bank accounts reconciliation due to the TSA including the transactions of DP-financed projects/programmes starting in 2012. The overall rating increased to A from B+.

Under PI-23, performance improved to A from C due to reports on resources received and spent by schools with SNCO status now being prepared and publicized.

In-year budget performance reports (PI-24) are efficiently generated by the Treasury IT system. The overall performance of B+ has not changed, but the quality of data (iii) is strengthening (B▲ from B) mainly due to the advent of the Client-Treasury system and the inclusion in it of financial flows related to DP financed projects and programmes.

The absence of modern accounting standards continues to hinder the preparation of meaningful auditable annual financial statements (C rating for dim. (i) of PI-25); Soviet Union-era standards continue to be used. The statements mainly contain revenue and expenditure performance and information on GoA bank account balances and changes in these. They are not in the form of accounting statements that indicate the linkages between revenue and expenditure flows on the one hand and changes in financial assets and liabilities on the other. The Treasury IT system focuses mainly on budget execution controls and not on accounting and indeed is not configured to generate accounting statements.

In tandem with its intention to introduce modern Armenian Public Sector Accounting Standards (APSAS) consistent with International Public Sector Accounting Standards (IPSAS), the Government is considering whether to expand the scope of its financial management system in order to enable, *inter alia,* the generation of accurate and timely financial accounting reports. In conjunction with the new PIFC Strategy (referred to in (iii) below), this would enable managerial accountability for value for money and achievement of objectives. Introduction of APSAS may take time as the new accounting standards would need to be implemented in the public bodies.

Core dimension (vi), External scrutiny (PIs 26-28): Performance of the external audit function has improved and continues to do so through the on-going reform activities being implemented by the Chamber of Control (CoC) aimed at strengthening the scope and nature of audit. The reform process is expected to continue through CoC's forthcoming new strategic plan. The overall rating increased to C+▲ from D+. Strengthening under dimension (i) is mainly due to the Law on the Republic of Armenia Chamber of Control (effective 2007) providing more independence (no longer under the National Assembly (NA)), though the CoC still does not fully meet the INTOSAI independence standard (e.g. the staff are civil servants, RA Government can change the CoC's draft budget prior to its submission to the NA). The CoC expects that the Law will be revised so as to provide more independence.

Performance under dimension (iii) on the extent of management follow up on audit findings is improving in terms of greater transparency and publication of CoC's recommendations and line ministry responses in terms of actions they will take. Evidence of actual actions taken is still limited. Performance under dimension (ii) on the timeliness of submissions of CoC's reports to the NA, is unchanged, but the reference point has been changed to CoC's opinion on the budget execution report prepared by the Government from the annual report prepared by CoC, which covered particular PFM-related issues, some dating back more than one year, and without any focus on line ministries or sectors.

The overall rating of the quality of legislative scrutiny of the annual budget laws (PI-27) is unchanged at C+. The first 3 dimensions continue to score A, indicating that the scrutiny process continues to work well. The repeat A ratings hide an increase in the quality of review, through the formal presentation to the National Assembly of the 2014 budget in the programme budgeting format as well as the line item format. NA members can now scrutinize budgets more effectively in terms of assessing the extent to which proposed budgets are consistent with public policy objectives. Under dimension (iv), the legislation continues to provide weak limitations on the extent that Government can adjust the budget during the year without seeking prior NA approval, as the legal framework allows the Government to expand total expenditures in line with revenue surpluses without requiring prior NA approval.

The quality of legislative review of CoC's audit reports (PI-28) remains generally good (A ratings for dims. (i) and (ii) under both assessments), but overall performance is undermined by the proposals made by NA members following their review of audit findings continuing not to have any mandatory force; the overall performance of D+ is unchanged. The RA Constitution does not define an official procedure for the NA to make recommendations on the basis of the reports. No official recommendations from NA were made to the Government during the last 12 months on the resolution of issues raised in the reports of the CoC.

(ii) Assessment of the impact of PFM weaknesses

Weaknesses in PFM systems may impact adversely on budgetary outcomes at three levels: aggregate fiscal discipline, strategic allocation of resources, and cost-effective service delivery. In the case of Armenia, the weaknesses are probably mainly reflected in the second and third levels. Aggregate fiscal discipline remains in place (as elaborated on in Section 2 in connection with Armenia's success in weathering the impact of the global financial crisis). The annual budget preparation process works well in terms of the procedures being followed (A rating for all three dimensions under PI-11), but a full strategic allocation process in terms of the allocation of budgetary resources within a medium-term perspective (as service delivery by nature has a medium term horizon) is still not in place (low ratings for dimensions (iii) and (iv). The on-going introduction of programme budgeting under the MTEF Framework will help to strengthen the strategic allocation process.

The main direct impact on the quality of service delivery of the current PFM systems could be through the costs of delivering public services being higher than necessary due to the weaknesses in internal control systems identified under PIs 18-20 (e.g. use of non-competitive procurement methods): Indirect impacts are:

- The insufficiently developed medium term perspective in budgeting also results in insufficient focus being placed on the cost-effectiveness of service delivery programmes (PIs 11-12).
- Weakness in revenue administration and forecasting (PIs 3, 11-13) may result in less revenue available for financing service delivery.
- Unexpected fiscal shocks arising from the insufficiently monitored activities of SNCOs and CJSCs and, to a lesser degree, community governments (PI-9) may also result in cutbacks in resources available for financing service delivery.
- The inability to prepare auditable annual financial statements limits the ability of the public to know whether expenditure reports are accurate and comprehensive in coverage (PI-25).
- Almost absence of performance audits carried out by the Chamber of Control indicates that an independent mechanism for checking if public services are being delivered cost-effectively (i.e. value for money is being achieved) is not yet in place.
- The centralised management system in GoA that is still in place after two decades of PFM and public administration reforms results in insufficient focus on the cost-effective delivery of public services; this issue is to be addressed through both the PIFC Strategy (iii below) and the introduction of programme budgeting.

(iii) Prospects for reform planning and implementation

The Government is still implementing the first Phase of the Public Finance Management Strategy (PFMS), which was introduced in late 2010, the MoF playing the leading institutional role. The PFMS consists of three phases, ending in 2020, the end result being an efficient, effective and transparent expenditure system. The first phase, which ends in 2014 focuses on completing the work on strengthening basic systems, mainly in terms of controls, while preparing the groundwork for the second phase, which focuses more on efficiency through enhancing management responsibilities for delivering public services. Activities under the Action Plan for the first phase are still being implemented.

The new PIFC Strategy, itself a component of the PFMS, will underpin the implementation of the second phase. Under the Strategy, management will be 'decentralised' in the sense that lower level managers will be provided flexibility to manage spending in the interest of enhancing the quality of public expenditure, consistent with the programme budgeting framework which is gradually being introduced. Under the current system, management is strongly concentrated at the top of the hierarchy in line ministries. Increased flexibility comes with accountability requirements. Once developed, internal audit functions in line ministries will be able to monitor the robustness of internal control systems that support accountability; such functions will be of little use if the other components of the PIFC Strategy are not implemented.

A key component of the PIFC Strategy is the establishment of a financial management and control (FMC) system based on managerial accountability. This is not yet in place as the enabling legislation (FMC law) is not yet in place.

As in any country, political economy and institutional/human resource capacity factors can hinder implementation of PFM reform programmes and Armenia is no exception.

Development partner (DP) practices (PI-7 (ii) and D1-D3) generally support comprehensiveness and transparency. The situation is mainly unchanged in the case of PI-7 (ii) and D1-D2. The use of country systems by DPs (D-3) has markedly increased, as a result of an increased proportion of aid being provided as budget support and the use of country financial reporting, treasury systems(as indicated under PIs 17, 22 and 24) and external audit systems increasing in the case of DP-funded programmes and projects. DPs are not yet using GoA's procurement systems.

Summary of Performance Indicator Ratings, 2008 and 2013 PEFA Assessments 1/, 2/, 3/Summary of Performance Indicator Ratings, 2008 and 2013 PEFA Assessments 1/, 2/, 3/

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
A: BUDGET CREDIBILITY			
PI-1: Aggregate expenditure performance (M1)	**B**	**A**	**Improved performance.** It is partly due to more realistic revenue and expenditure planning.
PI-2: Variance in expenditure composition (M1) *(i) Variance composition change* *(ii) Average contingency*	**NA** *('A,' old method.)*	**B+** **(i) B** **(ii) A** *(revised method.)*	**Methodology changed**. Assessment of change in performance is therefore not possible. The variance arose from increased allocations to some agencies funded by revenue surpluses (2010) and mostly from allocations to some agencies from the RA Government's Contingency Fund.

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-3: Domestic revenue performance (M1)	**B** *(revised method. 'A', old method.)*	**A** *(revised method.)*	**Improved performance.** It is partly due to strengthening revenue forecasting and administration and changes in the legislation.
PI-4: Extent of expenditure arrears (M1) *(i) Stock of arrears* *(ii) Monitoring system*	**A** *(B+, previous scope)* **(i) A** **(ii) A** *(B, previous scope)*	**A** **(i) A** **(ii) A**	**Unchanged performance.** Expenditure arrears have been virtually zero for the last 10 years due to good revenue performance and the unchanged legislation-based expenditure control system. Report 254 – generated by the Treasury IT system – monitors expenditure commitments, advance payments, invoices and payments, arrears being the net of these 3 amounts. Arrears of SNCOs are not covered in the 2013 assessment, but were incorrectly included in the scope of coverage in the 2008 assessment. The rating for (ii) has therefore been revised to A.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5: Classification of budget (M1)	**A**	**A**	**Unchanged performance.** Budgets are prepared, executed and reported according to the GFS-2001 functional, economic and administrative classifications. Since the 2008 PEFA assessment, budget expenditures have also been presented in the draft State budget in the programme format.
PI-6: Documentation of budget (M1)	**A**	**A**	**Unchanged performance.** Seven of the 9 information benchmarks are met. Since the 2008 PEFA assessment, the main changes to the structure, volume and content of information presented to the National Assembly include improvements in analytical quality and the presentation of programme classification and performance indicators.

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-7: Extent of unreported government operations (M1) *(i) Domestic* *(ii) External*	**B+** *(A, previous scope)* **(i) B** *(A, previous scope)* **(ii) A**	**B+** **(i) B** **(ii) A**	**Unchanged performance.** Un-reported domestic EBO expenditure was 4.5% of total GoA expenditure in 2012. The bulk of DP-funded projects (excluding those funded through aid-in-kind) are reported on in budget documentation and budget execution reports. The rating for dimension (i) in the 2008 assessment has been revised to B from A. SNCOs were classified as part of the GoA budget in the 2008 assessment, but in fact they are central government EBOs. *SC (i): Unreported domestic EBOs constitute 1%-5% of total expenditure.*
PI-8: Transparency of inter-governmental fiscal relations (M2) *(i) Transparency of fiscal transfer systems* *(ii) Timeliness of fiscal transfer information* *(iii) Preparation of budget performance reports*	**B** **(i) A** **(ii) A** **(iv) D**	**A** **(i) A** **(ii) A** **(iii) A**	**Improved performance.** Performance has improved under dim. (iii) through the preparation of quarterly and annual consolidated community government fiscal reports and the inclusion of these into state budget performance reports. The reason was the connection of community government financial management systems to central government treasury systems in 2012, facilitated by the adoption by community governments of the GFS 2001 budget classification system in 2009.
PI-9: Oversight of aggregate fiscal risk (M1) *(i) Central govt. bodies* *(ii) Community govts*	**D+** **(i) C** **(ii) D**	**D+** **(i) C** **(ii) D**	**Unchanged performance.** (i) Although Government monitoring and oversight of SNCOs, and CJSCs has improved, the external audit of financial statements is still absent, except in a fragmented manner; (ii) The monitoring of the financial state of communities remains incomplete, the main exception being Yerevan, which is required to have its accounts audited annually through a law introduced in 2009. *SC (i): Most major agencies submit fiscal reports to central government annually, but a consolidated overview is missing.* *SC (ii): Annual monitoring is significantly incomplete.*

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-10: Public access to fiscal information (M1)	**A**	**A**	**Unchanged performance.** 5 out of the 6 specified information elements are accessible to the public, the volume of information increasing for some of the elements.
C. BUDGET CYCLE			
C (i) Policy-Based Budgeting			
PI-11: Budget preparation (M2) *(i) Budget calendar* *(ii) Budget preparation guidelines* *(iii) Timeliness of budget approval*	**A** **(i) A** **(ii) A** **(iii) A**	**A** **(i) A** **(ii) A** **(iii) A**	**Unchanged performance.** Performance unchanged in terms of the scoring criteria, but the quality of MTEF submissions has improved(all 3 dimensions score A).
PI-12: Multi-year budget perspective (M2) *(i) Multi-year forecasts* *(ii) Debt Sustainability Analysis* *(iii) Costed sector strategies* *(iv) Linkages between investment budgets and forward estimates*	**B** **(i) A** **(ii) A** **(iii) D** **(iv) C**	**B** **(i) A** **(ii) A** **(iii) C** **(iv) C**	**Unchanged performance.** Performance unchanged on aggregate, but improved under (iii) on costing and fiscal realism of sector strategic plans. *SC (iii): Costed strategies exist for sectors representing up to 25% of total primary expenditure.* *SC (iv): Recurrent cost implications are included in forward budget estimates only in a few (but major) cases*.

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
C (ii) Predictability & Control in Budget Execution			
Revenue Administration			
PI-13: Transparency of taxpayer obligations and liabilities (M2) *(i) Clarity of tax liabilities* *(ii) Taxpayer access to information.* *(iii) Tax appeals mechanism*	**C+** **(i) B** **(ii) C** **(iii) C**	**B+** **(i) B** **(ii) A** **(iii) B**	**Improved performance.** Performance improved under (ii) with regard to tax payer services, and under (iii) on the tax appeals process, as a result of the establishment of the inter-agency appeals council in 2010. Some discretionary elements remain in the tax laws. *SC (i): Legislation & procedures for most taxes are clear with fairly limited discretionary powers of government entities involved.* *SC (iii): A transparent tax appeals system is in place but it is too early to assess its effectiveness.*
PI-14: Effectiveness of measures for taxpayer registration and tax assessment (M2) *(i) Controls* *(ii) Effectiveness of penalties* *(iii) Tax audit*	**B** **(i) B** **(ii) B** **(iii) C**	**B** **(i) B** **(ii) B** **(iii) B**	**Unchanged performance.** Performance improved under (iii) due to the establishment and successful implementation of a risk-based audit selection system. *SC (i): Taxpayers are registered in a complete database system with some linkages to other govt. systems.* *SC (ii): Penalties for non-compliance exist but are not always effective.* *SC (iii): Tax audits are managed according to a documented plan with clear risk criteria.*

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-15: Effectiveness in collection of tax payments (M1) *(i) Arrears collection ratio* *(ii) Transfer of revenues to MoF* *(iii) Accounts reconciliation*	**D+***(revised from B)* **(i) D** *(revised from B)* **(ii) A** **(iii) D** *(revised from A)*	**D+** **(i) D** **(ii) A** **(iii) A**	**Unchanged performance.** The end-year stock of tax arrears ranged between 13% and 17% of total tax collections during 2010-2012. The bulk of the arrears is owed by only 30 entities and the collection rate is very low, despite SRC's efforts to collect the debts. The SRC is able to track tax arrears electronically through its Taxpayer 3 e-management system introduced at the end of 2011. This has enabled the rating for dim. (iii) to improve sharply. The SRC has re-assessed the 2008 PEFA rating as D+, the Taxpayer 3 e-management system not yet being in place. *SC (i): The debt collection ratio in the most recent year was below 60% and total amount of tax arrears is significant (more than 2% of total collections).*
Budget Execution & Cash/Debt Management			
PI-16: Predictability in the availability of funds for commitment of expenditures (M1) *(i) Cash flow forecasting* *(ii) Expenditure commitment time horizons* *(iii) Adjustments to budget allocations*	**A** **(i) A** **(ii) A** **(iii) A**	**A** **(i) A** **(ii) A** **(iii) A**	**Unchanged performance.**

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-17: Recording & management of cash balances, debt & guarantees(M2) *(i) Debt data recording & reporting* *(ii) Consolidation of govt.'s cash balances* *(iii) Contracting loans & issuing guarantees*	**B+** **(***revised from A***)** **(i) A** **(ii) B** *(revised from A)* **(iii) A**	**A** **(i) A** **(ii) A** **(iii) A**	**Improved performance.** Performance improved through DP project/programme bank accounts being brought under the TSA. The 'A' rating in the 2008 assessment for dim. (ii) has been revised to B, as some DP accounts opened for funding programme/ project expenditures, were outside TSA.
Internal Controls			
PI-18: Effectiveness of payroll controls (M1) *(i) Reconciliation between personnel records & payroll data* *(ii) Timeliness of changes to personnel records and the payroll* *(iii) Controls over changes to personnel records & payroll* *(iv) Existence of payroll audits*	**D+** *(revised from B+)* **(i) D** *(revised from A)* **(ii) B** *(revised from A* **(iii) C** *(revised from B)* **(iv) C** *(revised from B*	**D+** **(i) D** **(ii) B** **(iii) C** **(iv) C**	**Unchanged performance.** The D+ rating is due to the lack of timely reconciliation between the payroll and the personnel records of line ministries (dim. i), mainly as the manual linkages between the two make reconciliation processes very time consuming. The A rating in the 2008 assessment was incorrect as reconciliation was not being carried out. The ratings for the other dimensions have also been revised downwards, for reasons noted in the box below. *SC (i): Integrity of the payroll is significantly undermined by lack of reconciliation between the establishment list, personnel records and the payroll.* *SC (ii): for 'B' rating: Up to 3 months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.* *SC (iii): Controls exist but are not adequate to ensure full integrity of data.* *SC (iv): Partial payroll audits or staff surveys have been undertaken in the last 3 years.*

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-19: Transparency, competition & complaints mechanisms in procurement (M2) *(i) Legal & regulatory framework* *(ii) Use of competitive procurement methods* *(iii) Public access to procurement information* *(iv) Independent administrative procurement complaints system*	*Not comparable (New method. applies 4 measures instead of 3) ("A" rating under old method.)*	**B** **(i) A** **(ii) D** **(iii) B** **(iv) A**	**Methodology changed**. A new Law on Procurement (i), the introduction of an e-procurement website (iii) and the establishment of a Procurement Complaint Review Board (iv) point to increased transparency in procurement. The incidence of non-competitive procurement on the basis of special or exclusive rights is high (66% in 2011, 72% in 2012 by value). *SC (ii): Reliable data are not available to assess.* *SC (iii): At least 3 of the 4 information elements (e.g. procurement plans) representing 75% of procurement operations (by value) are publicly available.*
PI-20: Effectiveness of internal controls for non-salary expenditure (M1) *(i) Expenditure commitment controls* *(ii) Understanding of other internal controls* *(ii) Compliance with internal controls*	**C+** **(i) B** *(revised from A)* **(ii) C** **(iii) C** *(revised from A)*	**C+** **(i) A** **(ii) C** **(iii) C**	**Unchanged performance.** Overall performance has not changed, due to shortcomings with regard to the understanding of, and compliance with, internal controls (ii and iii) other than expenditure commitment controls (i). The effectiveness of these has strengthened through the introduction of the Client-Treasury system in 2010, which allowed public bodies to be directly linked to the Treasury Operations Day (TOD) software system, which itself has undergone periodic updates, and the inclusion of PIUs in its coverage. The strengthening indicates that the A rating in the 2008 assessment was too high, mainly because PIU expenditures were not captured by it. The rating has been revised to B. The rating for (iii) in the 2008 assessment has been revised to C. *SC (ii): Other internal control rules & procedures consist of a basic set of rules which are understood by those directly involved in their application. Some rules and procedures may be excessive.* *SC (iii) Rules are complied with in a significant majority of transactions, but the unjustified use of simplified procedures is an important concern.*

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-21: Effectiveness of internal audit (M1) *(i) Coverage & quality* *(ii) Frequency & distribution of reports* *(iii) Extent of management response to internal audit findings*	**D+** **(i) D** **(ii) C** **(iii) D** *(revised from B)*	**C ▲** **(i) C** **(ii) C** **(iii) C▲**	**Improved performance.** Performance improved under (i) & (iii), due to the establishment of an operationally independent modern systems-oriented IA function in 2012 and an improvement in follow-up by management. Follow-up is continuing to improve. Under (ii) the Ministry of Finance does not routinely receive audit reports, as the new audit information system is only partially working. It did receive reports at the time of the 2008 assessment, but the IA system was less developed. The B rating for dim. (iii) in the 2008 assessment has been revised to D as an operationally independent systems-focused IA function was not yet in place. *SC (i): The function operates for at least the most important govt. entities & undertakes some systems review, but may not meet professional standards.* *SC (ii): Reports are issued for most government agencies but may not be submitted to MoF & the SAI.* *SC (iii): A fair degree of action is taken by many managers on major issues, but often with delay.*
C (iii) Accounting, Recording and Reporting			
PI-22: Timeliness & regularity of accounts reconciliation (M2) *(i) Bank reconciliation* *(ii) Suspense accounts & advances reconciliation & clearance*	**B+** *(revised from A)* **(i) B** *(revised from A)* **(ii) A**	**A** **(i) A** **(ii) A**	**Improved performance.** Performance improved under (i) due to the TSA including all transactions of foreign-financed projects/programmes implemented through PIUs, starting in 2012. The rating for (i) in the 2008 assessment has been revised to B, as PIU transactions were outside the TSA at that time.

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-23: Availability of information on resources received by service delivery units (M1)	**C**	**A**	**Improved performance.** Performance improved due to reports on resources received and spent by schools with SNCO status now being prepared and publicized.
PI-24: Quality & timeliness of in- year budget reports (M1) *(i) Scope of reports* *(ii) Timeliness of reports.* *(iii) Quality of information*	**B+** *(revised from C+)* **(i) A** **(ii) B** **(iii) B** *(revised from C)*	**B+** **(i) A** **(ii) B** **(iii) B ▲**	**Unchanged performance.** Overall performance unchanged, but the quality of data (iii) is strengthening mainly due to the advent of the Client- Treasury system and the inclusion in it of financial flows related to DP-financed projects/ programmes. The rating for (iii) has been revised to B in the 2008 assessment, as the scope of coverage should have excluded the revenues and expenditures of SNCOs. *SC (ii): Reports are prepared quarterly & issued within 6 weeks of end of quarter.* *SC (iii): There are some concerns about accuracy, but data issues are highlighted in reports and do not compromise overall consistency/usefulness.*
PI-25: Quality & timeliness of annual financial statements (M1) *(i) Completeness of FS* *(ii) Timeliness of submission of FS (iii) Accounting standards used*	**D+** **(i) C** **(ii) A** **(iii) D**	**D+** **(i) C** **(ii) A** **(iii) D**	**Unchanged performance.** The absence of modern accounting standards continues to hinder the preparation of meaningful auditable annual financial statements. *SC (i): A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.* *SC (iii): Accounting standards are not disclosed.*

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
C (iv) External Scrutiny and Audit			
PI-26: Scope, nature and follow-up of external audit (M1) *(i) Scope/nature of audit performed* *(ii) Timeliness of submission of audit reports to NA* *(iii) Evidence of follow-up on audit recommendations*	**D+** **(i) D** **(ii) A** *(revised from D)* **(iii) B**	**C+▲** **(i) C▲** **(ii) A** **(iii) B▲**	**Improved performance.** Performance improved under dim. (i) due mainly to the increased independence of CoC as a result of the e RA Law (2006) on the Chamber of Control (dim (i)). The CoC still lacks sufficient independence. CoC's performance is continuing to strengthen under (i) through its on-going reform activities. Progress is being made under dimension (iii) on the evidence of follow-up on audit recommendations, though not yet by enough to increase the rating. The RA Government has been publishing information about measures undertaken by audited entities in response to audit finding. The effectiveness of these measures is not yet clear. *SC (i): Govt. entities representing at least 50% of total expenditures area are audited annually. Audits predominantly comprise transactions level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.* *SC (iii): A formal response is made in a timely manner, but there is little evidence of systematic follow-up.*
PI-27: Legislative scrutiny of the annual budget law (M1) *(i) Scope of NA's scrutiny* *(ii) NA procedures* *(iii) Time allowed for NA to review the draft budget* *(iv) Rules for in-year budget adjustments without prior approval of legislature*	**C+** *(revised from A)* **(i) A** **(ii) A** **(iii)A** **(iv) C** *(revised from A)*	**C+** **(i) A** **(ii) A** **(iii) A** **(iv) C**	**Unchanged performance.** No change in performance in terms of ratings, but the quality of the scrutiny of the draft state budgets (i) has improved as a result of the on-going introduction of programme budgeting by the RA Government. Dim. (iv) in the 2008 assessment has been revised to C, as the legislation still permits GoA to increase total expenditure during the year up to the amount of any revenue surplus without seeking prior NA approval. *SC (iv) Clear rules exist, but they allow extensive administrative reallocation as well as expansion of total expenditure.*

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-28: Legislative scrutiny of external audit reports (M1) *(i) Timeliness of examination of audit reports* *(ii) Extent of hearings on key findings* *(iii) Issuance of recommended actions by NA & implementation by the executive*	**D+** **(i) A** **(ii) A** **(iii) D**	**D+** **(i) A** **(ii) A** **(iii) D**	**Unchanged performance.** The weakest link is dim. (iii) as proposals made by MPs following their review of audit findings have no mandatory force. *SC (iii): No recommendations are being issued by NA.*
D. Donor Practices			
D-1: Predictability of direct budget support (M1) *(i) Annual deviation of actual budget support from the forecast provided by DPs* *(ii) In year timeliness of DP disbursements*	**D+** **(i) C** **(ii) D**	**C+** **(i) C** **(ii) B**	**Improved performance.** Performance improved due to increased predictability of in-year budget support disbursements. (ii). *SC (i)In no more than 1 of the last 3 years has direct budget support outturn fallen short of the forecast by more then 15%.* *SC (ii) Actual quarterly disbursement delays (weighted) have not exceeded 25% in 2 of the last 3 years.*
D-2: Financial information provided by DPs for budgeting and reporting on project &programme aid (M1) *(i) Completeness & timeliness of budget estimates by DPs for project support* *(ii) Frequency & coverage of reporting by DPs on actual DP flows for project support*	**A** **(i) A** **(ii) A**	**A** **(i) A** **(ii) A**	**Unchanged performance.**

CORE DIMENSION	Score 2008 PEFA	Score 2013 PEFA	Assessment
D-3: Proportion of aid that is managed by use of national procedures (M1)	D	B	**Improved performance.** It is partly due to the increased proportion of aid being provided as budget support and partly due to greater application of national systems (treasury, financial reporting and external audit) in relation to DP-funded project support. Use of country systems is close to 80%. *SC: 75% or more of aid funds to central government are managed through national procedures (procurement, payments & accounting, financial reporting, audit)*.

***1/** Fiscal year is the calendar year.*
***2/** The scoring criterion (SC) is shown in the third column for each dimension where the score is lower than A.*
***3/** An upward pointing arrow (▲) may be provided if a PFM-strengthening activity is underway, which, when completed, would result in a higher rating.*

The 2008 ratings have been revised for 10 indicators, as explained in the table below. Two of these (PIs 4 & 7) revisions are due to a change in scope.

2008 PEFA PI ratings that appear to be incorrect or have a different scope

PI	*Rating*	*Reasons*
PI-4 (ii)	B	The rating has been revised to A. SNCOs were included in the scope of coverage in the 2008 assessment, but should have been excluded as they were EBOs.
PI-7 (i)	A	The rating has been revised to B. SNCOs were, and still are, central government EBOs.
PI 17 (ii)	A	The rating has been revised to B. The “A” rating was too high as some DP accounts opened for funding programme/project expenditures, were outside TSA.
PI-18 (i)	A	The rating has been revised to D. The A rating seems too high as reconciliation between personnel records and the payroll was not routinely conducted. It was assumed that, for each MDA, the list of staff provided by PMD to the Accounting Department was the same list that was used for payroll calculations by the Accounting Department. It may not have been the same list, however, if it had been tampered with, and routine reconciliation was not taking place to check that the lists were the same.

PI	*Rating*	*Reasons*
PI-18 (ii)	A	The rating has been revised to B. The 2008 rating appears too high. It stated what the situation should be, according to the law, but did not provide evidence of the actual situation. There is no evidence of any change in performance.
PI-18 (iii)	B	The rating has been revised to C. The 2008 PEFA assessment did not say anything about controls. The basis of the B rating is not substantiated. There is no evidence of any change in performance.
PI-18 (iv)	B	The rating has been revised to C. The 2008 PEFA overestimated the extent of payroll audit and there is no evidence of any change in performance.
PI-20 (i)	A	The rating has been revised to B. Commitment control strengthened due to the establishment of the Client-Treasury system, the regular updating of the Treasury Operating Day system to which it is linked, and the inclusion of PIU expenditures in the commitment control process. The exclusion of these expenditures results in a revised rating in the 2008 assessment.
PI-20 (iii)	A	The rating has been revised to C. The dimension was mis-understood in the 2008 PEFA. Performance is unchanged.
PI-21 (iii)	B	The rating has been revised to D. The 2008 PEFA assessment seems to have over-estimated the situation at that time, as a system focused IA function was not yet in place.
PI-22 (i)	A	The rating has been revised to B. At that time, PIU accounts were mainly outside Treasury control and timely bank reconciliation applied to Treasury managed accounts only.
PI-24 (iii)	C	The rating has been revised to B. The scope of coverage should have excluded the revenues and expenditures of SNCOs. The overall rating increases to B+.
PI-26 (ii)	D	The rating has been revised to A. This dimension is assessed on the timeliness of the submission of CoC opinion on the budget execution report. The 2008 assessment based its rating on the timeliness of the submission of CoC's annual report to the NA. This report covers issues that in many cases have been outstanding for more than one year and therefore is not relevant in terms of dimension (ii), which relates to the previous completed FY. The overall rating is still D+.
PI-27 (iv)	A	The rating has been revised to C. The same as under the 2013 assessment as the situation is the same.

1. Introduction

1.1. Purpose

In Armenia the first PEFA assessment was conducted in 2008, using the self-assessment method. A repeat assessment is therefore timely. The report assesses the extent to which PFM system performance has changed since the last assessment.

Subsequent to the 2008 PEFA assessment, a PFM Reform Strategy (PFMS) was prepared and approved by the RA Government in 2010 for implementation during 2011-2020 (described in Section 4). A detailed PFM reform action plan was prepared for the first phase, covering 2011-2014. This repeat PEFA assessment will help to inform the preparation of the detailed action plan for Phase 2. The assessment will also help to inform DPs about the fiduciary risk they may be exposed to in relation to their financial assistance to the RA Government and how best they can assist the RA Government in implementing the next action plan.

As well as providing significant assistance through projects and programmes in various sectors of the economy, the EU, WB, GIZ, ADB, IMF and other DPs also provide significant support to most areas of PFM reform. They coordinate their efforts through regular coordination meetings.

Similar to the first PEFA assessment this repeat assessment is again a self-assessment, conducted by the RA Government. Unlike the first assessment, a consulting team was contracted to assist the self-assessment team and to validate its work. The consulting team consisted of 3 locally-hired consultants and 2 externally-sourced consultants. Funding for the consultants was provided by the EU and GIZ.

1.2. Organization and report preparation process

Following a meeting between GoA and DPs, a Concept Note (CN) was prepared. Approved on 25th June, 2013, it outlined the organizational arrangements for the assessment. The first step was to organize an Oversight Team (OT), the members being the Ministry of Finance and the EU Delegation to Armenia, GIZ and WB. The First Deputy Minister of Finance, Mr. Pavel Safaryan, is the OT leader, who took on the role of coordinating the assessment process and has the ultimate authority to approve the self-assessment report. The OT secretary/assessment leader, Mr. Makar Ghambaryan, is the head of the MoF Department for Internal Public Financial Control and Public Procurement Methodology.

The OT prepared the terms of reference (ToR) for the hiring of the consultants, to be funded by EU and GIZ. The EU awarded a contract to Ecorys Nederland for the hiring of two externally-sourced consultants and a locally hired consultant. GIZ directly contracted 2 locally hired consultants. The externally-sourced consultants are Peter Fairman (team leader/General Facilitator (GF)) and Corina Certan (who focused on the revenue administration and donor practice indicators: PIs 13-15 and D1-D3). The locally-contracted consultants are Mr. Vahan Sirunyan, Mr. Suren Poghosyan (GIZ) and Mr. Aram Hovhannisyan (Ecorys).

As stipulated in the CN, 6 assessment teams (AT) were appointed (August) to carry out the self- assessment. Four of these consisted of representatives from the following departments in MoF: Department for Public Internal Financial Control and Public Procurement Methodology (PIFC); Department for Budget Execution Reporting and Analysis ; Department for Budget Process Management; and Department for State Revenue Policy and Administration Methodology (with the participation of the State Revenue Committee).

The Standing Committee for Financial-Credit and Budgetary Affairs of the National Assembly of the Republic of Armenia and the Chamber of Control of the Republic of Armenia (the supreme audit institution in Armenia) are the fifth and sixth assessment teams respectively.

Prior to their arrival in Yerevan on 10th September, the externally-hired consultants collected relevant documentation from websites (particularly those of MoF, CoC, IMF, WB, ADB, and EBRD) and prepared a list of information and meeting requirements and a work plan. The list and plan was submitted to the Director of the PEFA OT Secretary/Assessment Manager a week prior to the arrival of the consultants.

The mission started with introductory meetings with the Director of the PIFC Department, the Deputy Head of Operations of the EU Delegation (Mr. Jose Navarro) and the GIZ PFM team leader (Mr. David Franzreb) and senior advisor (Mrs. Varsenik Mnatsakanyan). The mission conducted a PEFA training workshop on 12th September, attended by several government and non-government (mainly DPs) beneficiaries. The bulk of the workshop consisted of the participants evaluating case studies, which consisted of performance indicator analyses extracted from various PEFA assessments; the analyses excluded the ratings and the participants-divided into teams - had the task of determining what the rating should be.

The substantive meetings began on 13th September and continued until 27th September. Meetings were held with representatives of the ATs (as indicated above) in MoF, CoC, and the NA. These representatives would be responsible for preparing their write-ups under each performance indicator, facilitated by the 3 locally hired consultants. The purpose of the meetings was therefore to go over the information requirements that had been circulated earlier, provide clarifications and discuss issues. Meetings were also held in MoF with the Internal Audit Department, the Finance Department and Personnel Management Department and with the former department with oversight responsibilities for non-commercial and commercial public entities.

Outside MoF, meetings were also held with other Government agencies: Ministry of Education, Ministry of Urban Development (the purpose being to obtain their perspective of the quality of PFM systems), Ministry of Economy (concerning reporting by DPs on their operations), Ministry of Territorial Administration (concerning the transparency of inter-governmental relations), and the Civil Service Council (concerning the payroll indicator, PI-18).

Meetings were also held with institutions outside government in order to obtain their perspective on the transparency of PFM systems: Transparency International, Employers' Association and Taxpayers' Association. Meetings were held close to the end of the external consultants' mission with ADB, IMF and WB.

The team leader/General Facilitator prepared an Aide Memoire, and, with the rest of the team, discussed this in a de-briefing meeting with the Director of the PIFC Department on 26th September, and presented it separately to Mr. Jose Navarro from EU Delegation to Armenia. The Aide Memoire presented the viewpoints of the PEFA assessment team on the performance of the components of the PFM system and a timetable for the preparation and completion of the PEFA report.

The externally sourced consultants left Yerevan on 27th September. Over the next few weeks, the locally-hired consultants continued to provide assistance when necessary to the assessment teams that were preparing the write-ups for each PI. Under the original timetable, these were supposed to have been submitted to the Director of PIFC Department prior to the departure of the externally sourced consultants, but this deadline turned out to be infeasible, partly due to many staff being involved in the budget preparation process.

The write-ups were submitted to the PEFA assessment team on 25th October. Following some editing down they were submitted to a translator on 29th October; a second translator was later hired to speed up the process, which was more or less completed by the end of November. The translated write-ups required a very large and time-intensive amount of editing by the GF. Each edited PI was sent to the GIZ consultants for their comments, which the GF then used to further revise the write-ups; this inter-active process worked well. The GF himself prepared the Summary Assessment and parts of Section 2.

The first draft of the English version of PEFA assessment was submitted to the Director of the PIFC Department on 19th December, minus the revenue administration PIs (13-15) and donor practice indicators (D1-D3), which required some further work. Translation of the document into Armenian began at the end of December. The full first draft of the English version was submitted to the Director of the PIFC Department on 9th January, 2014, the Director then distributing the draft to DP stakeholders. The completed first draft Armenian version was submitted to the Director of PIFC Department on 10th February, the Director then circulating to the ATs for comments.

DP comments on the English first draft were submitted to the Director on 12th February. The GF incorporated these comments into the second draft. AT comments on the Armenian version were passed to Ecorys in late February/early March for translation into English, the comments also being incorporated into the second draft by the GF, who submitted the draft to Director of PIFC Department on 24th March. The changes between the first and second draft were then translated into Armenian, the second Armenian draft being submitted on 3rd April. The second English draft was sent to PEFA Secretariat for its review, as part of the PEFA Checks mechanism.

The GF returned to Yerevan on 3rd April, 2014 for 9 days. During the first few days, he and the two GIZ consultants met with the six assessment teams to discuss any further comments. The GF prepared a presentation for the PEFA workshop, held on 9th April (attended by the assessment teams and DP representatives), and incorporated the comments submitted by the PEFA Secretariat on the second draft and further comments submitted by the assessment teams and DP representatives. A final draft was submitted to PEFA Secretariat on April 23rd, which checked that its comments had been incorporated. The response of the PEFA Secretariat on May 1st indicated that most of the comments had been incorporated, but that further clarification on three of the comments was required. The assessment team addressed the comments and submitted the final report to PEFA Secretariat on May 11, which has obtained the approval seal of the PEFA Secretariat under the PEFA Check Requirements on May 28, 2014.

1.3. Assessment Scope

The assessment scope covers the central government bodies, including the regional marzpetarans. It does not cover subordinate state non-commercial organisations (SNCO) and closed joint stock companies (CJSC) and community (local) governments, though their transparency and potential fiscal risks posed by them to the central government are assessed under PIs 7-9. RA State budget spending (i.e. central government bodies) was AMD 1211.8 billion in 2012. SNCO spending was AMD 155.2 billion in 2012 (calendar year), representing 9% of total central government and SNCO expenditure. Total community government expenditure was AMD 97.5 billion in 2012, representing 6.7% of total government-wide expenditure.

2. Armenia Background Information

2.1. Economic and fiscal information

Prior to the global financial crisis (GFC) that started in 2008, real GDP per capita growth had been significant, driven in part by the construction sector fed by remittances. The sector grew 3.9 times in real terms during 2003-2008, contributing 4.5 percentage points to the 12% average growth of real GDP.

The GFC revealed the vulnerability of the economy to external shocks. Remittances fell by 35 percent in 2009, contributing to a sharp decline in construction activity of 41.6 percent and an overall decline in investment activity of 31 percent. Household consumption also dropped although at a lower rate (-1 percent of GDP) due to the fiscal stimulus programme of the Government, which mitigated the impact of the GFC to an extent. Nevertheless, real GDP fell 14.1 percent in 2009.

Helped by the fiscal stimulus programme (supported by DPs – notably Russian Federation and ADB – and by IMF under the Extended Fund Facility Arrangement and the Extended Credit Facility Arrangement agreed with the Government of Armenia (GoA) in July 2010), the Armenian economy has rebounded from the impacts of the GFC. Real GDP grew by 2.2%, 4.7% and 7.2 percent in 2010-2012 respectively, the pre-crisis real GDP level being virtually recovered by the end of 2012. The growth in 2012 was led by the mining, agriculture (partly weather-driven) and service sectors. The construction sector lagged behind, but all other sectors exceeded their 2008 growth rates. Relative to the situation in 2008, sector growth rates have changed somewhat due to changing external trade patterns and the dynamics of the industry sector, which are correlated with international copper prices.

Economic prospects are mainly dependent on further developments in the Euro zone and in Russia. The downside risks remain high due to uncertainties in the external environment, in 2013, particularly in the Euro zone, which can spill over to Armenia in terms of trade, banking sector developments and direct foreign investments. Moreover, any unfavorable developments in the Russian economy can directly affect the scale of remittances to Armenia.

Table 1 presents overall economic information on Armenia and Table 2 summarizes the fiscal performance of the central government during the last four years.

Table 1: Armenia: Selected Economic Indicators

	2009	2010	2011	2012
Total population, millions*1/*			3.0	
National income and prices				
GDP per capita (US $)	2661	2844	3363	3290
GDP (nominal) AMD billions	3142	3460	3778	3998
GDP, annual real growth,%	-14.1	2.2	4.7	7.2
CPI % change (end of period)	6.7	8.5	4.7	3.2
CPI %, annual average	3.5	7.3	7.7	2.5
Monetary sector				
% growth in broad money	15	11.8	23.7	19.5
External sector				
Current account balance, % GDP	-15.8	-14.8	-10.9	-11.2
Months of imports covered by gross international reserves	5.7	4.7	4.7	4.2
External debt, %of GDP	57.8	65.4	72.8	77.7
o/w public & publicly guaranteed	35.7	34.7	36.4	39.5
Public external debt service ratio (% exports of goods & services)	5.4	4.7	4.2	9.6

Source: National Statistical Service and MoF.

1/ According to 2011 census, the population in 2001 was 3,213,011.

Table 2: Fiscal Performance of the Government *(financial year is calendar year)*

Billion AMD	***Actual***	***Actual***	***Actual***	***Actual***
	2009	**2010**	**2011**	**2012**
Revenues + external grants	**689.9**	**780.4**	**880.8**	**946.2**
Revenues	**668.3**	**749.8**	**821.4**	**927.5**
External grants	**21.7**	**30.6**	**59.4**	**18.7**
Recurrent expenditure	***718.3***	***763.1***	***812.3***	***875.6***
Personnel emoluments*1/*	75.6	78.3	84.7	86.2
Goods & services*2/*	287.2	298.2	316.6	326.3
Subsidies, transfers, grants *3/*	339.3	356.2	375.5	422.4
Interest payments	16.3	30.4	35.5	40.7
Capital expenditure 4/	***210.8***	***191.2***	***174.2***	***130.5***

Billion AMD	*Actual*	*Actual*	*Actual*	*Actual*
	2009	**2010**	**2011**	**2012**
Total expenditures	**929.1**	**954.3**	**986.5**	**1006.1**
Overall balance	**-239.1**	**-173.9**	**-105.7**	**-59.7**
Primary overall balance (interest payments excluded)	***-222.8***	***-143.4***	***-70.1***	***-19***
Financing	**239.1**	**173.9**	**105.7**	**59.7**
Net external	354.2	66.5	39.8	54
Net domestic	-115.1	107.4	65.9	5.7
GDP, billion AMD	3142	3460	3778	3998
Domestic revenues, % GDP	21.3	21.7	21.7	23.2
External grants, % GDP	0.7	0.9	1.6	0.5
Total expenditures, % GDP	29.6	27.6	26.1	25.2
Overall balance, % GDP	-7.6	-5.0	-2.8	-1.5
Primary overall balance, % GDP	-7.1	-4.1	-1.9	-0.5
Personnel emoluments, % expenditure	8.1	8.2	8.6	8.6
Purchases of goods & services,% expenditure	30.9	31.2	32.1	32.4
Subsidies, grants, transfers % expenditure	36.5	37.3	38.1	42
Interest payments, % expenditure	1.8	3.2	3.6	4
Capital expenditure, % expenditure	22.7	20	17.7	13

1/ Personnel emoluments comprises wages (the bulk) and social contributions

2/ Includes 'Other Expenditures' in addition to specifically defined purchases of goods and services

3/ Includes pensions/social security benefits and social assistance benefits

4/ Defined as acquisition of non-financial assets less disposal of non-financial assets

Source: Source: National Statistical Service and MoF.

Tables 1 and 2 point towards a sustainable fiscal situation, helped by fiscal adjustment in response to the GFC. The overall fiscal deficit increased to -1.5% of GDP in 2012 from -7.6% of GDP in 2009 through a reduction in the expenditure/GDP ratio to 25.2% of GDP in 2012 from 29.6% of GDP in 2009, the reduction mainly on the capital expenditure side, partly due to delays in starting the North-South Highway project. The primary balance (excluding interest expenditures) increased to 0.5% in 2012 from -7.1% in 2009.An increase in the revenue/GDP ratio to 23.2% of GDP in 2012 from 21.3% of GDP in 2009, reflected in part revenue administration strengthening efforts (PIs 13-15 in Section 3).This, in turn, lessened the extent of expenditure adjustment required.

Economic classification of budget expenditures

Table 2 shows the broad economic classification of the budget in terms of total expenditures. The share of personnel emoluments has changed little, about 10 percent. The share of the other recurrent expenditure items has increased significantly, while the share of capital expenditure has fallen sharply, partly due to delays in implementing projects, the North-South Highway in particular.

Functional classification of State budget expenditures

Table 3 shows the trends of sectoral classification of government expenditures. The shares of the social services sector have increased markedly, while the shares of the defence and security, economic services and public administration sectors have fallen markedly.

Table 3: Functional Classification of Government Budgets1/

	2007	2010	2011	2012	2013
Total expenditure share %	**100**	**100**	**100**	**100**	**100**
Social services	34.9	44.8	46.5	45.9	44.9
Defence & Security	23.3	19.1	19.2	19.2	19.5
Economic services	21.8	17.6	15.3	11	10.6
Public Administration	9.8	6.2	6.2	6.3	5.8
Other services	10.2	8.4	8.6	13.2	14.8
Interest payments		4	4.3	4.4	4.2

***1/ Source*:** 2012-2014, 2011-2013 MTEFs, and 2008 PEFA assessment. Figures are budgeted/planned amounts.

2.2. PFM Legal and Institutional Framework
The PFM Legal Framework

In the Republic of Armenia (RA) the PFM legal framework consists of a number of laws and other legal acts which directly derive from the provisions of the RA Constitution. The main legislative acts in the PFM area are: the RA Budget System Law, the Treasury System Law, the Laws on Taxes, Procurement, Financial Equalization, Internal Audit, RA Chamber of Control, the Law of the Republic of Armenia on Rules of Procedure of the National Assembly, and their implementing legal acts as promulgated by the RA Government, RA Ministry of Finance, as well as other government agencies authorized in the appropriate areas. Table 4 provides an overview of the PFM-related laws.

Table 4: PFM-related legal framework

Area	*Description*
The Constitution of the RA	The Constitution regulates the PFM framework and relationship between various stakeholders, such as the National Assembly of RA, the government, Chamber of Control, etc. It also defines the major parameters and key dates of the budget calendar.
Budget preparation and execution	The RA Budget System Law (1997, periodically amended since) defines the RA budget system and regulates the budget process. It applies to budgets at all levels of the RA budget system, including the RA state and community budgets. *Inter alia,* it also sets the requirements and parameters for the MTEF and its linkage to the budget framework, as well as the requirements on programme budgeting. The RA Treasury System Law (2001) defines the treasury system, regulates the relationships pertaining to the treasury operations and aims to ensure the availability of an effective system of management of the RA and community financial assets and liabilities through the regulation of the relationships pertaining to the treasury operations.
Procurement	The RA Procurement Law (2010) regulates the relationships pertaining to the process of acquisition of goods, works and services by clients, defines the main rights and responsibilities of the parties of these relationships. It applies to the processes of procurement effected for the needs of the State, communities, their subordinate institutions, state or community non-commercial organizations and entities with more than 50 percent state or community share.
Internal audit	The RA Internal Audit Law (2010) defines the principles of internal audit for the public sector entities, its nature, scope, system, and the main rights and responsibilities of persons involved in internal audit. It also regulates the main relationships pertaining to the organization and operations of the internal audit. It applies to the central and local government bodies, state or community institutions, state or community non-commercial organizations, and entities with more than 50 percent state or community share.
External scrutiny	The RA Law on Chamber of Control (2006) defines the legal bases, principles for the operations of the RA Chamber of Control, its main tasks, functions, powers, structure, financial independence, the relationships pertaining to the approval of annual work plans and reporting, the forms and types of control, the procedure and conditions for exercising the control, the procedure for providing information by the CoC, the main rights, obligations and responsibility of employees engaged in exercising control, the public service in the CoC, as well as the procedures for contesting the actions of the CoC and its cooperation with other bodies.

Area	*Description*
Tax legislation	The RA Law on Taxes (1997) defines the concept of tax and types of taxes, the procedure for settlement of tax disputes in the RA, the responsibility for infringing the RA tax legislation (hereinafter the tax legislation) and other legal acts regulating tax relationships, as well as the underlying principles of the RA tax legislation and other legal acts regulating tax relations.

The main changes in the legal framework since the 2008 PEFA assessment and the results of these changes are:

In the procurement area, with the adoption of new legislation in 2010 the procurement process was fully decentralized and the procurement complaint review board was established, which is responsible for reviewing the appeals against the allegedly illegal actions or inactivity of clients during the procurement process. The legal bases for the transition from paper-based procurements to e-procurements were created.

In the internal audit area, with the adoption of new legislation in 2010 the institution of the chief auditor was eliminated, the requirement for the internal audit regulation was introduced, and, in January 2013, an internal audit information management system was introduced to monitor the quality of internal audit.

The main changes in the area of *tax legislation* involve the streamlining and simplification of the tax registration procedures for SME entities. As a result of the changes for the last five years the turnover tax system, as well as the patent fee system for SMEs was introduced which imply more simplified procedures for registration of taxpayers' tax liabilities. The replacement of the income tax and mandatory social contribution by the unified income tax is another important change.

In the area of *budget legislation,* the Budget System Law was amended in 2013 to provide necessary legal basis for gradual introduction of programme based budgeting by introducing new parts in annual State Budgets, which would formally present budget expenditures in a programmatic format (including performance indicators).

As a result of the changes since 2008 in the area of *external scrutiny,* the records and progress reports produced by the CoC in the course of conducting its scrutiny are sent to the General Prosecution Office of the Republic of Armenia in cases of suspicions for criminal offenses. In addition, the CoC annual reports are published in the Official Bulletin of the Republic of Armenia and on the CoC website and the official website of the Republic of Armenia for public announcements (http://www.azdarar.am) after they have been discussed by the National Assembly.

The PIFC Strategy is not yet formally approved, and thus the Financial Management Control Law that would underpin the Strategy is not yet in place.

Changes in the key elements of the PFM system are described in more detail under the relevant performance indicator in Section 3.

The Institutional Framework for PFM

According to the RA Constitution (1995 (amended in 2005)), the Republic of Armenia is a sovereign, democratic, social state governed by the rule of law. In the Republic of Armenia the power belongs to the people who exercise their power through free elections, referendums, as well as central and local self-governance bodies and officials as stipulated in the Constitution.

The RA comprises marzes and communities where state and local self-governance is implemented. In marzes state governance is implemented by the RA Government through its subordinate territorial administration bodies (marzpetarans) and in the communities local self-governance is implemented. Furthermore, the communities exercise their right to self-governance through the local self-governance bodies.

Institution	Role of institution
RA President	The RA President is the head of the State who strives to uphold the Constitution and ensures the smooth operation of the legislative, executive and judicial powers.
Judicial power	In Armenia justice is exercised only by courts in conformity with the Constitution and laws. In the RA first instance general jurisdiction courts, courts of appeal and the cassation court, and in the legally prescribed cases, also specialized courts are functional. The supreme judicial instance, save for constitutional justice matters, is the cassation court which is mandated to ensure the universal application of law. The powers of the cassation court are spelled out in the Constitution and laws.
RA National Assembly	The RA National Assembly exercises the legislative power. Among its other powers prescribed by the Constitution, the National Assembly approves the annual State budget, exercises oversight over the execution of the State budget, as well as the use of borrowings and lending from foreign states and international organizations, in the presence of the conclusion of the RA Chamber of Control discusses and approves the annual State budget execution report, upon the recommendation of the RA Government defines the administrative-territorial division of Armenia (including the list of the administrative-territorial units of Armenia, i.e., RA marzes and communities, residential areas included in each of these units, and territories and boundaries of the RA communities).

Institution	Role of institution
The executive power	The RA Government develops and implements the RA domestic policy, and it develops and implements the RA foreign policy together with the RA President. As prescribed by the Constitution, the RA Government submits its programme, the draft State budget to the RA National Assembly for approval, ensures the execution of the state budget which is reported to the RA National Assembly, manages the state-owned property, implements the unified financial-economic, credit and tax policy, implements the government policy in the areas of science, education, culture, health, social security and nature protection, ensures the implementation of the defense, national security and foreign policies, ensures the preservation of public order, exercises other functions and powers prescribed by the Constitution and laws.
RA Ministry of Finance (MoF)	The MoF is a central executive body which develops and implements the RA Government policy in the areas of revenue formation, public finance management. Below the functions of the MoF directly related to the PFM system are described: • Identification and definition of the main macroeconomic target indicators, macroeconomic planning, macroeconomic studies and analyses, development and implementation of the fiscal policy coordinated with the RA monetary policy; • Development of medium-term and long-term tax and other revenue policy, development of methodology for tax and customs administration; • Organizing the activities under the next year's budget process, including the organization and implementation of the activities of developing the RA medium-term expenditure framework and the RA draft State budget, provision of guidance to public administration and local-self-governance bodies in preparing the appropriate budget financing requests and the draft community budgets, and the application of modern budgeting techniques aimed to increase the efficiency of using public funds • Developing the methodology in the area of internal audit, ensuring the availability of the system of training and ongoing professional development of internal auditors; • Coordinating the activities of developing legal acts on procurement and their approval and submission for approval, organizing the methodological guidance of the procurement process and providing methodological support to clients in organizing procurements;

Institution	Role of institution
RA Ministry of Finance (MoF)	• Ensuring the availability of the system for professional education, ongoing training and qualification assessment for procurement coordinators of clients, publicizing the list of qualified procurement specialists; • Organizing the publication of the official procurement bulletin; • Developing the accounting and audit standards, developing and approving the accounting chart of accounts and financial statement forms, organizing and administering the qualification of accountants and auditors. The organizational structure of MoF reflects its responsibilities, as depicted in its organizational chart, reproduced in Annex D.

The yet-to-be enacted Financial Management Control (FMC) Law under the auspices of the PIFC Strategy and the further development of programme-performance budgeting and associated cost accounting imply substantial changes in the institutional framework for PFM.

Legal relationships pertaining to SNCOs are primarily regulated by the RA Law on State Non-commercial Organizations passed on October 23, 2001. Today there are around 1800 SNCOs in the Republic of Armenia which are partly financed from the state budget, and they may also engage in business activities and use the generated profit for accomplishing their statutory goals.

2.3. Key challenges to PFM reform

As described in the relevant parts of Sections 3 and 4, PFM reforms are on-going and planned in most of the PFM areas.

A particular challenge facing the Government is how to strengthen the IT system that underpins the current financial management system. A report commissioned by World Bank in 2011 pointed out some key issues with the current Treasury IT system[1], namely the lack of automatic systems and modules connected to a general ledger, and thus the absence of a double entry accounting system that would facilitate the timely and accurate preparation of annual financial statements (as discussed under PI-25 in Section 3). Nevertheless, the current system has a full record of all transaction made, which are recorded in a single bookkeeping system. Furthermore, Armenia's chart

[1] "GFMIS High Level Implementation Architecture and Business Process Review" Prepared by Corporate Solutions. The issues are also discussed in the World Bank's 'PFM Reform Priorities, November 2010.

of accounts covers all types of transactions, thus enabling the categorization of all unique transactions and the associated preparation of reports.

A decision has not yet been made on how best to strengthen the IT systems used for PFM. Changes may be difficult, expensive and disruptive, so how to manage changes has to be fully planned in advance and implemented in harmony with the implementation of the PFM Strategy, and, under this, the PIFC Strategy.

Some changes have already been made that are improving the efficiency of the current system: for example, the introduction of the Client-Treasury software system in 2010 enables spending agencies to enter proposed transactions directly into the Central Treasury System rather than having to go through Local Treasury Bodies (LTBs). The e-procurement system that has been introduced but is not yet fully functional will link planned purchases and resultant invoices to the Treasury system, facilitating commitment control, cash management and reducing the likelihood of unpaid invoices.

Another fundamental challenge faced by the RA Government is the gradual introduction of programme budgeting in all the stages of the budget cycle to incorporate the "value for money" principle. The aim is to create all preconditions necessary for full-scale transition to programme budgeting from 2018 onwards. The design and systematic introduction of necessary institutional and structural changes will be crucial.

The measures to be implemented include the revision of the structure of budget programmes within the 2012 budgeting process and the introduction of a new system of programme classifiers to comply with the programme budgeting requirements. As a result, 800 programmes of the budgetary system were combined into 170 programmes. Programme passports are developed for 70 programmes that are of highest importance for the users of budget information, including the general public. It is planned to proceed with the activities aimed at revising and updating non-financial indicators as well as with the elaboration of the programmatic segment in the Chart of Accounts. The programme budgeting reforms implemented so far are formalised by law, creating a basis for further roll out.

3. Assessment of the PFM Systems, Processes and Institutions

3.1. Introduction

The following sub-sections provide the detailed assessment of the PFM indicators contained in the PFM PMF (Public Finance Management-Performance Measurement Framework). The scoring methodology only takes into account the existing situation and does not cover on-going and planned activities that may result in higher scores under future assessments, but these are summarized at the end of the discussion on each section.

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where weak performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given where any of the other dimensions are scoring higher.

Method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. It is prescribed for multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. A conversion table for 2, 3 and 4 dimensional indicators is used to calculate the overall score. The PEFA handbook (PFM Performance Measurement Framework, www.pefa.org) provides detailed information on the scoring methodology. Effective January 2011, a revised methodology is being used for PIs 2, 3 and 19.

An upward pointing arrow (▲) may be provided if a PFM-strengthening activity is underway, which, when completed, would result in a higher rating.

The PEFA assessment reviews PFM performance under the existing situation. The relevant time period depends on the type of indicator. For some indicators, the relevant time period is the last completed fiscal year (2012), for example, PI 4, 7, 9, 24-26, 28. For some other indicators, the time period is the last 3 completed fiscal years (2010-2012), e.g. PIs 1-3. For some indicators the relevant time period is the situation up to the time of the assessment (e.g. PIs 13-14 concerning revenue administration and the first three dimensions of PI-18, concerning payroll control). More information is available in the PEFA Secretariat's publication 'Guidance on evidence and sources of information to support the scoring of indicators.'

This is a repeat assessment, so it is important to ensure the validity of comparisons of ratings under the new assessment with the old one and that 'like' is being compared with 'like'. Comparisons may not be valid if the scope of the new assessment for an indicator is not the same as under the old assessment. This is the case under PI-4 (expenditure arrears), PI-7 (extra-budgetary operations) and PI-24 (quality of in-year budget performance reports), as SNCOs were included within the scope of the central government's budget in the 2008 assessment, but have been excluded under the current assessment (i.e. SNCOs are treated as extra-budgetary operations in the current report). Comparisons may also not be valid if the ratings in the 2008 assessment appear to be incorrect, as is the case for a number of indicators (summarised under the Summary Assessment). At the time of the 2008 PEFA assessment, the PEFA methodology was still relatively new and the understanding of it by assessors not yet perfect, so errors appear to have been made (also the case with many other PEFA assessments).

Comparisons are problematic under two out of the three PIs where the rating methodology was revised, effective January 2011, namely PIs 2 (variance in the composition of expenditure) & 19 (public procurement). Re-scoring PI-2 in the 2008 assessment requires the time consuming inputting of data on the budgets and actual budget performance for the 2005-2007 budgets into an Excel spreadsheet. Re-scoring dimensions (i), (iii) and (iv) of PI-19 is feasible, but difficult for dimension (ii), on the justification for the use of non-competitive procurement methods, as per the previous methodology. Under the revised methodology, precise quantitative data are required, whereas precise data were not required under the previous methodology. The methodology for PI-3 on revenue performance was also revised (under-forecasting penalised as well as over-forecasting), but re-scoring the 2008 assessment rating for PI-3 is straightforward.

A scoring box appears at the end of the narrative for each indicator. The rating for each dimension, the justification for the rating and the reasons for change, if any, are provided in the box. The scoring criteria used to assess each dimension are contained in the Summary Assessment table at the beginning of this report.

The fiscal year is the same as the calendar year, so references in the tables and text to 2010, 2011 and 2012 (last three completed fiscal years at the time of the assessment conducted during September-October 2013) are in relation to both the fiscal year and calendar year.

3.2. Budget Credibility

Good practice in public financial management emphasizes the importance of the budget being credible so that planned Government policies can be achieved. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires appropriate fiscal discipline to be in place. The indicators in this group assess to what extent the budget is realistic and implemented as intended.

Assessment of Performance indicators of budget credibility

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-1 (M1): Aggregate expenditure performance	**B**	**A**	***Improved performance,*** partly due to more realistic revenue and expenditure planning.
PI-2(M1): Variance in expenditure composition	**NA** ***(A under old method.)***	**B+** ***(revised method.)***	***Methodology has been changed***. It was not possible to re-assess the 2008 rating using the new methodology. Assessment of change in performance is therefore not possible. The variance arose from increased allocations to some agencies funded by revenue surpluses (2010) and mostly from allocations to some agencies from the RA Government's Contingency Fund.
PI-3(M1): Domestic revenue performance	**B** ***(revised method. A under old method.)***	**A** ***(revised method.)***	***Improved performance***, partly due to strengthening revenue forecasting and administration and changes in the legislation.
PI-4 (M1):Extent of expenditure arrears	**A** ***(B+ under previous scope)***	**A**	***Performance unchanged.*** Expenditure arrears have been virtually zero for the last 10 years due to good revenue performance and the unchanged legislation-based expenditure control system. Report F254 – generated by the Treasury IT system – monitors expenditure commitments, advance payments, invoices and payments, arrears being the net of these 3 amounts. Arrears of SNCOs are not covered in the 2013 assessment, but were included in the scope of coverage in the 2008 assessment.

3.2.1. PI-1: Aggregate expenditure out-turn compared to original approved budget

For the purpose of assessing this indicator, the comparison was performed against the primary State budget expenditure as originally approved by the National Assembly. The variance (in absolute terms) between the 2010-2012 RA State budget primary expenditure out-turns and primary expenditure of the approved original budget was 1.4%, 1.9% and 1.7% respectively (6.7%, 4.9%, 7.4% in 2005-2007 respectively).

Table 5: Budget execution rate for total primary expenditure

Million AMD	2010	2011	2012
Originally budgeted total primary expenditure	794,866.1	872,633.5	899,998.0
Actual primary expenditure	805,957.2	855,749.6	884,286.7
Difference between actual and original budgeted primary expenditure	11,091.1	-16,883.9	-15,711.3
Difference as % of original budgeted primary expenditures	1.4%	-1.9%	-1.7%

Sources: Ministry of Finance

Note: Primary expenditures are defined as total central government budget (as per State Budget Law) expenditure less debt service payments less DP-funded projects/programmes. They exclude extra-budgetary expenditures and expenditures incurred without limitations, as indicated in footnote 2 under PI-3.

The expenditure over-performance of 1.4% in 2010 is explained by domestic revenue over-performance (PI-3) of 4.6 percent. Expenditure under-performance of 1.9% and 1.7% in 2011 and 2012 respectively resulted from savings under certain programmes, as well as extended timing of payments against procurements under individual programmes and low rates of implementation of some domestically-funded capital projects. In absolute terms, the deviations were less than 5 % in all three years.

PI-1: Aggregate expenditure out-turn compared to approved original budget

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-1	B	A	**Performance improved,** partly due to more realistic revenue and expenditure planning. The variance between the 2010-2012 RA State budget primary expenditure out-turns and primary expenditure of the approved original budget was 1.4%, -1.9% and -1.7% respectively. The variances in the 2005-07 budgets were 6.7%, 4.9% and 7.4% respectively.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(i)	B	A	Over the last three years the variance between the actual primary expenditures and the approved budget did not exceed 5 percent.

3.2.2. PI-2: Variance in expenditure composition

This criterion was assessed based on the administrative classification. Variance in primary expenditure composition was 4.9%, 6.4% and 6.4% in 2010-2012 respectively. The variance in 2010-2012arose from revenue surpluses, increased allocations provided within the powers of the Government and allocations from the Government Contingency Fund, and in 2012 also the spending for social packages of employees of public institutions and organizations (which had not been included in the approved budget). As shown in Annex A, allocations from the 'Non-distributed Expenditure' category (which include expenditures from the Government Contingency Fund and the ones for official travels, reception of delegations and provision of social packages to employees of public institutions and organizations) were AMD 22.3 billion, AMD 26.3 billion and AMD 42.4 billion in 2010-12 respectively.

Table 6: PI-2. Expenditure composition variance and average contingency

FY	Variance composition change (% of budget) 1/	Average contingency 2/
2010	4.9%	0%
2011	6.4%	0%
2012	6.4%	0%

1/ Defined as the sum of the absolute deviations for each MDA from the 'adjusted' budget, itself defined as the original budget for the MDA plus/minus the aggregate deviation (as assessed under the revised methodology for PI-2 that came into effect in January 2011). The old method led to a combination of upward bias in scores in the case of deviations being all the same sign (i.e. all positive or negative) and downward bias due to allocations from contingency/reserve funds to ministries during the year being counted twice.
2/ The rating is A if the funds of the Non-distributed Expenditure Category are allocated to line ministries, as was the case in Armenia.
Source: *Annual State Budget Execution Reports, www.minfin.am*

The assessment was performed based on the data presented according to administrative classification in Annex A (for each of the 20 largest agencies, the remaining agencies being aggregated into a 21st agency), based on annual budget reports for the respective years.

PI-2: Composition of expenditure out-turn compared to original approved budget

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-2	**NA *(A, under old method.)***	**B+ *(revised method.)***	**The assessment methodology was changed in January 2011, and thus the ratings for the 2 assessments are not comparable.** *It was not possible to apply the revised methodology to the data used in the 2008 PEFA assessment.* The variance arose from increased allocations to some agencies funded by revenue surpluses (2010) and mostly from allocations to some agencies from the RA Government's Contingency Fund.
(i)	NA *(A, under old method.)*	B	In two of the last three years the variance of the composition of actual primary expenditures was above 5% but below 10%.
(ii)	NA *(no (ii) under old method.)*	A	Not allocated expenditure categories, including the Contingency Fund in the approved budget were completely reallocated to ministries/ agencies during 2010-2012.

3.2.3. PI-3: Aggregate revenue out-turn compared to original approved budget

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based on that forecast. A comparison of budgeted and actual revenue provides an indication of the quality of revenue forecasting.

The performance of the RA State budget domestic revenues (revenues identified by the Armenian legislation less official grants) for 2010-2012 was above 100 percent but below 106 percent: 104.6%, 100.7%, 100.8%[2] respectively. Table 7 provides details.

[2] Received revenues do not include extra-budgetary revenue out-turns, as well as, in the legally prescribed cases, revenue out-turns from the execution of expenditures arising from the payment of taxes and stamp duties financed from the State budget without limitations. These are:

a) Stamp duty payable by public administration bodies on applying to courts;
b) Payments necessary for clearing the additional tax and customs liabilities of public bodies identified as a result of audits;
c) Stamp duties payable for reorganization of a public institution into an SNCO;
d) VAT payable by a public body to suppliers when reducing its share of the paid-in capital of a commercial organization.

Table 7: Domestic revenue performance

	Performance, %			Billion AMD					
	2010	2011	2012	2010 plan	2010 actual	2011 plan	2011 actual	2012 plan	2012 actual
STATE BUDGET REVENUES (grants)	104.6%	100.7%	100.8%	699.6	731.5	796.4	801.8	895.3	902.1
Tax revenues and stamp duties	103.7%	100.2%	101.9%	570.0	591.1	650.0	651.3	732.3	746.0
Mandatory social contributions	100.1%	100.0%	90.8%	105.2	105.3	123.4	123.4	142.1	129.1
Non-tax revenue	143.6%	117.6%	128.4%	24.4	35.0	23.0	27.1	21.0	27.0

Source: MoF

Over-performance was mainly under the tax revenue and other revenues categories. The good performance was achieved partly, however, through pressure being applied by the State Revenue Committee (SRC) on compliant taxpayers to pay tax obligations in advance. Such pressure was applied in previous years also. The pressure has diminished somewhat, but nevertheless was very recently raised as an issue under a new IMF supported programme (more details provided under PI-13).

RA State budget revenues projections are based on the fiscal principles and macroeconomic forecasts set out in the medium-term expenditure frameworks, trends in collecting individual types of revenues - including during the current year –legislated changes in coverage and rates of tax and non-tax revenue types, and strengthening of revenue administration (as documented under PIs 13-15), as evidenced through increasing ratios of tax revenue to GDP (Table 2, Section 2).

PI-3: Aggregate revenue out-turn compared to original approved budget

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-3	B *(revised method.)*	A	**Performance has improved, partly due to strengthening revenue forecasting and administration and changes in the legislation. A new methodology came into effect in January 2011, which penalized large positive revenue deviations as well as negative ones.**

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(i)	B *(A rating, old method.)*	A	In 2010-2012 actual domestic revenues represented 104.6%, 100.7% and 100.8% respectively of the originally budgeted amounts. Deviations in 2005-2007 were 104.5%, 110.5% and 113.3% respectively, resulting in a B rating under the revised methodology.

3.2.4. PI-4: Stock and monitoring of expenditure payment arrears

Payments arrears can arise from financial resource inflow unpredictability, combined with problems with budgeting and budget execution systems. The arrears have to be paid off at some point (providing that the original commitments were legally entered into) out of future budgets, thereby reducing the resources available for financing the delivery of services in future years. In general, a persistent arrears problem reduces the credibility of the budget as a tool for providing for the public goods and services desired by society.

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

End- of- year expenditure arrears have been virtually zero over at least the last ten years due to the high performance of State budget revenue collections and the strength of the expenditure commitment system, derived from the legally-based preconditions for government agencies to assume expenditure commitments. Allowable expenditure commitments are based on the payment schedule, as indicated under PI-16. The treasury system restricts the assumption of commitments which are in divergence with the schedule. Pursuant to Para. 40 of the Procedure approved under Government Decree 48 of January 18, 2002, commitments from budgets for the concerned period cannot be made if they exceed the amounts allowed by the payments schedule. Thus proposed commitments that may cause such excess are rejected by the treasury system, or alternatively the payments schedule is rephased (as elaborated on under PI 16).As a last resort in the event of unexpected revenue shortfalls, the Government can in principle draw down its bank deposits.

End-of-year procedures also established under Decree 48 also guard against the possibility of arrears. Near the end of each financial year the Central Treasury limits the possibility for budget agencies to assume new commitments in order to avoid any possibility of payment arrears at the year-end caused by the late submission of invoices. Suppliers are requested to submit invoices no later than 20th December and are informed that invoices submitted after that date will have to be paid out of next year's budget. Thus suppliers have an incentive to submit their invoices on time in order to avoid delayed payments and budget agencies have an incentive to process these invoices on time in order to avoid disruption in executing next year's budget.

In some countries, amounts owed to contractors under multi-year contracts may be higher than projected, thus implying the possibility of payments arrears. This is unlikely in Armenia, as the amount of expected contract payments under multi-year contracts is reflected in the approved budget for next year after discussions with contractors at the beginning of the year. Contractors plan their work accordingly, aware that invoices/payments certificates submitted that are not covered by the budget may not be paid, resulting in financial burden. Invoices submitted that are covered by the budget will be paid quickly to avoid contractors facing a tax burden (tax accounting is on an accrual basis, with tax dues based on projected receivables).

The strengthening of the expenditure commitments control system since the 2008 PEFA assessment, noted under PI-20, has reduced the already low likelihood of payments arrears.

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

Under the control of the Treasury, a system for monitoring arrears is in place. For each contract, it receives information, through Report Format F254, on the contract value, committed expenditures, advance payments, invoiced amounts, and actual payments. A copy of Report Format F254 and supporting documentation (e.g. signed contracts) was shown to the external assessment team. For each contract, one column shows advance payments, the next column shows invoices submitted, the next column shows the difference between the two. This is usually zero, as invoices are usually paid within 3 days of submission. At times the column may be negative, if advance payments have been made but invoices not submitted.

The accounting system is cash-based and so accounts payables at the end of the year are not possible and are not indicated in end-of-year financial statements. Invoices submitted late therefore cannot be recorded as liabilities at the end of the year and are instead recorded as outstanding at the beginning of the following year.

Decree 48 (noted above) requires that invoices should be submitted no later than three days prior to the already agreed payment date; Invoices submitted earlier will not be paid earlier. As invoices are paid within three days of submission, an age profile of payments arrears has no meaning, apart from within the 3 days. In principle, however, the system can generate an age profile, as the date of the invoice is recorded in the system and so is the payment date.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-4	**A** ***(revised scope; B+ under original scope)***	**A**	**Performance unchanged.** Expenditure arrears have been virtually zero for the last 10 years due to good revenue performance and the unchanged legislation-based expenditure control system. Report F254 – generated by the Treasury IT system – monitors expenditure commitments, advance payments, invoices and payments, arrears being the net of these 3 amounts. Arrears of SNCOs were covered in the 2008 assessment for un-explained reasons, but are not covered in the 2013 assessments as they are counted as extra-budgetary operations, assessed under PIs 7 & 9.The rating for (ii) in the 2008 assessment has been revised to A.
(i)	**A**	**A**	**Performance unchanged.** Expenditure arrears have been virtually zero for the last 10 years due to good revenue performance and the unchanged legislation-based expenditure control system. All invoices submitted prior to 20th December are paid/cleared. End-year accounts payables are not possible under the cash-based accounting system. Invoices submitted after 20th December therefore have to be paid out of next year's budget.
(ii)	**A** *(revised due to changed scope; B under original scope)*	**A**	**Performance unchanged.** Report F254 – generated by the Treasury IT system – monitors expenditure commitments, advance payments, invoices and payments, arrears being the net of these 3 amounts. In principle an age profile of arrears is possible, but in practice it lacks meaning as invoices are paid within 3 days of submission. This system has not changed. This dimension was assigned a lower rating in the 2008 assessment due to the absence of a unified government system for monitoring arrears incurred by SNCOs. The scope of the 2013 assessment excludes the PFM systems of SNCOs, as they are extra-budgetary operations, which are assessed under PIs 7 & 9.

3.3. Comprehensiveness and transparency

The indicators in the Comprehensiveness and Transparency dimension of PFM assess to what extent the budget and fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public. The matrix below summarises the assessment of indicators under this dimension.

Assessment of Performance Indicators for Comprehensiveness and Transparency

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-5 (M1): Classification of budget	**A**	**A**	***Performance unchanged.*** Budgets are prepared, executed and reported according to the GFS-2001 functional, economic and administrative classifications. Since the 2008 PEFA assessment, budget expenditures have also been presented in the draft State budget in the programme format.
PI-6 (M1): Documentation of budget	**A**	**A**	***Performance unchanged:*** 7 of the 9 information benchmarks are met. Since the 2008 PEFA assessment, the main changes to the structure, volume and content of information presented to the National Assembly include improvements in analytical quality and the presentation of programme classification and performance indicators.
PI-7 (M1): Extent of unreported government operations	**B+** ***(revised from A, using same scope of coverage under (i) as in 2013 assessment)***	**B+**	***Performance unchanged.*** Un-reported domestic EBOs (dim. i) amounted to 4.5% of total GoA expenditure in 2012 (B rating). External EBOs (dim ii) were rated A, as per the 2008 assessment The 2008 rating for dim. (i) was revised to B, taking into account that SNCOs are central government EBOs.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-8 (M2): Transparency of inter-governmental fiscal relations	**B**	**A**	***Performance improved.*** Performance improved under dim. (iii) through the preparation of quarterly and annual consolidated community government fiscal reports and the inclusion of these into state budget performance reports. Improvement was due to the connection of community government financial management systems to central government treasury systems in 2012, facilitated by the adoption by community governments of the GFS 2001 budget classification system in 2009.
PI-9 (M1): Oversight of aggregate fiscal risk	**D+**	**D+**	***Performance unchanged.*** Although Government monitors and analyzes the operations and fiscal risks of SNCOs and CJSCs, external audits are not yet carried out, except in a fragmented manner. Armenian legislation does not yet provide mandatory requirements for external auditing of SNCO and CJSCs. The monitoring of the financial state of communities remains incomplete.
PI-10 (M1): Public access to fiscal information	**A**	**A**	***Performance unchanged.*** 5 out of the 6 specified information elements are accessible to the public, the volume of information increasing for some of the elements.

3.3.1. PI-5: Budget Classification

From 2000 the budget classification system, applied nationwide, was based on the GFS-1986 (Government Finance Statistics) classification. Until 2008 both the State and community budgets were prepared and executed in line with the GFS-1986 standards, according to functional, economic and administrative classifications.

Since 2008 the central budget, and, since 2009 also the community budgets of Armenia, have been prepared in consistency with the GFS-2001 classification structure. Furthermore, the budget expenditure functional classification is applied at all three levels (section, group, class) while the economic classification is applied and presented in budget documentation at four levels (class, category, group, sub-group). The administrative classification is presented at the level of chief managers of budgetary appropriations. All these three classifications are captured in the unified database, and information disclosed to the public is reflected in various formats of the tri-dimensional data of these three classifications (e.g., functional-administrative-economic or administrative-functional-economic). In effect, budget appropriations under the annual State Budget Law are made at a tri-dimensional level and budget decision-makers and users of information receive information in a tri-dimensional format.

Budget revenues and expenditures are presented in the same classification structure at the same depth, both at budget planning (in the central and local units of the treasury system) and reporting stages. Moreover, the budget planning, execution and reporting processes are interconnected at the software level which minimizes the degree of inconsistencies between the systems.

With regard to the presentation of the Contingency Fund in the State budget documentation, (also termed ‘Un-distributed Expenditure’, as noted under PI-2) it is treated as a fund for unplanned expenditures. In the administrative classification it is presented in the form of resources envisioned for the RA Government as a one line economic classification item. During the budget execution process, the Fund may be distributed (in part or all) to government agencies/ministries under individual government decrees according to economic classification items. The budget execution reports for each government agency/ministry therefore include the spending financed by the transfers from the Fund. A list of all government decrees on distribution of resources from the Fund is part of the annual State budget execution report, which adds to the transparency of the Fund’s expenditure out-turn.

Since the 2008 PEFA assessment, programme classification has been applied in the RA budget system, consistent with programme-based budgeting methodology. Information under programme classification contains programmes identified according to their objectives, policy actions, as well as non-financial indicators describing programme performance. These indicators are monitored and reported, with reports being provided to the National Assembly. The Ministry of Finance has developed a mapping table for programme and functional classifications through which the programme format is being integrated into the State budget planning database.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-5	A	A	**Performance unchanged.** Budgets are prepared, executed and reported according to the GFS-2001 functional, economic and administrative classifications. Since the 2008 PEFA assessment, budget expenditures have also been presented in the draft State budget in the programme format.

3.3.2. PI-6: Comprehensiveness of information included in budget documentation

As required by the Budget System Law, the package of the draft State budget documentation for the coming year is submitted to the National Assembly, and the issues pertaining to its content are regulated by Article 16 of the Law.

The 2013 draft State budget package contains 7 of the 9 elements of information, as indicated in Table 8.

Table 8: Information presented in budget documentation

No.	Budget documentation benchmarks	Availa-bility 2008 PEFA	Availa-bility 2013 PEFA	Notes
1.	Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	Yes	Yes	Parts II-A and II-B of RA Government Budget Message, which is part of the draft State budget.
2.	Fiscal surplus or deficit, defined according to GFS or other internationally recognized standard	Yes	Yes	Annex 4, Table 1 of the State Budget Law.
3.	Deficit financing, describing anticipated composition	Yes	Yes	Annex 4, Table 1 of the State Budget Law.

No.	Budget documentation benchmarks	Availa-bility 2008 PEFA	Availa-bility 2013 PEFA	Notes
4.	Debt stock, including details at least for the beginning of the current year	Yes	Yes	Table 17 of the RA Government Budget Message, (for the 2013 budget), presents the 2011 actual, 2012 expected and 2013 projected public debt at the aggregate level and by individual projects.
5.	Financial assets, including details at least for the beginning of the current year	No (revised from ‘Yes’)	No	Information on the projected use/accumulation of financial assets is provided in the budget documentation, but the beginning-of-year stock of financial assets is not shown.
6.	Prior year’s budget outturn, presented in the same format as the budget proposal	Yes	Yes	Tables 1-14 of the RA Government Budget Message, for 2013, contain information on the 2011 actual, 2012 expected and 2013 planned revenues and expenditures (with expenditures presented in the sector and programme breakdown).
7.	Current year’s budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes	Yes	Tables 1-14 of the RA Government Budget Message, contain information on the 2011 actual, 2012 expected and 2013 planned revenues and expenditures (with expenditures presented by sector and programme breakdown).
8.	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year	No	No	Summary data on budget revenues (along with their comparatives) are presented in the Government Message. A table summarizing expenditures is not prepared. This information is available in tables on individual sectors provided in the Government Message.

No.	Budget documentation benchmarks	Availa-bility 2008 PEFA	Availa-bility 2013 PEFA	Notes
9.	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programmes	Yes	Yes	This information is presented in the Government Message: - individual types of revenues (Part III-A, around 20 pages), - all expenditure directions (Part III-B, more than 150 pages).

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-6	**A**	**A**	**Performance unchanged.**7 **out of the 9 information benchmarks are met.** Since the 2008 PEFA assessment, the main changes to the structure, volume and content of information presented to the National Assembly include improvements in analytical quality and the presentation of programme classification and performance indicators

3.3.3. PI-7: Extent of unreported government operations

Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public should cover all budgetary and extra-budgetary activities of governments to allow a complete picture of government revenue, expenditures and financing. This indicator assesses the level of unreported extra-budgetary operations (EBOs) at the central Government level. Reporting of EBOs should cover planned/budgeted expenditure, actual expenditure, and annual financial statements either through consolidation with other central government expenditure, or shown in a separate document presented to the legislature. The spending by MDAs of own-source revenues also potentially represents an EBO, if they are allowed to retain the revenue for spending, rather than surrendering it to MoF. The assessment covers 2012 (the last completed fiscal year).

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

The planned spending of a number of central government-owned agencies, State Non-Commercial Organisations (SNCOs) in particular, is not included in the annual State Budget Laws, and therefore constitutes EBOs. The bulk of EBO expenditure is reported on, un-reported expenditures mainly reflecting those financed by own-source revenues. Starting in 2006 the annual State Budget Law stipulated that the planned and actual central government-financed (through transfers indicated in the state budget) expenditures of EBOs should be reflected in the State budget execution reports consistent with the procedures established by the government under its decrees. Until 2010, such receipts and expenditures were approved by the heads of the appropriate line agencies implementing programmes financed from these funds, in coordination with the Minister of Finance. But in January, 2010, Government Decree 404 of June 10, 1999 was amended to establish that from 2010 the cost estimates for the formation and spending of extra-budgetary funds and changes thereto must be approved by the Government, and not just by the heads of the appropriate line agencies.

The annual State budget execution reports contain a comprehensive presentation of the revenues and expenditures of EBOs that have been established by Government under government decrees. Three of the reports specifically focus on the planned and actual revenues and spending of EBOs. The first provides information on revenues, expenditures, according to functional classification, and the surplus/deficit. The second provides this information according to the economic classification of expenditures. And the third statement presents detailed information on revenues, expenditures and surplus/deficit according to each agency and economic classification.

Summary information on the financial flows of SNCOs is also available and publicized. SNCOs file their quarterly and annual cash flow statements with the Ministry of Finance, the inflows comprising both those from the State budget and their own sources. Expenditures financed from own sources of SNCOs are not included in the State budget execution reports, and therefore comprise unreported EBOs, as indicated under Table 9.

Table 9: Government transfers to SNCOs and other central government entities

	2012
Primary State budget expenditures according to PI-1(million AMD)	884,287
Actual spending of SNCOs (million AMD)	155,150
Actual spending of SNCOs less received State budget transfers (million AMD)	39,513
Percentage of SNCO funds not included in fiscal reports in primary State budget expenditures (%)	4.5%

(ii) Income/expenditure information of DP-funded projects/programmes included in fiscal reports

Information available to the assessment team at the time of conducting the assessment was used for scoring this dimension. Information on those segments of all DP projects implemented by DPs independently (e.g., under individual technical assistance projects) was not available to the evaluators. With the exception of USAID-funded projects, such projects are small in relative to total DP assistance provided to Armenia and recorded by the Government. USAID-funded projects are larger in size, but are mainly implemented through NGOs or through lower level governments (e.g. municipal infrastructure projects).

The level of grants and loans provided by development partners for the financing of projects/programmes is significant relative to total expenditure. Total grants and loans indicated in the 2012 approved State budget amounted to AMD 96.4 billion, representing 9.2% of the budget. Actual grants and loans amounted to AMD 58.2 billion or 5.9% of the State budget expenditure out-turns. Over 90% of projects/programmes financed from DPs grants and loans is included in the State budget and budget execution reports.

Ongoing and planned activities

The Government is considering whether to rationalize the system of SNCOs, including through strengthening their accountability by increasing the transparency of their operations within a fiduciary framework. With the assistance of the World Bank, the forms/templates on planning, accountability, monitoring processes have been developed and tested in the context of a number of SNCOs, authorized bodies (their parent ministries) and MoF.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-7	**B+** ***(revised from A, using same scope of coverage as in 2013)***	**B+**	***Performance unchanged.*** The rating for dim. (i) has been revised to B in the 2008 assessment, taking into account that SNCOs are central government EBOs.
(i)	B (revised from A, using same scope of coverage as in 2013 assessment)	B	***Performance unchanged.*** Un-reported domestic EBOs amounted to 4.5% of total GoA expenditure in 2012. The A rating in the 2008 assessment has been revised to B. as SNCOs were considered not to be EBOs, when in fact they are.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(ii)	A	A	***Performance unchanged.*** Individual DP projects are mostly presented in the state budget with some insignificant exceptions.

3.3.4. PI-8: Transparency of inter-governmental fiscal relations

This indicator assesses the transparency of transfers from the central government to sub-national governments for the use of these funds during the last completed financial year (2012).

Background

Budget relations between the State and communities are regulated by RA legislative and sub-legislative acts: the Budget System Law, Local Self-Governance Law, Law on Local Self-Governance in Yerevan, Financial Equalization Law, and Law on the Procedure for Indemnifying by the State of Foregone Community Budget Revenues As a Result of Enforcing Laws of the Republic of Armenia Leading to Reduced Community Budget Revenues ('Indemnifying of Foregone Community Budget Revenues').

Pursuant to the Budget System Law, in order to ensure the harmonized development of communities, the envisioned annual transfers from the State budget to communities through the annual State Budget Law and associated government decrees include the following:

a) Financial equalization grants to community budgets for covering recurrent expenditures; funds are provided on a quarterly basis in equal monthly amounts within the same 10 days of each month.

b) Other non-earmarked grants (dotations) for supporting the financing of community budget current expenditures within the timeframe and financial limits stated in the annual budget law or government decree. As opposed to (a), these grants are ad-hoc payments to some communities according to needs that might arise. The amounts are, as a rule, not pre-determined

c) Subventions for the purpose of executing a designated type of expenditure (programme) (financed within the limits and timeframe specified in the annual budget law or government decree, consistent with specified conditionalities and adequately supported by documentation).

(i) Transparency and objectivity in the horizontal allocation of fiscal transfers among Sub-National governments.

95.9 percent of appropriations to community budgets from the 2012 approved State budget were allocated based on legally prescribed formulae and rules, including:

- The financial equalization dotations and other state budget dotations provided to communities according to the formulae and rules stipulated under the Financial Equalisation Law and the 'Indemnifying of Foregone Community Budget Revenues Law' comprised 78.6% of the appropriations. The formulae and rules are specified in the legislation and are not complex (e.g. number of inhabitants, actual receipts of property and income taxes) so that the communities are able to estimate/forecast their appropriations.
- Subventions provided to communities based on the rules of the Law on Local Self-governance in Yerevan, and the Law on Targeted Use of Nature Protection Fees Paid by Companies comprised 17.3% of the appropriations. In the cases of Yerevan and Gyumri (2nd biggest town), the subventions are regulated by a separate law; the State Budget has a separate annex on the breakdown of the amounts for these municipalities. For the other communities the legal acts and accompanying materials specify the purpose and reasons for providing subventions.

Thus, horizontal allocation of over 90 percent of the total transfers from the 2012 State budget to communities was performed through rule-based and transparent systems. As a rule, subventions are defined more specifically for each community when preparing the draft State budget.

Information on State budget grants and subventions to communities is available to communities from the date when the draft budget is publicized (and later approved by the National Assembly). This allows the communities to gain an independent understanding of the intentions and estimations of the government and the levels of anticipated allocations to communities before they prepare their annual budgets.

(ii) Timeliness of reliable information to communities on their allocations

The financial year for communities is the same, by law, as for the central government.

The budget process officially starts with the passage of the annual Prime Minister's decree announcing the beginning of the budget process. In practice the communities start preparing their budgets from March on the basis of methodological instructions provided by the Ministry of Finance. The mechanism for assessing financial equalization dotations allows communities to receive reliable information on the levels of their dotations several months before planning their own budgets. Within one month of the official release of the approved budget, information on State budget allocations to communities is provided to them through the marzpetarans, accompanied by explanations of how the grants are assessed. Community governments are entitled to approve their budgets both before and after the approval of the State budget. They may adjust their budgets after the State budget is approved, due to the unconditional nature of the financial equalization grants they receive, which comprise the bulk of the fiscal transfers to them. Actual allocations of grants to communities were 100% of planned during 2010-12, thereby providing them with a high degree of confidence that they will actually receive all the grants that were budgeted for them in the state budget.

(iii) Extent of consolidation of fiscal data for general government according to sectoral categories

The RA Ministry of Territorial Administration (MTA) receives data on 100% of actual revenues and expenditures of community governments from local treasury branches; the expenditure data are presented on a GFS-consistent functional and economic classification basis. These data are consolidated by marzes. Based on the marz reports, the MTA then prepares a summary report consolidated at the marz and national levels which is published on the MTA website within 50 days after the completion of each quarter. The aggregated summary data are then included in the annual State budget performance report within 4 months of the completion of each year. The summary reports of all community budgets are posted on the MoF website. This is possible due to the connecting of the financial management systems of communities to central government treasury systems, facilitated by the adoption by communities of the central government's GFS-2001 budget classification system (PI-5) in 2009.

At the time of the 2008 PEFA assessment, absence of any consolidated numbers (consolidated local government budgets were not published) broken down by functional and economic classification was the reason of for a "D" score.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-8	**B**	**A**	**Performance improved under dimension (iii) through the preparation of annual consolidated community government fiscal reports and the inclusion of these into state budget performance reports. The improvement was due to the** connection of community government financial management systems to central government treasury systems in 2012, facilitated by the adoption by community governments of the GFS 2001 budget classification system in 2009.
(i)	A	A	***Performance unchanged***. The horizontal allocation of virtually all central government transfers to community budgets (at least 90% in terms of their value) is performed through rules-based and transparent systems.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(ii)	A	A	***Performance unchanged***. Before the start of the budget process community governments are provided with reliable information on appropriations to be transferred to them from the State budget.
(iii)	D	A	***Performance improved.*** The MTA consolidates all community budget revenues and expenditures (GFS-consistent functional and economic classification) into quarterly and annual reports. Aggregated versions of the annual reports are included in the annual state budget execution reports, which are prepared by MoF within 4 months of the end of the financial year and posted on the MoF's website. The improvement since the 2008 PEFA is mainly due to the MTA linking the financial management systems of community governments to the central government treasury systems in 2012, enabled by the adoption by all communities of the central government's GFS 2001-compliant budget classification system in 2009.

3.3.5. PI-9: Oversight of aggregate fiscal risk from other public sector entities

This indicator assesses the extent to which central government monitors and manages fiscal risks with national implications arising from activities of autonomous government agencies (AGAs), state-owned commercial enterprises and local (community) governments. The assessment is based on the last completed FY (2012).

(i) Extent of central government monitoring of AGAs and commercial enterprises

The scope of this assessment covers the extent of central government control and monitoring of state non-commercial organizations (SNCOs) and commercial organizations with 50 percent and more government shareholding (closed joint stock companies (CJSCs)).

The monitoring and control of SNCO activities has strengthened, thus better enabling Government to determine the extent of possible risk posed by such activities and to prepare risk mitigation measures where appropriate:

- SNCOs prepare quarterly cash flow statements and summary balance sheets for submission to their controlling central and regional public administration bodies (hereinafter authorized state bodies (ASBs)). The ASBs then consolidate these statements and balance sheets into groups and sub-groups according to functional budget classification for quarterly submission to MoF, which consolidates and posts them on its website.

- SNCOs also prepare quarterly reports on variances between the 47 planned and actual financial and economic performance indicators (pursuant to Government Decree 1648-N of November 27, 2003 and Minister of Finance Order 104-N of February 4, 2013). The increased level of detail provided by the latter and the requirement for quarterly reporting has helped to more quickly identify those SNCOs that may pose fiscal risk.
- On the same basis as these quarterly reports, SNCOs also prepare annual financial and economic reports for submission through their ASBs to an SNCO database located in MoF. These reports are combined into a general report on each SNCO, for publishing on the MoF website.
- The Law on SNCOs (2001) applies certain limitations to the activities of SNCOs; for example. Article 22 restricts their opportunity to execute large transactions independently.
- Government Decree 1104-N of August 30, 2012 stipulates that scans of all contracts on the financing of SNCOs (except schools) controlled by ASBs that have been signed during the current budget year, as well as invoices accepted by these SNCOs during the previous fiscal year, should be posted on the 'SNCO Financing' page of the RA Government website: www.e-gov.am. The postings contribute to enhancing the openness and transparency of transactions consummated by SNCOs. The adoption of Minister of Finance Order 104-N of February 4, 2013 has added force to these stipulations.

CJSCs provide annual reports to ASBs which include the results of their financial and economic performance, information on paid dividends and their assessment, expenses incurred during the reporting year in relation to investment projects, as well as reports of the control committees of CJSCs on their annual performance. The ASBs then submit these reports to MoF, which reviews them (Decree 1923-N of November 21, 2003) and prepares a statement for submission to Government on the results of the oversight exercised by the control committees. The control committee reports note any irregularities identified through audits (e.g. the 2012 report identified irregularities totaling AMD 273 million).[3] The analysis of the financial and economic performance of CJSCs helps to identify the risks (e.g. enterprises incurring losses for two and more years resulting in material equity loss). As assigned by the Prime Minister, the list of CJSCs incurring losses for the last three years was prepared and provided to the Staff of the Government, which, based on the reviews of the CJSCs,

[3] Under Government Decree 732-N of May 31, 2012, the operation of control committees in closed joint stock companies was terminated with effect from January 1, 2013 due to the introduction and gradual development of the internal audit system.

prepared a set of legal and sectoral policy-based criteria for CJSCs to stay in the public sector.

Although Government monitors and analyzes the operations and fiscal risks of SNCOs and CJSCs, external audits are not yet carried out, except in a fragmented manner. Armenian legislation does not yet provide mandatory requirements for external auditing of SNCO and CJSCs.

(ii) Extent of central government monitoring of Sub-National governments' fiscal position

Communities have not yet posed an actual unexpected financial burden on the RA Government. Since the 2008 PEFA assessment (which identified that 'the central government did not conduct annual monitoring of the fiscal position') the central government has started monitoring certain indicators describing the financial state of the communities. However, the monitoring is not complete (particularly in terms of the communities' net budget debt indicator). With the exception of the city of Yerevan, the external audit function does not yet operate at community government level, although the 2002 Law on Local Self Governance provides (Article 68) for audits to be conducted. The legal status of Yerevan changed in December 2008 through the Law on Local Self-Governance in Yerevan; Article 81 mandates annual audits of the city's accounts. Yerevan's budget comprises about 60 percent of total community government expenditure.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-9	**D+**	**D+**	**Performance unchanged. Monitoring and oversight of SNCOs, CJSCs have improved, but the external audit of financial statements is still absent. The monitoring of the financial state of communities remains incomplete.**
(i)	C	C	***Performance unchanged.*** Monitoring and oversight of SNCOs and CJSCs have improved, but external audit of SNCO and CJSC financial statements (required for a higher rating) is still absent.
(ii)	D	D	***Performance unchanged.*** Despite certain improvements, the rating has remained at the same level because the monitoring of the financial state of communities (with the exception of Yerevan) remains incomplete.

3.3.6. PI-10: Public access to key fiscal Information

This indicator assesses the extent to which fiscal information is easily accessible to the general public or at least to relevant interest groups. The six elements of information noted below should be accessible to the public.

(i) Annual State budget documentation. Benchmark: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the National Assembly (consistent with the information listed under PI-6)

Consistent with the legal requirement, within three days after submitting the draft State budget for the coming year to the NA, the GoA (represented by MoF) releases the draft State Budget Law (except for classified information) to the press (as a rule, the *Republic of Armenia* daily newspaper, which has a high circulation) and the RA official website for public announcements: www.azdarar.am. In addition, the draft budget is posted on the websites of the NA, GoA and MoF; TV clips are also prepared.

Public debate on draft laws is a new practice, introduced under RA Law on Legal Acts (Article 27.1, Part 4), supported by Government Decree 296-N on *Approving the Procedure for Organizing and Conducting Public Consultations* of March 25, 2010. An invitation for participation in public discussions of the draft State budget is posted on the MoF website within 3 days after the draft budget is submitted to the NA. The invitation contains the designated email address of the ministry to which comments can be sent. Comments and proposals may be submitted up to 20 days from the date of posting and will be given due consideration in terms of revising of the draft budget.

Compared to the previous PEFA assessment, the information provided in the draft has been expanded through the addition of the complete package of programme classification and non-financial programme performance targets at agency level, developed in line with the programme budgeting methodology.

(ii) In-year budget execution reports. Benchmark: The reports are routinely made available to the public through appropriate means within one month after the date of their publication

The State budget monthly bulletins and quarterly reports covering both revenue and expenditure are posted on the MoF's website (www.minfin.am) and provided to the press media. The monthly bulletins are posted within 30 days following the end of the month. The quarterly reports are posted within 45 days following the end of the quarter; they contain more information and therefore take more time to prepare. Information on disclosure timing for the last three years is presented under PI-24. The e-gov website (established in 2010) enables members of the public to observe budget performance in virtually real time (planned and actual revenue and expenditure, functional, administrative, and economic classification).

(iii) Year-end financial statements. Benchmark: The statements are made available to the public through appropriate means within six months of completed audit

An annual financial statement is prepared by MoF, and submitted to the Government. The Chamber of Control has access to the underlying data in MoF, so that it has the opportunity to review the statement. The Government submits the audited statement to the NA by 1 May each year. The NA then discusses and approves the statement by the second Wednesday of June. The audited statement is posted on the CoC website - www.coc.am - by the end of June (as can be checked from the website). Issues concerning the annual financial statements are discussed under PI-25.

(iv) External audit reports. Benchmark: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit

In addition to the audited budget execution reports, the CoC also prepares an annual report, which focuses mainly on compliance issues (e.g. procurement issues). The report for 2012 was posted on CoC's website on 29th March 2013. The annual reports may cover issues going back a number of years, rather than those arising only the year before.

(v) Contract awards. Benchmark: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means

In compliance with the Procurement Law of Armenia, agencies awarding contracts of more than AMD 1 million must announce each award in the Official Procurement Bulletin and on the official website for procurement (www.procurement.am, or www.gumner.am) along with the names of the client and supplier, date of signing the contract, the contract value, purpose and procurement method. The Bulletin is sold by the publisher in Yerevan at five points of sale at the minimum and at least at one point of sale in each marz. The provisions of the Procurement Law are substantively followed.

Although information on contracts is available, the date of publication is not consistently disclosed at least quarterly, as stipulated by the PEFA methodology. Nevertheless, publication is in general sufficiently timely. The Armenian legislation does not prescribe any specific timing concerning the frequency of disclosure of procurement information. The bulletin is published once a certain volume of information has been collected. On average, the bulletin is published every 20-25 days; depending on the volume of tendering activity, the frequency of publication of awards may be more or less than quarterly.

(vi) Resources available to primary service units. Benchmark: Information is publicized through appropriate means at least annually, or available upon

request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics)

Information on budget resources available to general public schools and primary health institutions is accessible to the public only in aggregate terms and not on a unit by unit basis.

Table 10 summarizes the availability of the 6 elements of information identified above.

Table 10: Public access to fiscal information

Elements of information accessible to public	Access	Rating
Annual budget documentation presented to legislature	Yes	Information (except for classified material) is accessible to the public in the same amount and within the same timeframe as presented to the NA. Since the last PEFA assessment, programme (non-financial) performance indicators by programmes and policy measures are also being presented.
In-year budget execution reports: within one month after their finalization	Yes	Monthly bulletins (within 30 days) and quarterly reports (within 45 days) are available to the public through the internet and official statements.
Year-end financial statements within 6 months of audit completion.	Yes	The audited annual financial statement (which includes CoC's opinion on the statement) is, as a rule, made public (including on CoC's website) within 6 months after the end of the year.
External audit reports within 6 months of completed audit.	Yes	In addition, the CoC prepares an Annual Report, with focus on compliance issues. The Annual Report for 2012 was available on CoC's website at the end of March 2013.
Contract awards (approx.. $US 100,000) published at least quarterly	Yes	The bulletin is published once a certain volume of information has been collected. On average, the bulletin is published every 20-25 days.

Elements of information accessible to public	Access	Rating
Resources available to primary service delivery units at least annually.	No	Information on budget resources available to general public schools and primary health institutions is accessible to the public only in aggregate terms and not on a unit by unit basis.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-10	**A**	**A**	**Performance unchanged.** 5 out of the 6 specified information elements are accessible to the public, the volume of information increasing for some of the elements.

3.4. Policy based budgeting

The two indicators in this group assess to what extent the government's budget reflects government policy.

Assessment of policy-based budgeting performance indicators

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-11 (M1): Budget preparation	**A**	**A**	**Performance unchanged in terms of the scoring criteria, but the quality of MTEF submissions has improved.**
PI-12 (M1): Multi-year budget perspective	**B**	**B**	**Performance unchanged on aggregate, but improved under dim. (iii) on costing of strategic plans.**

3.4.1. PI-11: Orderliness and participation in the annual budget process

This indicator assesses the organization, clarity and comprehensiveness of the annual budget preparation process.

(i) Existence of and adherence to a fixed budget calendar

The general provisions of implementation of the annual budgetary process are defined by the RA Budget System Law (BSL), which in turn on the RA Constitution. The process begins with the passage of the Prime Minister's Decree on starting the budget process for the coming year. The Decree identifies the calendar to be followed by the RA government agencies in the development of both the Medium-Term Expenditure Framework (MTEF) and the draft State budget. The timeliness of the main actions under these calendars is met. The results of the interviews conducted with MDAs also testify to the importance of the calendar and the timely implementation of the appropriate actions. As the interviewees mentioned, the set timeframes are sufficient for organizing their work. The main problems are not the calendar itself, but the variance in the quality of the 3 year rolling Medium Term Expenditure Framework (MTEF) submissions from ministries and their subordinate entities, as well as marzpetarans (marz administrations).

Preparation of the budget is in two stages. The first stage (strategic phase) starts early in the year, through the MoF providing instructions to government agencies for preparing MTEF submissions. The instructions are provided about 2.5 months before the deadline for presenting the submissions to MoF (i.e. under the 2012 budget process calendar these submissions had to be filed by 11 March). The deadline for the approval of the MTEF, which forms the basis for preparing the draft State budget (second stage), is July 10th. This deadline has always been met.

Under the second stage, Government agencies are required to file their budget submissions with MoF about a month later (by August 6 under the 2013 budget process calendar). The main decisions on expenditure levels and priorities underlying the budget submissions have already been approved during the first stage as part of the MTEF process, thereby simplifying the detailed budget estimation process (e.g. in 2012 these decisions were available to MDAs in April). The draft State budget is presented to the Government for review in September. The Government must submit the draft State budget to the National Assembly at least 90 days prior to the start of the next budget year (i.e. prior to October 3).

Thus, in each year of the period under consideration a clear calendar for the preparation of the annual State budget was in place and, overall, it was followed. The calendar gave sufficient time to MDAs for preparing their budget submissions for the next year.

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)

The methodological instructions issued to government agencies on the preparation of budget submissions for the next year include the policy priorities and the indicative expenditure financing limits for the coming year based on the provisions of the Government Programme approved by the National Assembly, the long-term programmes of the Government, and the most recent formally approved MTEF.

The involvement of public administration bodies, political officials and powers in the process of preparing the three-year medium-term expenditure framework is noteworthy. More specifically, in Armenia the Steering Committee and the Coordination Group for Preparation of MTEF are functional (Table 11 indicates their compositions).

Table11: Composition of the MTEF Steering Committee and the Coordination Group (as of period of conduction of self-assessment activities)

Name of committee	Composition
MTEF Steering Committee	RA Prime Minister (chair) RA Minister of Finance (deputy chair) RA Minister of Territorial Administration Chairman of RA Central Bank (optional) RA Minister of Health RA Minister of Labor and Social Issues RA Minister of Education and Science RA Minister of Defense RA Minister of Culture RA Minister of Economy **Chairman of the State Revenue Committee at the RA Government** **Authorized representatives of majority parties at the National Assembly (by the right of advisory vote)**
MTEF Coordination Group	First Deputy Minister of Finance (Group Leader) Deputy Minister of Territorial Administration Deputy Minister of Health Deputy Minister of Labor and Social Issues Deputy Minister of Education and Science Deputy Chairman of the State Revenue Committee at the RA Government DP representatives (optional)

Table 11 shows that the political representation in the MTEF process is very high, and the MTEF policy decisions are made at this level. The political level involvement exists not only at the final approval of the MTEF document but also at different stages of the process, such as the discussion of the underlying macroeconomic indicators, approval of expenditure limits, etc. Thus, the MTEF and budget processes successfully combine the ‘top-down’ and ‘bottom-up’ information flows. As indicated under PI-12 (i), the robustness of the process is reflected by the appropriations estimates of government agencies not differing significantly from the indicative levels of expenditure financing shown in the second year of the previous year’s MTEF, or significant differences are explained and supported by information provided by MDAs.

Ministries interviewed by the assessment team noted a significant improvement in the quality of the MTEF process since the 2008 PEFA assessment. This was due to line ministries being better informed and better able to engage in a constructive two-way dialogue with MoF during the discussions on MTEF submissions and thus being in a better position to rigorously justify ‘new’ spending (i.e. additional to ‘baseline’/forward estimates spending). In the early days of the MTEF process (i.e. mid 2000s), MoF tended to have the upper hand in negotiations with line ministries, not only because of the earlier legacy of budgeting procedures, but also because policy formulation, management and monitoring in MDAs were separate from budgeting functions that were mostly inputs and norms-driven.

Thus, MDAs are provided a comprehensive and clearly defined circular for preparation of budget submissions which reflects the preliminary expenditure ceilings approved by the government before the dissemination of the circular to MDAs.

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

Table 12 shows the dates of approval of the last four annual State budgets by the National Assembly. The budgets have been approved before the end of the fiscal year in all cases.

Table 12: Dates of draft budget approvals

Fiscal year	Approval date
2010	10.12.2009
2011	09.12.2010
2012	08.12.2011
2013	05.12.2012

Ongoing and planned activities

A programme budgeting framework was prepared during recent years (as a successor to the MTEF development project), the purpose being to further strengthen the linkage between policy objectives and budgets. Line Ministries have been preparing budgets according to a programme classification and have been presenting these to NA in parallel with the official budgets. Presentation of programme budgets to NA has, until now, not been mandatory, but is now mandatory under the revised Budget System Law, with effect from the submission of the 2014 budget to NA.

The official budgets continue to be prepared and executed on a traditional administrative, functional and detailed line item economic classification basis. MOF uses a “mapping” table, however, that automatically connects the programmatic information with the functional and economic classification databases, thereby ensuring consistency between the programme and official budgets. The mapping table also enables monitoring and reporting systems to use the programme budget classification as well as the official budget classification.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-11	**A**	**A**	**Performance is unchanged in terms of the scoring criteria, but the quality of MTEF submissions has improved.**
(i)	A	A	A clear annual budget calendar is in place which, in general, is adhered to and provides adequate time to MDAs (at least six months after the receipt of the circular for preparation of MTEF submissions) for timely finalizing of meaningful and detailed expenditure estimates.
(ii)	A	A	MDAs are issued a comprehensive and clear circular for preparation of budget submissions which reflects the expenditure ceilings approved during the strategic phase of the budget preparation process prior to the dissemination of the circular to MDAs.
(iii)	A	A	Over the last three years the legislature has approved the next year's draft State budget before the start of the coming fiscal year.

3.4.2. PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

This indicator considers the link between budgeting and policy priorities in a medium-term perspective and the extent to which costing of the implications of policy initiatives is integrated into the budget formulation process.

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

In conformity with the requirement of the Budget System Law, each year the MTEF is prepared and approved by the Government for the next three years and submitted to the National Assembly[4] (as also noted under PI 11). A new third year is added each year. The MTEF presents forecasts of macro-economic and aggregate fiscal indicators (with expenditures presented by programme based on the main economic, functional and administrative classifications). In the event of variances between indicators for the coming year under the approved MTEF and the draft State budget for the coming year, these variances and their underlying causes must be presented in the draft State budget.

The MTEF contains not only fiscal information on revenues, expenditures and deficit but also the fiscal principles, risks and macroeconomic forecasts, sector analysis, the announced sector priorities for the concerned period, expenditure drivers influencing projected expenditures in terms of both volume and prices, and detailed information

[4] Budget System Law, Article 21, Para 2

on programmes and their objectives across sectors (approx. 900 pages, including annexes and programme budgeting classification).[5] The MTEF represents a strong, robust and integrated system. It has come a long way since its introduction several years ago and has scope for further improvement through the on-going programme budgeting reforms.

As a rule, MTEFs build on long-term strategic plans with a 10-15 year strategic perspective. The first such plan was the Poverty Reduction Strategic Programme (covering 2003-2015), followed by the Sustainable Development Programme (covering the 2008-2021 horizon). A third strategic plan, the Armenian Development Strategy (ADS), covers 2013-2025. It had not yet been approved by the Government at the time of this assessment, but the final draft was published on the MoF website in the third quarter of 2013 and had, during the strategic phase (PI-11), been directly applied to the preparation of the 2014 draft State budget and the 2014-2016 MTEF.

(ii) Scope and frequency of debt sustainability analysis

In conjunction with the IMF/World Bank, the MOF conducts an annual debt sustainability analysis for external and domestic debt. The conclusions of the analysis are reflected in the 'Fiscal Risks' section of the MTEF.[6] Staff in MoF was trained by IMF/World Bank in the use of the DSA, the methodology having originally been prepared by these two institutions.

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

The sector strategies (i.e., the government approved strategic plans for the concerned sector which later lay the basis for the preparation of both long- and medium-term programmes) do not completely cover the sector or are not costed. The main approach applied in Armenia is that financial forecasts are informative by nature in individual sector strategies. If they become binding, they might impair the annual MTEF planning process which considers the comprehensive financial plans for all sectors within the constraint of an overall spending ceiling. Instead, the strategic planning for all sectors and their aggregate financial forecasting are covered by the long-term strategic papers (PRSP (2003), SDP (2008), ADS, (2013, draft)) and they are later moved to the three-year MTEF planning processes.

Costing is conducted, however, as part of the MTEF process, and is more realistic as the costs can be estimated with much greater precision than is possible under long-term planning; for example, they can include the future recurrent costs implied by committed capital investments.

[5] The programme budgeting classification is not shown in the English translation of the MTEF document, only in the original document in Armenian.

[6] The first sentence of the published DSA (in Armenian) says that the DSA is conducted jointly with World Bank.

(iv) Linkages between investment budgets and forward expenditure estimates

a) Most of the major investments are identified based on the appropriate sector and long-term development strategic plans but their implications for recurrent expenditures are not always taken into account in preparing the draft budgets. The economic and financial assessment of public investments is performed by the relevant line ministry, and the role of the Ministry of Finance is to review the reasonableness of these assessments and provide its conclusions thereon to the Government. Reviews of the reasonableness of recurrent and investment expenditures take place separately but in the course of planning they are supposed to be reconciled.

b) In effect, the level of the quality and accuracy of the interrelation of recurrent and investment expenditures depends on the level of planning and budgeting capacities of the responsible sector agencies and the extent of integration between these capacities. Such integration is still some way from completion. The programme budgeting framework gives an appearance of integration, but in practice recurrent and capital budgeting units still tend to operate separately from each other in MoF, even after several years of reform of planning and budgeting processes. Current accounting processes do not separate out the recurrent costs implied by capital investments.

Ongoing and planned activities

In light of the above, the Ministry of Finance plans to implement a technical assistance project with World Bank support aimed to clarify and describe a unified system for planning investment and recurrent expenditures which will be used in the State planning and budgeting processes. Thus, although certain improvements are envisioned, the rating remains the same as in the previous PEFA assessment.

The ongoing and planned activities mentioned under PI-11 also apply to PI-12.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-12	**B**	**B**	**Performance unchanged in aggregate, but improved under dim. (iii).**
(i)	A	A	***Performance unchanged*** according to the scoring criterion. The quality of MTEF submissions, and therefore the MTEF document, has improved over time.
(ii)	A	A	***Performance unchanged.*** Debt sustainability analysis for external and domestic debt is undertaken annually.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(iii)	D	C	***Performance has improved,*** due to the fully established long-term strategic planning system and the high degree of its interrelation with the annual MTEF and budget planning processes. Long term plans are rigorous, but are not fully costed, as costing takes place through the MTEF process. The scoring criterion is: *“Statements of sector strategies exist for several major sectors, but are only substantially costed for sectors representing up to 25% of primary expenditure”.*
(iv)	C	C	***Performance unchanged.*** The scoring criterion is: *“Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.”*

3.5. Predictability and control in budget execution

These indicators review the predictability of funds for the budget execution and the internal controls and measures to ensure the accountability for budget execution. The indicators are divided into three sub-components: revenue administration, budget execution and cash/debt management and internal control systems.

3.5.1. Revenue administration (PIs 13-15)

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-13 (M2): Transparency of taxpayer obligations and liabilities	**C+**	**B+**	***Performance improved under dimension (ii) with regard to tax payer services, and under dimension (iii) on the tax appeals process, as a result of the establishment of the inter-agency appeals council.***
PI-14 (M2): Effectiveness of measures for taxpayer registration and tax assessment	**B**	**B**	***Performance improved under (iii) due to the establishment and successful implementation of a risk-based audit selection system. The overall rating is unchanged.***

PI-15 (M1): Effectiveness in collection of tax payments	**D+** ***(revised from B+)***	**D+**	***The end-year stock of tax arrears ranged between 13% and 17% of total tax collections during 2010-2012. The bulk of the arrears is owed by only 30 entities and the collection rate is very low.*** SRC is able to track tax arrears electronically through its Taxpayer 3 e-management system established in 2012. *The SRC has re-assessed the 2008 PEFA rating as D+, the Taxpayer 3 e-management system not yet being in place.*

3.5.1.1. PI-13: Transparency of taxpayer obligations and liabilities

This indicator assesses the level of clarity and comprehensiveness of the core tax laws and regulations, taxpayer access to this information and the existence and operation of the tax appeal mechanisms.

Background

Armenia operates a unified tax system. The Law on Taxes establishes the main types of taxes. The relationships pertaining to individual types of taxes are established by specific laws on individual types of taxes and the appropriate regulations. Pursuant to the applicable legislation, the main types of taxes paid to the State budget are: value added tax (50% share in 2012/13), excise tax (6.6% share), corporate income tax (15.9% share), personal income tax (12.3% share), customs duties (5.8% share) and other revenues, e.g. turnover tax (10.1% share). For entities engaged in specific types of activities, presumptive taxes and patent fees substitute for VAT and corporate income tax. Table 13 summarizes:

Table 13: Revenue collections

	2010	2011	2012	Growth rate		
				2010	2011	2012
Collected tax revenues	592,529,892	652,083,928	747,612,355	12%	10%	15%
VAT	301,730,546	328,745,512	369,661,641	16%	9%	12%
Excise tax	48,140,510	39,404,481	49,323,791	11%	-18%	25%
Corporate income tax	77,813,062	97,842,317	118,653,446	-5%	26%	21%

Personal income tax	73,939,848	81,210,641	91,667,269	19%	10%	13%
Customs duty	29,366,721	36,289,380	43,040,111	14%	24%	19%
Other	61,539,205	68,591,597	75,266,097	10%	11%	10%

The Ministry of Finance is responsible for the government tax policy and tax administration methodology, and its powers in the above areas are spelled out in the Ministry charter. The responsibility for the tax administration rests with the State Revenue Committee (SRC) at the Government of Armenia, whose powers and tasks are mainly set forth in the Law on Tax Service.

The Armenian tax and customs system has been undergoing fundamental changes since the 2008 assessment in order to strengthen the transparency and the effectiveness of revenue administration, the impact being an improved business environment and a stronger tax base.

- The tax and customs authorities were merged into a single body.
- Legislative changes were made to improve the business environment and enhance the tax administration. Under measures launched in 2008, steps were taken towards ensuring the accurate, full and timely taxation of large businesses; establishing an effective tax burden for small and medium businesses along with applying ‘soft’ tax administration; overcoming corruption within the tax body; providing training in the principle of voluntary compliance (self-assessment); implementing a new tax audit policy; introduction of an effective management system in the tax body, and ensuring effective information flows within the tax administration. These measures were completed in 2012.
- A second round of measures is aimed at increasing the quality of taxpayer services; reengineering the main business processes in the tax body; introducing modern tax control mechanisms; increasing the efficiency of human resources management; and enhancing the internal control mechanisms.

Specific measures implemented over the last 5 years are:

- An e-filing system was developed and successfully launched in 2010; the system is obligatory for large companies and voluntary for SMEs. An e-invoicing system was established in 2011; use of this is voluntary for all taxpayers. The system had extended to over 4000 filers by mid-2011.
- An automated refund system was implemented for VAT on exported goods paid to suppliers in Armenia. At the same time, the government is now required to pay penalty on late VAT refunds. CSOs met by the PEFA assessment team indicated concerns, however, over the transparency and fairness of this system.

- Parliament approved amendments to the Customs Code to allow e-declarations, e-signature and e-payment. The amendments came into effect in 2011. The average customs clearing time fell to 2 days as a result.
- The coverage of tax holidays was narrowed, by removing those with insignificant positive impact on the economy.
- Administrative procedures were improved. For example, in 2012 the procedure for recording documentation on accompanying goods delivered or transported by taxpayers was fundamentally revised.
- The procedures for imposing penalties for infringing the tax legislation were further clarified.
- The risk-based audit selection system was introduced.

(i) Clarity and comprehensiveness of tax liabilities

In general, unclear and non-comprehensive regulations existing in the tax legislation have been significantly reduced since 2008. Tax legislative norms based on the legislation contained inconsistencies, ambiguities and misinterpretations (for example, some regulations in the VAT Law and in the Law on Tax lacked comprehensiveness) and work is being carried out towards eliminating them. The processes of issuing official clarifications on specific provisions of the tax legislation have been strengthened in order to minimize unclear provisions. Official clarifications issued by SRC and MoF must be prepared according to clear guidelines and must be co-ordinated with each other. As a result, the number of existing unclear and non-comprehensive regulations in the applicable legislation has been greatly reduced, thus reducing the need to issue clarifications. During 2011 around 44 official clarifications were issued while their number in 2012 fell sharply to 27.

The tax legislation allows the tax authority to take some decisions at its own discretion, but the extent of discretion is explicitly regulated by the legislation, which clearly spells out the rules for determining taxable objects, rates of taxation, timelines for paying taxes, as well as the types and levels of responsibility for violating the legal rules. For example, pursuant to the applicable legislation, if a taxpayer fails to provide accounting documentation for taxable objects, the taxable object is determined by the tax authority in line with the procedure established by the GoA.

A form of discretion has been the pressure applied by the SRC on compliant taxpayers to pay tax obligations in advance of their due dates in order to meet tax collection targets (as noted by IMF resident representative in Yerevan and a CSO met by the PEFA assessment team). Such pressure has diminished somewhat since the 2008 assessment, but GoA considers that is still an issue, as evidenced by its Letter of Intent (LOI) to the IMF in relation to the Extended Fund Facility programme recently agreed with the IMF. Para. 20 of the Memorandum of Economic and Financial Policies (MEFP) attached to the LOI emphasises that "We aim to strengthen tax revenues during the programme period through efficiency enhancing revenue administration and tax policy measures". "Efficiency enhancing" means moving "away from a past practice of setting ambitious goals and targeting existing tax payers to focusing efforts on areas where there is low compliance".7).

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

The SRC uses various means for raising large-scale and individual taxpayer awareness including:

Large-scale taxpayer awareness raising:

a) The SRC operates its websites for the tax and customs services: www.taxservice.am and www.customs.am (as well as their linking website: www.petekamutner.am). These websites provide tax and customs information for a broad group of users, including on legislative and sub-legislative acts, official clarifications and frequently asked questions and their answers, frequently encountered errors, reporting forms, tax payment account numbers, tax and customs statistics, addresses, structure and management of the tax and customs authorities. The websites also contain the SRC publications, and a section for news. The taxpayer Hotline strengthened in terms of functionality.

b) The SRC ensures the publication of several periodicals, including:

- Two quarterly journals ("Taxpayer" and "Customs House") which present news updates, the current problems and their solutions, progress in ongoing activities and taxpayer responses;

-"Tax and Customs Bulletin" is a monthly small-format magazine, which provides structured and summary information to users on changes to the tax and customs legislation.

c) Since early 2013 the SRC has been releasing the weekly 'TaxInfo' TV programme, which regularly covers updates on tax legislation and administration, operations of the tax authorities and the taxpayer and mass media responses;

d) Traditionally the SRC organizes series of informative meetings with taxpayers and their different segments both in Yerevan and marzes;

e) The SRC Training Center and Arabkir and Vanadzor Taxpayer Service Centers organize regular training events for taxpayers primarily focusing on specifically demanded topics. Announcements and other information on these events are

[7] Extracted from Attachment 1 (Memorandum of Economic and Financial Policies) of Appendix 1 ('Letter of Intent" (LOI))) of the IMF staff report on a Request for an Arrangement under the Extended Fund Facility (EFF) from GoA dated 20th February, 2014. The LOI was signed by the Prime Minister of the Republic of Armenia. The report was published on the IMF website on 31st March, 2014, following the IMF's Executive Board of Directors' approval of the EFF arrangement on 7th March, 2014.

available on the website of the SRC Tax Service and information boards posted in tax inspectorates.

Awareness raising of individual taxpayers:

a) The SRC operates a call center within its structure;

b) For individual awareness purposes, in practice the SRC also uses a number of other tools, e.g. information terminals installed in the facilities of all tax inspectorates, which allow the user to search for the necessary information from the SRC tax and customs websites and legislative databases (Arlis) independently or, with the support of an employee of the TS unit, to access and use TS e-services.

Communication between the SRC and Armenian organizations and sole traders is organized in the Armenian language which is a legal requirement. As to communication with individuals and foreign entities, other mutually acceptable languages can also be used.

(iii) Existence and functioning of a tax appeals mechanism

The provisions on taking administrative actions against actions of the tax body and tax officers are regulated by Article 43.1 of the Law on Tax Service, as well as the Law on Administration Principles and Administrative Proceeding. The existing appeal committee of the tax and customs authorities is responsible for reviewing appeals against the actions taken by the tax or customs authorities, as well as for the settlement of tax disputes. The committee is a standing body which is based in the headquarters of the tax authority and is established by its head. The committee comprises the chair and eight members who combine their work in the committee with their routine work as tax service officers. Appeals are reviewed by the committee within 15 days and the appropriate resolutions are passed within 30 days from the receipt of appeal or from the committee meeting. During 2011-2012 the committee reviewed 230 and 156 appeals respectively of which 42% and 47% were approved and 38% and 33% were rejected respectively. During the first six months of 2013 the committee reviewed 90 complaints, of which 43% were approved and 32% were rejected.

In order to increase the effectiveness of the appeals review process, an inter-agency appeal council (hereinafter the Council) was established in 2010 per Government Decree 1361-N of October 21, 2010. The Council comprises representatives from the Ministries of Finance, Economy, Justice, the SRC and the Government Staff. The Council passes its decisions on the basis of a simple majority of votes. There is quorum at the Council meeting if it is attended by more than the half of its members. At its meetings the Council discusses the appeal packages rejected or partially approved by the SRC appeals committee, and it provides its conclusion to the SRC within 10 days of its formal date of acceptance date of each package. The committee then makes its decision on the appeal within two working days of receipt of the Council's conclusion. If the committee objects to the conclusion issued by the Council, the SRC Chairman submits its objections, the appeals package and the conclusion of the Council to the Prime Minister (PM). Following discussion with the PM, the committee takes its decision, which is then issued to the taxpayer within one day, with a copy being provided to the Council. The resolutions of committee are posted on the SRC website within 10 days after of their adoption.

Overall, the establishment of the appeals Council has strengthened the impartiality and independence of the process of reviewing taxpayer appeals. The involvement of the PM if the appeal committee disagrees with a conclusion of the appeal Council potentially adds to the fairness and impartiality of the process.

The taxpayer may also contest the actions or inactivity of the SRC through the court, both before and after taking an administrative action. Appeals filed through courts are reviewed by the general jurisdiction administrative court.

An IMF Fiscal Affairs Department mission in April 2013 concluded that progress was being made in strengthening the disputes resolution mechanism (referred to in the IMF's 6th Review of the Extended Fund and Credit Facilities Programme – approved in 2010 – conducted in July 2013).

Ongoing and planned activities

In July, 2013 the Government approved the *Guide of Strategic Principles for Revising the Tax and Customs Legislation and the Time-schedule for Implementation of Measures Deriving from These Principles*. The Guide identifies the key principles for revising the tax legislation of Armenia during the coming years and establishes a number of measures for implementing them.

In 2013 the SRC signed an agreement with the national postal operator on opening taxpayer service (TS) points at post offices. TS points are geographically separated units of the taxpayer service centers of the tax inspectorates which deliver more demanded services to visitors, including provision of clarifications and information support on return filing and tax payments.

In Dec 2012, the RA Government submitted legislative proposals to the Cabinet to adopt OECD guidelines for transfer pricing regulation. The FAD/IMF identified ways, however, to strengthen the proposals, and the RA Government is planning to incorporate these into draft legislation for consideration by Parliament.

The SRC and Tax Policy Department are receiving TA from WB, IMF and USAID.[8]The USAID-funded Tax Reform Project was launched in February 2013 and will be implemented over 4 years. The project consists of: (i) Development of human and institutional capacities in the MoF and the SRC of the Republic of Armenia; and (ii) improved dialogue on tax policy and administration.

[8] The FAD/IMF provided 7 TAs for strengthening revenue administration between March 2010 and April 2013.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-13	C+	B+	**Performance improved under (ii) with regard to tax payer services, and under (iii) on the tax appeals process.**
(i)	B	B	**Performance unchanged.** *SC (i): The legislation and procedures for most, but not necessarily all, major taxes are clear and comprehensive with fairly limited discretionary powers of the government entities involved.*
(ii)	C	A	***Performance improved due to significant improvement in SRC websites enabling easier and quicker taxpayer access to information.*** The Hot Line for providing clarifications on tax issues has strengthened in terms of functionality. The SRC commenced a weekly "TaxInfo" TV programme in early 2013. SRC has stepped up its regular training programmes and its conduct of large-scale awareness campaigns.
(iii)	C	B	***Performance improved largely through a measure of independence being established in the tax appeals structure as a result of the establishment of the inter-agency appeals council.*** *SC (iii): "A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness, or effective follow-up on its decisions need to be addressed".*

SC = Scoring criterion

3.5.1.2. PI-14: Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system

Starting on April 1, 2011 the TIN issuance system built on the one-stop shop principle became functional. Under this system, TINs are issued to businesses during the process of their state registration without having to apply to the tax authority. Presently only individuals who are not sole traders, as well as notaries and diplomatic missions and consulates, and their equivalent international, inter-governmental (inter-state) organizations are required to apply to the tax authority for registration. The TIN and registration certificate are issued to the applicant no later than the next day of filing the application. The TINs are unique for each taxpayer and cannot be changed regardless of the taxpayer status. In case of reorganization, for example a company takeover, the TIN is transferred to the taxpayer's legal successor.

Taxpayer registration is performed through an integrated database which is fully automated and operates as a separate module of the SRC e-management system. The taxpayer registry general data are available at the website of the tax authority, in the RA Taxpayer Search System: (http://taxservice.am/OS_Taxpayers.aspx).

For the purpose of maintaining a separate registry of VAT payers, a VAT TIN is issued and recorded. It represents the same TIN for other taxes plus "/1" if the taxpayer is an organization, and plus "/0" for sole traders.

The TIN must accompany tax returns and payment and settlement documents. It is required for the opening of bank accounts in Armenia by businesses and individuals, thereby providing a mechanism for SRC to bring people/companies into the tax registration net.

A recent area of progress was the successful integration of the TIN with pension contributions through the launching of a new electronic system for individual accounting of PIT payments and pension contributions.

The FAD/IMF mission in April 2013 recommended further strengthening of tax registration controls and procedures for enforcing filing.

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

The applicable legislation identifies three sets of penalties for non-compliance with the tax legislation rules: administrative, criminal and financial (fine, penalty). Penalties for infringing the rules under the tax legislation are stated in the Law on Taxes, and in some specific cases they are established also by laws on individual types of taxes. In particular, the Law on Taxes stipulates:

- For late tax payment, a daily penalty of 0.15 percent of the late tax payment value;

- For 15 days' late tax returns, a penalty of 5 percent of the reported tax;

- For failure to maintain accounting or for improper accounting, a fine of 10 percent of the understated tax is imposed;

- For concealing or understating the taxable object, a fine of 50 percent of the concealed or understated tax shall apply if this violation is detected for the first time during the year, and for a repeated violation during the same year the fine will be equal to 100 percent of the concealed or understated tax;

- For engaging in business activity without having duly received a state registration, a fine of 50 percent of the resulting sales turnover (gross income) is assessed in conformity with the tax legislation but must not be less than AMD 200,000. Where the same irregularity is repeated within a year after its detection a fine of 100 percent is imposed which, however, must not be less than AMD 500,000. In addition, if the concerned activity is subject to licensing, a reimbursement of loss equal to the established stamp duty for the type of activity subject to licensing is levied on the infringing person.

The penalties are payable within 10 days after the issuance of the respective payment statement. The penalties for not complying with the tax legislation are explicit. The application of penalties is adequately effective in that it is impossible to avoid responsibility once an irregularity is detected. Nevertheless, it is not necessarily the case that the penalties, though potentially effective, are always consistently administered.

(iii) Planning and monitoring of tax audit and fraud investigation programmes

The legal framework for tax audit has strengthened significantly since the 2008 PEFA assessment. The entire audit planning process is regulated by: (i) the Law on Organizing and Conducting Audits in Armenia; (ii) Government Decree 1636-N of November 10, 2011 on *Approving the Methodology for Risk-Based Audits Conducted by the Tax Authority and the Risk Criteria Profile; (iii)* SRC Chairman Order 2923-A of November 28, 2011 on *Approving the Overview of the Risk-Based Audit Planning Process;* and (iv) SRC Chairman Order 745-A of April 28, 2011 on *Approving the Regulation for Organizing and Conducting Audits and Reviews by the Tax Authority*.

Tax audits are conducted by the tax authority on businesses that have been included in the annual audit plan. The tax authority prepares the audit plan in consistency with the requirements of the Law on Organizing and Conducting Audits in Armenia, i.e., audit plans are prepared on the list of taxpayers selected through the risk system, according to their risk groups. One of the areas of significant risk that has been identified is VAT refunds (e.g. businesses claiming credit for inputs that are un-related to their businesses). Audit effort has therefore increased in this area.

The 2012 audit plan included 2386 businesses, for 2013 the number was 1566, and for July 1, 2013-June 30, 2014 it is 1385. The number of actual audits conducted by the tax authority also decreased: to 1016 in 2012 from 1604 conducted in 2011. The reason for the planned reductions is to provide more focus on riskier areas, as indicated by increases in the values identified per audit, the increase being 80 percent in 2012.

The IMF/FAD mission in April 2013 recommended further strengthening of the tax audit function.

Ongoing and planned activities

The World Bank-funded Tax Administration and Modernisation Project became effective in December 2012. The project document notes a low Tax/GDP ratio relative to other countries due to a narrow base caused by many exemptions and insufficient capacity to detect and penalize tax frauds. The project will work with the also recently started USAID Tax Reform Project. The Project aims at: (i) introducing modern, integrated IT to support SRC operations; (ii) improving data exchange; (iii) reengineering and automation of business process; and (iv) expanding e-Government.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-14	**B**	**B**	**Performance improved under (iii) due to the establishment and successful implementation of a risk-based audit selection system. The overall rating is unchanged.**
(i)	B	B	***Performance unchanged.*** TINs are not linked to other databases operated in other government agencies, except, starting in April 2011, for business registration under the one-stop shop system. The process of issuing TINs is centralized and automated. The taxpayer database is also linked to some extent with the banking system, as TINs are required for opening bank accounts in Armenia. *SC (i): Taxpayers are registered in a complete database system with some linkages to other government registration systems and financial sector regulations.*
(ii)	B	B	***Performance unchanged.*** The penalties for not complying with the tax legislation are fairly explicit. The application of penalties is adequately effective in that it is impossible to avoid responsibility once an irregularity is detected. *SC (ii): Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient and/or inconsistent administration.*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(iii)	C	B	***Performance improved.*** Since the 2008 PEFA assessment, a risk-based audit selection system has been established and is being successfully implemented. *SC (iii)*: *Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk criteria for audits in at least one major tax area that applies self-assessment.*

SC = Scoring criterion

3.5.1.3. PI-15: Effectiveness in collection of tax payments

This indicator assesses the control of the level of tax arrears by the tax authority, the effectiveness of transfer of tax collections to the treasury by revenue administration and reconciliation of tax collections with a view to ensure that the collection system functions as intended. This indicator analyses the first dimension for the last two fiscal years, and the situation at the time of conducting the assessment (September, 2013) for the other two dimensions.

(i) Collection ratio for gross tax arrears

Tax obligations, including arrears (past due liabilities), fines and interest are consistently recorded electronically by SRC through the Taxpayer 3 e-management system in taxpayer individual account cards. The electronic processing of tax returns and automated processing of invoices through this system became operational at the end of 2011. The system allows the generation of various information sheets on arrears, including their stock as of the concerned date. One of the IMF's reporting requirements under the on-going Extended Credit and Funds Facilities programme is monthly reporting by SRC on tax arrears (quarterly for the 30 largest companies and water, energy and irrigation companies). Table 14 shows the end-year stocks of arrears as a percentage of tax collections.

Table 14: Stock of tax arrears

AMD	2010	2011	2012
1) Tax collection	**592,529,892**	**652,083,928**	**747,612,355**
2) Stock of tax arrears at the beginning of the year	101,133,300	103,396,000	105,767,500
3) Stock of tax arrears as % of collections =2/1	**17 %**	**15.9 %**	**14.1 %**
4) Stock of tax arrears at end of the year	103,396,000	105,767,500	100,138,200
5) Tax arrears at year-end as % of tax collections = 4/1	**17.4 %**	**16.2 %**	**13.4 %**

Source: SRC

The stock of end-year arrears changed little during 2010-2012, ranging between 13%-17% of total annual collections, and mainly comprises arrears that are carried over each year to the next year. AMD 68.2 billion (68%) of the existing stock of arrears of AMD 100.1 billion outstanding at the end of 2012 was owed by only 30 entities, 2 of which owe most of the debts. The small number should provide focus to SRC on its arrears collection efforts, but in practice attempts to collect the debt are problematic, notwithstanding supportive tax legislation, and nearly all the debt is carried over each year; capacity constraints prevent SRC from following up further with these entities.

Of the remaining AMD 31.9 billion, AMD 29.5 billion represents 601 claims that SRC has filed with RA courts in relation to the tax arrears of companies that have become insolvent. A significant number of court decisions are in favour of SRC. The debts are collected by the Enforcement of Court Verdicts agency, which falls under the Ministry of Justice. The agency then deposits the revenue with the Treasury.

(ii) Effectiveness of transfer of tax collections to the MoF

Nationwide tax revenues are collected through the banking system and payment-settlement organizations. Businesses can also pay taxes through the postal system. In 2013 the electronic tax payment system was introduced which allows taxpayers to pay taxes independently, without visiting banks. Collected revenues are transferred by the SRC to the appropriate treasury accounts on a daily basis for each type of tax.

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

The treasury accounts are connected on-line to the SRC database, and daily verification of the accuracy of transfers to the treasury is performed according to individual taxpayer and tax type. Separate e-cards are maintained for each taxpayer's obligations for each type of tax, including their arrears. Access to daily movements of personal account cards, tax payments, reported obligations, accrued fines and interest is ensured.

Reconciliations between payments to the treasury accounts and taxpayer tax liabilities are performed on a daily basis. Reconciliations are part of the routine operations of both SRC and the tax inspectorates.

On-going and planned activities

As mentioned under PIs 13-14 with regard to DP-financed TA projects.

PI	Score2008 PEFA	Score 2013 PEFA	Assessment
PI-15	**D+** ***(revised from B+)***	**D+**	**Performance unchanged. The end-year stock of tax arrears has ranged between 13% and 17% of total tax collections during 2010-2012. The bulk of the arrears is owed by only 30 entities and the collection rate is very low.** SRC is able to track tax arrears electronically through its Taxpayer 3 e-management system established in 2012**.**
(i)	D *(revised from B)*	D	***Performance unchanged. The stock of year-end tax arrears ranged between 13%-17% of annual tax collections during 2010-2012 (Table13).70% of the arrears is owed by only 30 entities and the collection rate is very low for reasons beyond SRC's control. The other 30% is owed by 600 insolvent companies, which SRC has taken to court, with some measure of success.*** SRC is able to track tax arrears electronically through its Taxpayer 3 e-management system established in 2012. *SC (i): The debt collection ratio in the most recent year was below 60% and the total amount of arrears is significant (i.e. more than 2% of total annual collections).* The SRC has re-assessed the 2008 PEFA rating as D, the Taxpayer 3 e-management system not yet being in place.
(ii)	A	A	***Performance unchanged*** *SC (ii): All tax revenue is paid directly into accounts controlled by MoF or transfers to the Treasury are made daily.*
(iii)	D *(revised from A)*	A	***Performance improved as a result of the establishment of the Taxpayer 3 e-management system, which abled much improved tracking of tax arrears.*** *SC (iii): Complete reconciliation of tax assessments, collections, arrears and transfers to MoF take place monthly within 1 month of end of month.* *The SRC has re-assessed the 2008 PEFA rating as D, the Taxpayer 3 e-management system not yet being in place.*

SC = Scoring criterion

3.5.2. Budget Execution and Cash/Debt Management (PIs 16-17)

Summary of assessment of indicators for PIs 16-17

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-16 (M1): Budget execution predictability	**A**	**A**	***Performance unchanged under all 3 dimensions***
PI-17 (M2): Cash/Debt management	**B (*revised from A***	**A**	***Performance improved*** under dimension (ii) through development partner project/ programme bank accounts being brought under the Treasury Single Account

3.5.2.1. PI-16: Predictability in the availability of funds for the commitment of expenditures

Effective execution of the budget in accordance with work plans requires that spending ministries and agencies receive reliable information on the availability of funds within which they can commit expenditure.

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

After adoption of the respective RA Law on State Budget and approval of the RA Government decision on the state budget quarterly allocations (which identifies the quarterly payment limits for each budgetary institution), the Treasury (located within the MoF structure) prepares a cash flow forecast for the new budget year on a quarterly, monthly and weekly basis. The forecasts can be adjusted weekly, taking into account the actual receipts and outflows of cash.

The cash flow is monitored by the Budget Commission, which meets every Thursday in RA MoF. The activities of the Commission are regulated by RA Minister of Finance Order No 305 dated 10.08.1999, which prescribes the membership of the Commission and the timing and frequency of the meetings. Representatives of RA Central Bank and the RA Government State Revenues Committee are invited to participate in the meetings. During the sessions the weekly cash programmes are discussed on the basis of the cash flows in and out of the treasury single account during the previous week. The cash flow forecasts for the following weeks are adjusted where appropriate. As the situation so requires, expenditure rephasing due to revised payment schedules, expenditures not envisioned under the State budget, under-performance of budget receipts, etc. can also be discussed. As necessary, reallocations can be made in the State budget pursuant to the provisions of Article 23 of the RA Budget System Law. The last time a major reallocation took place as a result of the 2009 global financial crisis, when the RA Government re-phased the quarterly expenditure limits with greater weight towards the end of the year.

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

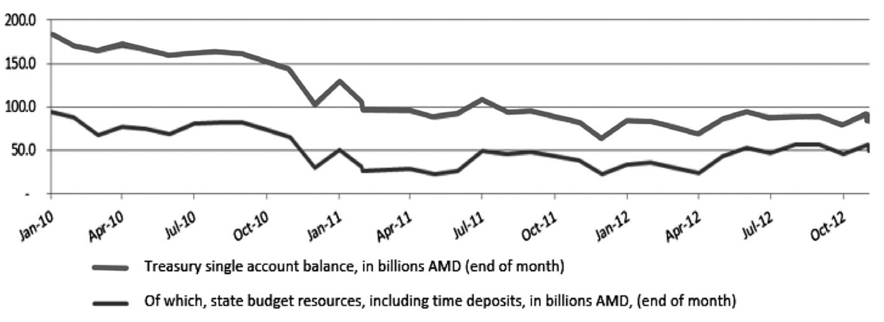
RA ministries, government agencies and other spending units can programme and commit expenditures at the beginning of the new budget year consistent with the state budget quarterly allocations noted under (i) above. According to clause 4 of Article 23 of RA Law on Budgetary System the quarterly allocations shall be stipulated by RA Government within 45 days of the coming into force of the Law on State Budget. Since 2009 these allocations have been approved through RA Government Decision within 15 calendar days of approval of the RA state budget and before the beginning of the fiscal year (Table 15). Thus budget agencies have been able to plan and commit expenditure according to a full year's time horizon. Emphasising this point, the Law on Procurement (Article 14, item 7) allows procurement processes to start even before the adoption of the annual budget law. A contract can be conditionally agreed to with a supplier prior to approval of the budget, but is withdrawn if the National Assembly does not approve the requisite appropriations.

Table 15: Dates of approval of RA State Budget and quarterly expenditure allocations

Budgetary year	Date of RA NA approval of RA state budget	Date and Decision Number of RA Government approval of quarterly expenditure allocations
2009	27.11.2008	25.12.2008 N 1573-N
2010	10.12.2009	24.12.2009 N 1522-N
2011	09.12.2010	23.12.2010 N 1748-N
2012	08.12.2011	22.12.2011 N 1919-N
2013	05.12.2012	20.12.2012 N 1616-N

Although expenditures can be contractually committed with a time horizon for payments up to one year, payments during the year are still subject to the quarterly payments limits. Budgetary agencies can request adjustments to these limits if warranted by circumstances (e.g. contractors submitting payments certificates according to a schedule different from planned).As indicated in the chart below, the RA Government typically has enough resources in its Treasury Single Account (TSA) to fund the expenditures envisaged by the state budget, thus ensuring sufficient flexibility to meet expenditure commitments according to the expenditure schedule, whether original or revised.

Chart: Balances on TSA, 2010-2012



(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

Budgetary reallocations during the execution of RA state budget may be made according to Article 23 of RA Law on Budgetary system. Under this Article the sectorial ministries propose expenditure reallocations upon their own initiative and justify these to MoF, which must approve the proposed reallocations. Such reallocations are therefore predictable for MDAs.

Reallocations may be made at a management level higher than MDA management level on the basis of RA Government decisions, subject to a limit of 3% of the overall allocations approved by the Law on State Budget for a given year. Reallocations exceeding this limit are made through a legislative initiative procedure by the RA National Assembly; the need for such reallocation has not arisen since 2008.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-16	**A**	**A**	**No change in performance under all 3 dimensions.**
(i)	A	A	*SC (i): A cash flow forecast is prepared for the fiscal year and updated monthly on the basis of actual inflows and outflows.*
(ii)	A	A	*SC (ii): MDAs are able to plan and commit expenditure for at least 6 months in advance in accordance with the budgeted appropriations.*
(iii)	A	A	*SC (iii): Significant in-year adjustments to budget allocations take place only once or twice a year and are done in a predictable and transparent way.*

SC = Scoring criterion

3.5.2.2. PI-17: Recording and management of cash balances, debt and guarantees

Efficient management of debt and guarantees is an essential component of fiscal management. Poor management of debt and guarantees can create unnecessarily high debt service costs. With regard to efficient cash management, an important requirement for avoiding unnecessary borrowing and interest payment costs is that balances in all government held bank accounts are identified and consolidated (including those for extra-budgetary funds and government controlled DP-funded project accounts).

(i) Quality of debt recording and management

An action plan for public debt management reform was approved by the RA Minister of Finance on 3rd March, 2010 (Order No 150-A). Aiming to increase the efficiency of public debt management, the following measures were implemented:

- Introduction of a debt registration and recording system;
- Improvement and reinforcement of the institutional structure for debt management;
- Improvement in the quality of annual and semi-annual reports on public debt;
- Steps aimed at the development of a primary market; and
- Development of a medium-term debt strategy.

Debt registration and recording: The Debt Management and Financial Accountability System (DMFAS) version 6.0 was introduced into MoF in September 2011 through an agreement signed between RA Ministry of Finance and UN Committee for Trade and Development (UNCTAD) on April 26, 2011. Loan data dating back to 2008 have been loaded into DMFAS so far. UNCTAD will further develop the system, so that data on sold government bonds and pre-2008 public debt data, currently kept in paper and electronic form, can be loaded. Prior to the introduction of DMFAS 6.0, the "Debt Tracking System" and Excel software were used to register loans to the RA Government. Excel software is still being used to register government bonds.

Institutional structure for debt management: RA Minister of Finance N 663-A order dated September 17, 2011 approved a new charter for a public debt management department. Under this, the internal structure of debt management has been improved, through formation of a Debt Management Department with front, middle and back office functions according to international best practice. The registration and service division is in charge of recording, registering all the debt liabilities of RA Government and making payments on them. Prior to this reform, the registration of internal and external debt functions and making payments was divided between the internal debt management and external debt management units.

Quality of reports: The quality of annual and semi-annual reports on public debt issued since 1999 has improved. Several new sections, such as the macroeconomic environment; cash flow management and risk analysis have been added. The RA MoF has been publishing a monthly bulletin about RA public debt on its webpage since July 2012. According to a rule approved by RA MoF, this is published before the 5th working day of the month following the reporting month and contains summary information on public debt stocks during that month. Quarterly and annual RA state budget execution reports also contain information about the public debt; these are shown on MoF's webpage (the most recent report is on http://minfin.am/index.php?fl=5355&lang=3).

Reconciliation: All applications for loan disbursements from external sources must be approved by RA MoF, in addition to approval by the programme implementing body, and registered. After creditors approve the disbursement applications, the relevant information (in paper or electronic form) is submitted to RA MoF, where it is recorded in DMFAS on a daily basis and summarized on a monthly basis. The World Bank "Client Connection" and Asian Development Bank "LFIS/GFIS/LAS" internet software enable the debtor to follow on-line the process of approval of the submitted disbursement applications. Disbursements made in 2010-2012 by these two organisations comprised 37%, 44% and 55% of overall disbursements. The information about actual disbursements made by other creditors is provided by email or regular mail.

The transactions on treasury accounts opened for PIUs are also a source of information about actual disbursements. The accounts of 25 out of 37 operating loan programmes during 2012 were held in the central treasury; the accounts of 3programmes were held in commercial banks prior to their completion in early 2014, the remaining account balances programme being transferred to the central treasury, and disbursements for 9 programmes have been made in the form of direct disbursements directly paid to the beneficiary by development partners, the debt management unit being immediately notified electronically[9]. Any data errors are rectified through e-mail correspondence with creditors and PIUs.

Creditors submit payments advice notifications (interest, amortization, other payments) in electronic or paper form to RA MoF, which checks the correctness of these against its own data. The MoF then prepares the schedule of debt service payments for the next month and provides this to the Budget Commission in the Ministry (PI-16) and to the RA Central Bank. The information on actual payments is recorded and summarized on a daily basis.

[9] This happens only with KfW and EBRD projects. For instance, KfW pays to the water operator's management company. Those transactions are on-budget and recorded by the treasury. The debt department on MoF submits the request to KfW, then KfW pays the company, and then KfW immediately submits the information on the transaction to the debt department electronically. The debt department incorporates the data into the treasury systems

Information about the internal debt structure (government bonds, in terms of value, composition and operations) is available on a daily, weekly, monthly, quarterly and annual basis.

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

All cash balances are calculated daily and consolidated under the TSA, which contains the entire state budget, extra budgetary, deposit and monetization accounts. The TSA is an account opened in Armenian dram in the Central Bank in the name of the Central Treasury in MoF. All the resources at the disposal of the Republic of Armenia and communities are deposited in it and all the payments of the Republic of Armenia and communities are made out of it.

Starting in 2011, the RA Government has brought all the special accounts of foreign-financed loan and grant programmes into the Central Treasury. These accounts are foreign currency sub-accounts opened in the name of the respective PIU under the TSA. Prior to 2012, disbursements under some foreign-financed programmes were made in the form of direct payments to the beneficiary. Starting from 2012, however, the disbursements and expenditures made under these programmes were also recorded through the Central Treasury, using the Treasury's "Operational Day" software.

(iii) Systems for contracting loans and issuance of guarantees

According to RA Law on International Treaties, the credit/loan and guarantee agreements concluded by the Republic of Armenia with international organizations and foreign governments are to be ratified by RA National Assembly. Loan agreements with commercial banks, are not regulated by RA Law on International Treaties and are signed following approval of RA Government. According to RA Government Decision N380 dated 18.06.1998, guarantees should be given by RA Ministry of Finance on the basis of the Decision.

According to RA Law on Public Debt:

- Proposals to incur external public debt shall be concluded upon the approval of the RA Ministry of Finance, approval being based on the consistency of the proposed borrowing with the government's debt management strategic programme, which is a part of RA Government Medium Term Expenditure Framework (e.g. Chapter 20 of 2011-2013 MTEF);
- State guarantees can be provided if the RA Ministry of Finance considers that such guarantees are consistent with the Government's debt management strategic programme and economic development programmes; high priority programmes have more chance of securing guarantees on the debt needed to finance those programmes.

RA Law on Public Debt and RA Law on Budgetary System also stipulate the relevant restrictions for public debt and guarantees. Thus:

- The public debt outstanding on December 31 of a given year shall not exceed 60% of GDP of the previous year. Should the public debt at the end of a given year exceed 50% of GDP of the previous year, then the state budget deficit of the next year should not exceed 3% of the average GDP over the last 3 years.

- The total of the outstanding loans on which guarantees have been provided should not exceed 20% of GDP of the previous year; and
- The total of the guaranteed liabilities in a given budgetary year (except for the guarantees envisaged by the international treaties concluded on behalf of RoA cannot exceed 10% of the previous budgetary year's state budget tax revenues.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-17	**B+** ***(revised from A)***	**A**	**Performance improved under dimension (ii)** through development partner project/programme bank accounts being brought under the Treasury Single Account.
(i)	A	A	***Performance unchanged:*** There should be no data quality issues. The evidence suggests this continues to be the case, and that strengthening in terms of timeliness of updating debt records, issuing reports and reconciling debtor and creditor records has improved through the use of DMFAS and the improvement in the structure of the debt management unit in MoF (e.g. reports are now prepared within a week after the end of the month, compared to quarterly based reports prepared in 25 days many years ago). *SC (i): Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports are prepared at least quarterly.*
(ii)	B *(revised from A)*	A	***Performance improved*** through development partner project/programme bank accounts being brought under the Treasury Single Account (dimension ii). The 'A' rating in the 2008 assessment seems too high as some DP accounts opened for funding programme/project expenditures, were outside TSA. They have since been brought under TSA. The rating has been revised to B. *SC (ii): All cash balances are calculated daily and consolidated.*
(iii)	A	A	***Performance unchanged***: *SC (iii): Contracting of loans and issuance of guarantees is made against transparent criteria and fiscal targets and always approved by a single responsible government agency.*

SC = Scoring criterion

3.5.3. Internal control systems

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-18 (M1): Effectiveness of payroll controls	***D+ (Revised from B+)***	**D+**	***The ratings in the 2008 assessment have been revised downwards. Performance is unchanged. The D+ rating is due to the lack of timely reconciliation between the payroll and the personnel records of public entities, mainly as the manual linkages between the two make reconciliation processes very time consuming.***
PI-19 (M2): Transparency, competition & complaints mechanisms in procurement	***Not comparable*** **(New methodology applies 4 measures instead of 3and is more comprehensive; 'A' rating under old method).**	**B**	***A new Law on Procurement, the establishment of a Procurement Complaint Review Board and the introduction of an e-procurement website (as part of the introduction of e-government in general) all point to increased transparency in the procurement system. Justification of the use of non-competitive procurement methods is not yet fully transparent.*** The incidence of non-competitive procurement on the basis of special or exclusive rights is high (66% in 2011, 72% in 2012 by value).
PI-20 (M1): Effectiveness of internal controls for non-salary expenditure	**C+**	**C+**	***Overall performance has not changed, due to shortcomings with regard to the understanding of, and compliance with, internal controls other than expenditure commitment controls (dims. ii-iii). The effectiveness of commitment controls (dim. i) has strengthened due to the introduction of the Client-Treasury system, the periodic updates to the Treasury Operations Day (TOD) software system and the inclusion of PIUs in its coverage.*** *The 2008 assessment ratings appear too high and have been revised downwards.*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-21 (M1): Effectiveness of Internal audit	**D+**	**C▲**	***Performance improved under dimensions (i) and (iii), due to the establishment of an operationally independent modern systems-oriented IA function in 2012 and an improvement in follow-up by management. Follow-up is continuing to improve.*** Under dim. (ii) the Ministry of Finance does not routinely receive audit reports, as the new internal audit information system is only partially working. It did receive reports at the time of the 2008 assessment, but the IA system was less developed. The B rating in the 2008 assessment for dim. (iii) has been revised to D, as a systems-focused IA function was not yet in place.

3.5.3.1. PI-18: Effectiveness of payroll controls

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management.

Background

The public service comprises: civil service; judicial service; diplomatic service; special services in defense, national security, police, tax, customs and rescue service national executive bodies, as well as other services indicated by laws. The Law on Civil Service covers the civil service, other laws cover the other services.

The maximum number of employees in RA public bodies is established by the decisions of the Prime Minister or RA Government or decrees of the RA President, depending on the specifics of the public body (PM decisions apply to 35 state administrative bodies, consisting of ministries and marzpetarans; RA Government decisions apply to Ministry of Foreign Affairs; RA President decrees apply, *inter alia,* to the staff of the President's office).Total employment in public bodies in 2013 numbers 19173, of which 7698 are civil servants, 1127 are special civil servants, 2700 are tax and customs service employees, and 2600are judicial system employees. The remaining 5,048 consist of non-civil service personnel – political, technical and support staff, special servants - in other public bodies, such as State Cadastre, prosecution bodies, President's Office, etc. The list of numbers of employees is contained in the Government Message on the State Budget, 2013. The total does not include defense, police and national security personnel, and personnel in other sectors dealing with state secrets).

In contrast to other sectors, defense expenditures are reflected in the budget by only one line without breaking down the resources channeled for payroll. The review of the payroll system in that sector is beyond the scope of this assessment.

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

As elaborated on below, a uniform procedure for each public body provides for the approval of the list of posts, approval of the staff lists based on the list of posts and the submission of staff lists to the Accounting Department.

The RA Civil Service Council (CSC) has overall responsibility for checking that the list of civil servants on the staff list (list of people employed in each public body) is consistent with the list of civil service positions (the "establishment" list) that it maintains (i.e. staff can only be appointed against a specified position). The staff list of each public body is managed by the Personnel Management Department (PMD) of that body. Amendments to the civil service component of staff lists proposed by public bodies require prior approval by CSC. CSC holds a single registry of civil servants, which is managed by the "Mergelyan" software package, and which ensures a direct link between CSC and the PMDs of public bodies. "Mergelyan" was established in 2010, development partners providing some support.

The staff list for each public body is approved and amended by the head of each body on the basis of recommendations of the PMD of each body. Each list is based on the maximum staff numbers permitted for each body (as per PM and RA Government decisions, and President decrees), the number of positions, and the classifications and ranks of positions. Against each position is the monthly salary rate and associated personnel allowances.

The staff list is a list of staff working in a ministry (including positions held, civil service grades, assigned monthly salary) which is just a part of personnel records held in PMD. The information contained in the staff list alone is not sufficient for monthly payroll calculation, as there are other personnel records (such as orders on sick leaves, vacations etc.) that are needed for monthly payroll calculations but are not reflected in the staff list.

The PMDs in public bodies are also in charge of ensuring consistency between the staff lists in other public service areas and positions' lists. In contrast to the clear IT-enabled mechanisms (through "Mergelyan") for reconciling the civil service component of staff lists with the list of civil service positions, clear mechanisms for regular reconciliations between the non-civil service component of staff lists with positions' list are not in place (checking is based mainly on non-linked Excel files). This situation is mainly applicable to the special services, noted under 'Background' above. Regarding other staff of the state body (e.g. support staff), they are hired against non-civil service positions included in the list of staff, which is being controlled by the maximum number of staff in public bodies allowed by PM decisions/President decrees and by the size of the approved budget for wages and salaries in each public body.

Once the staff list of each public body is approved, PMDs manually transfer it within 3 days to the Accounting Department of that body, which then inputs it to the "Armenian Software" package used for the purpose of payroll calculation (this package is in place in all public bodies); i.e. there is no electronic link between the staff list in PMD and "Armenian Software"[10] The data held by PMDs in the personnel files for each employee on the staff list and changes therein are also provided by PMD to the Accounting Department, which then manually inputs that information to the "Armenian Software" package." "Armenian Software" enables the automatic calculation of salary based on the date of the actual work hours of the employees in the given month. The system automatically generates a payroll, which is submitted to the approval of the chief of staff of the public body. Upon approval, salaries are paid from the treasury accounts of the public body into the respective bank account of each employee.

In some public bodies information on changes in personnel records in PMD are provided to the Accounting Department only in the form of copies of documents on changes in personnel circumstances (e.g. ministerial decisions on hiring, firing, promotions, annual leave etc.), on the basis of which changes were made to personnel files in PMD. Those copies are posted in special designated fields on the intranet of the public body so Accounting Department can check and download the documents and manually do relevant changes in the records of "Armenian Software". Such approach increases the role of the human factor, thus posing potential risks about the integrity and timeliness of changes made in "Armenian Software".

As a rule during the year there are no comprehensive and regular reconciliations conducted between the personnel records contained in the PMDs and the payroll records held in the Accounting Departments. Checks are made through random error detection exercises or as a result of appeals from the employees or problems raised by them, but these do not constitute formal and comprehensive reconciliation. In principle, there appear to be no fundamental obstacles to performing comprehensive and regular reconciliations, but, in practice, in the absence of direct electronic links between personnel records in PMDs and payroll data in Accounting Departments, the reconciliations would be time-consuming.

The 2008 PEFA assessment mentions that "the PMD's list is provided to the Accounting Department and is the same list that is used for the calculations by the Accounting Department". It may not be the same list, however, if there are opportunities for the list to be changed (through tampering or errors) and so routine reconciliation is necessary through checking of the payroll that has been prepared

[10] "Armenian Software' was initially developed for private sector accounting in the 1990s. State bodies then started to buy and implement the software. Complete coverage was achieved after 2010.

by Accounting Department with the previous month's payroll data and the staff list submitted to it by PMD. Such reconciliation appears to not take place and therefore the A rating was incorrect. Even if reconciliation did take place, the rating would have been B, as an A rating requires direct linkage between the staff list and the payroll, which is not the case.

The CoC, Inspectorate of Financial Control of MoF and DPs met by the assessment team indicate that payroll controls are considered to be relatively lower risk than, for example, procurement. The CoC has not yet conducted any payroll audits, however, and the internal audit function is still developing. In the absence of formal reconciliation exercises, it cannot be stated with certainty that payroll controls are stronger than for other control systems.

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

The procedures for recording information in the personnel files of the civil servants, and for maintaining and the registry of personnel files were established by RA CSC decision N 14-N dated June 1, 2002.

Observations made by the assessment team with regard to recorded changes in personal circumstances (e.g. filling of a vacant position, promotion etc.) in a number of public bodies are that the respective changes in personnel records have been made within 3 days. Similarly, the information for resultant adjustments to the payroll lists within 3 days have been provided to the Accounting Department, which inputs the changes into the 'Armenian Software' system within 1-2 days for the purpose of salary calculation, to be reflected in the next payroll run.

Nevertheless, there is no comprehensive (covering all public bodies and positions) and reliable information on the time it takes for changes in personal circumstances to be reflected in changes to personnel records and the payroll and on the extent of retroactive adjustments. Furthermore, the observations of the assessment team indicated that the internal control systems in place do not always guarantee the integrity and timeliness of the information updates.

Although there appears not to be a system for routinely generating information on the timeliness of adjustments, interviews with the public bodies' internal auditors and financial officers indicated that retroactive adjustments to payrolls are made only occasionally and that the overall sum is small.

(iii) Internal controls of changes to personnel records and the payroll

The RA legislation on the civil service clearly stipulates the entities responsible for the approval of positions' lists, staff lists and the payroll and for making changes thereof, as well as appointment and dismissal procedures. External control over the process of maintaining the personnel records of civil servants, including civil servants in the special services, is performed by CSC, which regularly reviews the integrity and accuracy of the information contained in personnel records in terms of established procedures.

There is a process to maintain the registries of civil servants in public bodies, with a special unit responsible for those functions. Supported by IT-based specialized software for document control, specifically designated staff members in public bodies maintain personnel records and the payroll, and control changes to these, according to powers specifically delegated to them through authorisation letters and passwords. Any changes made generate an audit trail. As indicated under dimensions (i) and (ii) the practice may differ from what is supposed to happen. Moreover the process described above only applies to civil servants is not necessarily the same for the other services. Controls are not sufficient in all public bodies to ensure the full integrity and timeliness of changes to personnel records and the payroll.

An important aspect of the control system should be the attendance system, whereby staff signs in when they arrive for work. This informs the heads of units of public bodies in terms of the signing of time sheets, thereby facilitating correct salary calculation. Electronic attendance systems are in place in front of almost all the buildings of the public bodies, but the use of these for registering entry is not yet integrated with the payroll preparation process.

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

Although the internal audit legislation stipulates that personnel management and payroll systems should be reviewed by the internal audit function, this function is still at an early stage of development (PI-21) and it is too early to speak about its reliability and efficiency. During the last 3 years there have been no comprehensive and system audits of the payroll systems of public bodies. Any audits that have been conducted have been in a fragmented way; i.e. either within the PMD or the Accounting Department of a public body.

The Inspectorate of Financial Control (IFC) in MoF includes payroll as one of its areas of focus. Unlike in the area of procurement, the payroll system is regarded by the IFCs as having relatively low risk in terms of non-compliance with rules and regulations. The IFC performs mainly a transactions' checking function rather than an IA function that is more systems focused. It checks establishment lists and accuracy of payroll calculations, and looks at attendance lists to check for possible collusion. It checks for 'ghosts' (e.g. the hired staff who is paid but is not coming to work).

On-going and planned activities

- Updating of "Armenian Software" and linking it to the personnel data management modules used by PMDs is underway. This will ensure a direct programme link between personnel records and payrolls.
- Under the Law on Public Service, approved in 2011 and effective in 2012, the 6 different types of public services are to be harmonized. The Law covers human resource management principles in general.
- Payroll regulations are being revised so as to be in compliance with the laws.

- An automated electronic staff notification system is also planned, which will inform public body employees about their actual salary payments.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-18	**D+** ***(revised from B+)***	**D+**	**Performance unchanged**. **The D+ rating is due to the lack of timely reconciliation between the payroll and the personnel records of public entities, mainly as the manual linkages between the two make reconciliation processes very time consuming**. *The ratings under the 2008 assessment appear too high and have been revised.*
(i)	D *(revised from A)*	D	***Performance unchanged: Linkages between the staff list, other personnel records and payroll, and also between the positions list of non-civil service staff and the staff list are manual and reconciliations are not carried out.*** The monthly payroll in public bodies prepared by Accounting Departments based on the staff list and other personnel records transmitted from PMDs to Accounting Departments. These Departments then manually input the information into the 'Armenian Software' payroll calculation system, which then automatically makes the salary calculations. In some public bodies the internal control systems in place do not guarantee the integrity of these transmission and manual inputting processes, thus under-scoring the need for a separate reconciliation process. This does not routinely take place, as, in the absence of electronic links, it would be time-consuming. The 2008 PEFA assessment justified an A rating on the basis of "(for each MDA) the PMD's list of staff provided to the Accounting Department being the same list that is used for the calculations by the Accounting Department". It may not have been the same list, however, as indicated in the narrative above. The A rating was therefore incorrect and has been revised to D. *SC (i): Integrity of the payroll is significantly undermined by lack of reconciliation between the establishment list, personnel records and the payroll*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(ii)	B *(revised from A)*	B	***Performance unchanged.*** A comprehensive system for routinely generating information on the timeliness of payroll changes is not in place. However, interviews with internal auditors and financial officers of a number of public bodies indicated that retroactive adjustments to payrolls are made only occasionally and that the overall sum is small. An 'A' rating would require precise quantification of the timeliness of updating and the extent of retroactive adjustments. A 'B' rating is therefore provided. The 2008 PEFA assessment seems to have overestimated the situation. It stated what the situation should be, according to the law, but did not provide evidence of the actual situation. The situation appears not have changed, so the 2008 rating has been revised to B. *SC (ii) for 'B' rating: Up to 3 months' delay occurs in updating of changes made to personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.*
(iii)	C *(revised from B)*	C	***Performance unchanged.*** The powers to make changes in the personnel records and payrolls are clear and reserved to specific units and persons. All the information about those changes is recorded in the respective software and ensures the necessary audit trail. The systems, however, have bottlenecks such that the complete accuracy of the data is not guaranteed. The 2008 PEFA assessment did not say anything about controls. The basis of the B rating is not substantiated. The performance appears not to have been any different from the current performance, so the rating has been revised to C. *SC (iii): Controls exist but are not adequate to ensure full integrity of data.*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(iv)	C *(revised from B)*	C	***Performance unchanged.*** *The internal audit legislation in principle provides for the audit of personnel management and payroll systems, but the internal audit function is still at an early stage of development*. No comprehensive payroll audit has been conducted during the last 3 years. Audits that have been conducted have been fragmented between PMDs and Accounting Departments, the focus being mainly on transactions rather than systems. The Inspectorate of Financial Control performs regular *ex post* transactions checks and thus provides a partial audit function. The 2008 PEFA overestimated the extent of payroll audit, so the score has been revised to C. *SC (iv): Partial payroll audits or staff surveys have been undertaken in the last 3 years.*

SC = Scoring criterion

3.5.3.2. PI-19: Transparency, competition & complaints mechanisms in procurement

Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs for, and value for money in, delivery of programmes and services by the government.

The dimensions for this indicator changed in January 2011 and are not comparable with the dimensions assessed in the 2008 PEFA assessment.

Background

The adoption of the RA Law on Procurement (LoP) in 2010 (which replaced the Law on Procurement (2005), itself revised) resulted in significant changes in the legislative and regulatory framework for procurement:

- The procurement system has been completely decentralized; i.e. all the public bodies do their procurement on their own (in the past, the competitive procurement for the needs of the public bodies were conducted in a centralized manner through the State Procurement Agency).
- Procurement Complaint Review Board (PCRB) has been established, which

is an independent body composed of representatives of RA public bodies, communities, RA Central Bank and NGOs (in the past it was RA MoF that would review complaints concerning the procurement process; it was not independent of the procurement process, however).

- The scope of legal enforcement with regard to procurement has been expanded under the LoP. The procurement legislation now applies to the procurement conducted by public organisations, as well as legal entities that have received donations from the state or community or RA Central Bank, or state or community non-commercial organizations or organizations with more than 50% of state or community shareholding, which have received grants for procuring goods and services.
- The State Procurement Agency, which was part of MoF, has been transformed into the Procurement Support Centre (PSC), which provides advice to procurement entities and monitors their operations, and acts as a Secretariat to the PCRB.

An e-procurement system was established on January 1, 2012, as a result of which procurements conducted by RA public bodies using open competitive procedures would be organized through the system (www.armeps.am). Because of some technical shortcomings the e-procurement system is currently not fully operating.

Armenia was the first CIS country (7 December 2010) to adopt the WTO General Procurement Agreement under which open competitive procurement is the default procurement method (consistent with UNICITRAL). Such adoption and acceptance by the international community indicated that Armenia's procurement legislation met international standards.

Whether devolution of full procurement responsibilities to line ministries will induce greater efficiency in procurement remains to be seen. Capacity constraints in line ministries imply that the efficiency benefits may take a while to materialise.[11]

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

Table 16 indicates the extent that the legal and regulatory framework meets minimum requirements as established in the PEFA framework[12].

[11] A view expressed to the assessment team by the Yerevan branch of Transparency International.

[12] This indicator is also contained in OECD DAC's National Procurement Assessment Framework.

Table 16: Legal and regulatory framework for procurement

Minimum Requirements	Meet requirements? (Yes/No)	Explanation
(i) Be organized hierarchically and precedence is clearly established;	Yes	The LoP is supported by the RA Civil Code, RA Government decisions and RA MoF orders ensuring its enforcement. Only RA Government and the authorized body in the procurement area (RA MoF) are entitled to adopt other legal acts in the area of procurement process regulation and coordination; the scope of law-making powers of each of those bodies is clearly stipulated by the LoP.
(ii) Be freely and easily accessible to the public through appropriate means;	Yes	The legal acts regulating the state regulation and coordination of procurement process are of normative nature and are published in the RA official bulletin of legal acts, as well as the Procurement E-bulletin established by the LoP (www.procurement.am, www.gnumner.am) and other official information sites (www.laws.am).

Minimum Requirements	Meet requirements? (Yes/No)	Explanation
(iii) Apply to all procurement undertaken using government funds;	Yes	In Armenia the public and local self-governing bodies, institutions subordinate to them, public and community non-commercial organizations, and organizations with more than 50% of state or community participation procure goods, works and services necessary to perform their duties by unified procedures, in accordance with the procedures stipulated by the procurement legislation. Exceptions apply to cases where the international contracts (agreements) stipulate other norms of implementation, than required by the procurement legislation. Such examples are procurement of goods, works and services under individual DP-financed projects, in accordance with the procedures established by those DPs. In2012 these procurements comprised only around 10% of 2012 RA state budget expenditures.
(iv) Make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	Yes	Article 17 of the LoP stipulates the types of procurement, as well as stipulates that the open competition procedure is the preferable procurement procedure. The LoP and the Order approved by RA Government decision N 168-N “On organizing procurement process” dated 10.02.2011 clearly describe and give the relevant justifications based on which the purchaser is entitled to apply procurement procedures other than open procedure.

Minimum Requirements	Meet requirements? (Yes/No)	Explanation
(v) Provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	Yes	The legislation on procurement requires that the procurement plans, changes thereof, procurement announcements and invitations, changes made in invitations, clarifications on invitations, announcements on cancellation of procurement procedures, announcements about concluding contracts exceeding AMD 1 million and decisions by PCRB on procurement appeals should be published in the Procurement E-bulletin (www.procurement.am, www.gnumner.am).
(vi) Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes	RA procurement legislation envisages that prior to contract conclusion the purchaser publishes a decision about contract conclusion, which stipulates an inactivity period, during which the stakeholders can contest the decisions of the purchaser and/or evaluation commission through the PCRB. The inactivity period in the case of procurement exceeding AMD 50 million is at least 10 calendar days and in the case of procurement not exceeding that amount – at least 5 calendar days. During the inactivity period no contract can be concluded. In the case of an appeal being lodged with PCRB, and before the Board makes a decision about the appeal, the purchaser is not entitled to conclude a contract (the Board makes its decision about an appeal and publishes it no later than 20 calendar days following the receipt of the appeal).

(ii) Use of competitive procurement methods

This dimension is rated according to the degree to which appropriate justification is provided for awarding contracts using methods other than open competition, above the threshold for open competition.

The new procurement legislation envisages a range of procurement procedures; however, these are mostly competitive procurement methods (performed by open announcements and do not limit the participation of potential bidders to the procurement process). Only the procurement procedure that does not require a prior procurement announcement is defined as a non-competitive method of procurement and in practice represents a single source procurement process. The procurement legislation clearly describes the justifications under which the purchaser is entitled to apply procedures other than open competition procedures, the justifications mainly being in terms of 'urgent and unforeseen need', copyright/special use provisions, and good reasons for purchasing extra supplies/services from the same vendor.[13]

The procurement plans approved and published for each year by public bodies mention the name of each procurement subject, unit of measure, quantity, budgetary allocations allocated for the given procurement, as well as procurement method. Procurement plans to be financed by the state budget are approved by RA Government. Procurement plans to be financed by other resources (e.g. extra-budgetary resources) are approved by the head of the state body making the procurement.

The public bodies keep relevant records and documents about the award of each procurement contract. If the procurement price is more than AMD 1 million, the justification of the procurement method used is included in the announcement made about the procurement contract in addition to the detailed information on the contract itself. The internal audit units of public bodies, the MoF, the PSC, the MoF Inspectorate of Financial Control and the RA Chamber of Control are also involved in assessing the justification of the procurement methods selected by public bodies in terms of the legal requirements; a risk assessment methodology developed by MoF helps determine the cases selected for assessment. According to both the MoF Inspectorate of Financial Control and the RA Chamber of Control (as pointed out in its Annual Report for 2012), procurement is a relatively high risk area in terms of non-compliance with procurement legislation, so particular focus is placed on assessing the validity of justifications provided.

Evidence collected by the assessment team indicated that more attention is being paid to the selection of procurement methods and the justification for using non-competitive procurement methods. The State agencies interviewed pointed out

[13] The full list of justifications indicated in the legislation (as provided by the assessment team) consists of: (i) a special or exclusive right, e.g. copywrite; (ii) unforeseen urgent need; (iii) additional quantities required from a vendor, which had already been contracted to provide goods and services and changing the source would be technically complicated; any price increase should be no more than 20%.

that they were becoming stricter in terms of choice of procurement methods. However, representatives of Civil Society Organisations (CSO) met by the team indicated some concern that use of non-competitive methods of procurement was not always sufficiently justified, but also indicated that transparency in the selection of procurement methods had increased in recent years.

Table 17 provides information about non-competitive procurement methods used by central government agencies for state needs performed during 2011-2012. The method of procurements conducted through the negotiation procedure without prior announcement of the proposed procurement is, as defined above, considered as a non-competitive procurement method. The majority of contracts were awarded in 2011 and 2012 (66% in 2011, 72% in 2012, by value, 54%, in 2011, 82% in 2012 by number) using non-competitive procurement methods on the basis of special or exclusive rights (e.g. for hospital & education services provided by SNCOs and JSCs).

Table 17: Procurement contract awards, 2011-2012

	2011	2012
All cases of procurement contract awards		
Overall number of awarded contracts	14617	18059
Overall value of awarded contracts (million AMD)	166804.6	171900.0
Cases of procurement contracts awards (except for open bidding methods)		
Overall number of awarded contract *	7874	14892
Overall value of awarded contracts (million AMD)	110972.5	123385.8
% value of procurement contracts not awarded through open bidding to total value of all contract awards	66	72
% number of procurement contracts not awarded through open bidding to total number of all contract awards.	54	82

Source: RA MoF

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

The main information relating to the procurement process, including procurement plans, changes thereof, procurement announcements, invitations, changes thereof, clarifications on invitations, announcements on cancelling the procurement process, announcements on concluding contracts or contracts concluded exceeding AMD 1 million are published in Procurement E-bulletin (www.gnumner.am or www.procurement.am). The procurement announcement is also published on webpage: www.azdarar.am.

Table 18 indicates the extent of public access to information on procurements made during 2012 for state needs.

Table 18: Extent of public access to information on procurement

Information type	Public access	Frequency/timeliness of their updates for public	Procurement value 2012		
			All	Published	%
Procurement plans of public bodies	Yes	The procurement legislation requires that the procurement plans and changes thereof are published on Procurement E-bulletin within 5 working days after their approval (www.gnumner.am). The 2012 procurement plans of RA public bodies were approved on 29.12.11 by the RA GOV decision N 191-N “On approving the measures ensuring the execution of RA 2012 state budget” and published on the official bulletin and Procurement E-bulletin.	187127.9 (million AMD)	187127.9 (million AMD)	100
Cases of contract awards	Insufficient information	The procurement legislation requires that within 7 calendar days after concluding contracts the information is published in the Procurement E-bulletin, if the procurement value is above AMD 1 million. For a significant proportion of announcements on procurement contracts awarded in 2012 no publishing deadlines were stipulated in the Procurement E-bulletin and there is no comprehensive information about their actual publication date. Therefore this element cannot be fully assessed.	171900.0 (million AMD)	171900.0 (million AMD)	100
Bidding possibilities	Yes	The procurement legislation requires that the tender invitation and announcement are published within 5 working days in Procurement E-bulletin.	12 475.2 (million AMD)	12 475.2 (million AMD)	100

Information type	Public access	Frequency/timeliness of their updates for public	Procurement value 2012		
			All	Published	%
Information about procurement appeal results	Yes	PCRB decisions are published in the Procurement E-bulletin within 5 days and sent to the purchaser, authorized body and parties involved in the appeal process. During 2012 there were 38 appeals lodged with regard to the state needs procurement process. The decisions made by the Board were submitted on time to the appellants and published in Procurement E-bulletin.	38	38	100

CSOs interviewed by the PEFA assessment team (Employers' Association, Transparency International), indicated that transparency of the procurement system has improved considerably during 2013. For example, availability of information on sole source procurement has greatly improved.

(iv) Existence of an independent administrative procurement complaints system

The complaints about the procurement process are examined by an independent PCRB established according to RA Law on Procurement, the decisions of which are binding and can only be contested in the court by the purchaser, authorized body (RA MoF) and complainant. The PCRB is an independent board, though it is not institutionally independent from MoF. The only link with MoF is that PSC performs the functions of the council secretariat, which is an SNCO under MoF authority. The role of PSC is supposed to be purely technical and in principle MoF cannot influence the decisions of the PCRB.

During 2012 there were 38 complaints lodged about the state needs procurement process, 17 of which were settled in favor of the complainant (the complaint was satisfied and the procurement process was invalidated) and 10 were not examined (the complainant withdrew the complaint before the PCRB made a decision). The complaints process lasted no more than 20 calendar days, thus meeting the time deadlines established in the legislation. Complaints and decisions are published on the Procurement E-bulletin (www.gnumner.am) and are available to the public.

The complaints/appeals mechanism is assessed according to the following criteria:

Complaints are reviewed by a body which:	**Yes/ No**	**Justification**
(i) Is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government.	Yes	Qualified persons with sufficient level of procurement legislation knowledge, who represent the following institutions can be included on the list of PCRB members: • Public administration bodies envisaged by RA Constitution and RA laws; • RA urban communities; • RA Central Bank and • Non-governmental organizations (trade unions), registered in RA, which submit a written application to the authorized body. RA legislation does not specifically provide for involvement of private sector business representatives in the PCRB. It would be desirable if it did but, the benchmark, as specified, does not define the meaning of the 'private sector' and 'civil society'. NGOs are in fact private sector organisations (the opposite of 'public' is 'private'), and, moreover, are unions that are involved in the delivery of private services, so the benchmark is nominally met if PCRB members include NGO representatives. From the onset there were 105 members included in PCRB including a number of NGO representatives. However, as a result of an exam organized by RA MoF some of NGO representatives failed to pass the exam and some of them did not sit for it. As a result, there are currently 67 members on PCRB, of which 2 are NGO representatives. Nevertheless, the pre-dominance of government personnel on the Board suggests that such pre-dominance might also be the case with the 3 person commissions, when, from the point of view of impartiality, greater representation of non-government entities might be desirable. The NGO representatives sit on these commissions from time to time.
(ii) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Yes	To examine each complaint a commission made of 3 Board members is formed. In each case the selection of the commission is done on a rotation principle through random selection. The persons nominated by the purchaser, whose actions are appealed against and who is represented in PCRB cannot be included in the commission. Board members with such conflict of interests must decline nomination to a commission, or the chairman of the commission must refuse their nomination. If the chairman is in a conflict of interest situation, then he/her excludes his/her participation in the appeals adjudication procedure and another Board member replaces him/her. The commission members must sign a disclaimer indicating absence of conflict of interest.

Complaints are reviewed by a body which:	**Yes/ No**	**Justification**
(iii) does not charge fees that prohibit access by concerned parties;	Yes	RA legislation has stipulated a fee of 30 000 AMD. Up to 60% of the fee is used to remunerate commission members. The other part constitutes revenue for the PSC. The PSC performs the functions of the council secretariat, through organizing the PCRB’s activities, assessing the integrity of the complaints (applications) received and submitting conclusions to PCRB about each complaint, and publishing PCRB’s decisions. Discussions with PSC, purchasers and RA MoF officials indicated that the fee amount does not in practice pose impairments to the complaint submission process. To date there have been no problems raised by bidders about the amount of the fee, which, on the other hand, is high enough to exclude frivolous complaints and undue suspensions and impediments to procurement procedures resulting from unfair actions by the parties involved.
(iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Yes	The procurement appeal procedures, deadlines, as well as the powers and principles of actions of the appeal commission are clearly stipulated by procurement legislation, which is published in RA legal acts’ official bulletin, the Procurement E-bulletin provided for by the RA LoP (www.procurement.am, www.gnumner.am) and in other official information sites (www.laws.am) and is publicly available. The decisions of commissions about the complaint are made according to a procedure through which the complainant, purchaser and all the parties involved have an opportunity to present their viewpoints at the sessions of the Board. The written decision about the complaint, which includes also the justification of the decision, is adopted and published within 20 calendar days. The procurement legislation specifies that the decisions made by PCRB can be contested in the court. According to PSC, out of 106 complaints submitted during 2011-2013, only in 4 cases did the parties contest the PCRB’s decisions in the court. The court left unchanged the Board’s decision in 2 of these cases and overturned the Board’s decision in one case. The other case was still pending at the moment of this assessment. The narrative above indicates that in general the PCRB adhered to the procedures stipulated by RA legislation for the submission and examination of complaints.

Complaints are reviewed by a body which:	**Yes/ No**	**Justification**
(v) exercises the authority to suspend the procurement process;	Yes	According to Article 49 of RA LoP the complaints submission on its own does not suspend the contract conclusion procedure. The purchaser is not entitled, however, to conclude a contract before the Board makes a decision on the complaint. Article 48 stipulates that with its decision the Board is then entitled to: suspend the procurement process; terminate individual decisions made by the purchaser or evaluation commission during the procurement procedures, including the decision on contract conclusion during inactivity; cancel the contract concluded; restrict the contract enforcement by means of reducing its implementation period, apply a fine up to 10% of the contract price; declare legal or illegal the purchaser's procurement procedures; and include a participant on the list of participants not entitled to participate in the procurement process. The duration of inclusion in the list is 3 years. The list is published in procurement e-bulletin.
(vi) issues decisions within the timeframe specified in the rules/regulations;	Yes	The PCRB makes a decision about the complaint within 20 calendar day from the day of receiving the complaint. Documentation examined by the assessment team indicates that the deadline is observed.
(vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Yes	The decision of PCRB is legally binding (RA LoP, Article 48). The decisions of the PCRB can be contested in the court (RA LoP, Article 45).
Number of criteria met out of the 7 specified	**7**	

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-19	The previous methodology is not comparable with the revised methodology. The new methodology has 4 dimensions instead of 3 in the past and the dimensions are specified differently. If the new methodology was applied to the situation at the time of the 2008 assessment, the rating would probably be lower than now, due to the new LoP and PCRB and the greater availability of information enabled by the new e-procurement Bulletin.	B	**A new Law on Procurement, the establishment of a Procurement Complaint Review Board and the introduction of an e-procurement system (as part of the introduction of e-government in general) all point to increased transparency in the procurement system.**
(i)		A	The legal system regulating the state needs' procurement process meets all 6 benchmarks. *SC for (i): The legal framework meets all 6 listed requirements.*
(ii)		D	Insufficient data are available to assess the extent that use of non-competitive methods for state needs' procurement is justified in terms of the procurement legislation. This is of concern, given the high incidence of non-competitive procurement on the basis of special or exclusive rights (66% in 2011, 72% in 2012, by value, as shown in Table 18). The significant checking/ auditing conducted by various agencies (e.g. MoF, PSC, Inspectorate of Financial Control) on the justifications for using non-competitive methods suggests that evidence is available for scoring this dimension *SC for (ii): Reliable data are not available to assess*:
(iii)		B	Although the information about contracts concluded is published in procurement e-bulletin, there is no comprehensive information about their actual publication date. Three out of four main information elements of the procurement process are comprehensive and reliable. Information (with regard to all public bodies) is accessible to the public by relevant means – within the established deadlines and in full. *SC for (iii): At least 3 of the 4 information elements (e.g. procurement plans) representing 75% of procurement operations (by value) are publicly available*
(iv)		A	Procurement appeal system meets all the criteria.

SC = Scoring criterion

3.5.3.3. PI-20: Effectiveness of internal controls for non-salary expenditure

Controls concerning payroll, debt and revenue management have been discussed under PIs 14-15, and PIs 17-18.

(i) Effectiveness of expenditure commitment controls

A detailed system of treasury control is applied to expenditure commitments entered into for all types of expenditures covered by the state budget, according to the treasury control rules stipulated by RA legislation. The control is exercised through the Treasury Operating Day (TOD, formerly called LSFinance) software maintained in the Treasury.

Treasury control over expenditure commitments has strengthened since 2008. The introduction of the Client-Treasury software system in 2010 has enhanced the efficiency of controls over budget execution, by enabling public bodies to directly connect with the TOD system, instead of going through local treasury bodies (LTBs). The TOD itself has undergone periodic updating. The system operates in all public bodies and PIUs. Prior to 2008, there was practically no treasury control over the expenditures made by PIUs. Starting in 2010 their accounts were transferred from commercial banks to the treasury single account in the Central Bank of Armenia (PI-17), and, starting from mid-2013 the treasury control rules have been applied to the commitments and budgetary expenditures made by them.

The integrity and reliability of information on expenditure commitments further strengthened in mid-2013 through the treasury control process over expenditure commitments now including the registration of initial documents justifying expenditures and strengthening automatic control over them.

The controls include detailed procedures of automated registrations, controls and approvals at all stages of the expenditure commitment process:

- Approval of the annual and quarterly budgets at the beginning of the year, and registration of these into the treasury system.
- Setting of quarterly ceilings (expenditure estimates) for each public body, applied also on an economic classification basis, and the registration of these estimates into the treasury system. The estimates are based on detailed cash flow forecasts based on detailed costings for each quarter (PI-16).
- Proposed expenditure commitments must be registered in full in the treasury system, where they are automatically compared with the approved expenditure estimates.
- Approval and registration of payment schedules (with monthly breakdown) with the purpose of keeping payment orders within the quarterly expenditure estimates. Payments generated by expenditure commitments must be consistent

with the approved payment schedules for any time period of the budgetary year. The payment schedules are refused if they do not conform to the details of the approved expenditure estimates.

- Execution of expenditure commitments based on the approved schedules (procurement, contract conclusion, etc.) and registration of actual expenditure commitments (including all the contract details). Prior to registration the proposed commitments are automatically compared with the quarterly expenditure estimates and payment schedules.
- All information about commitments (extracted from the contract documents) is registered in the treasury system. Supporting documents must be submitted (acceptance and delivery protocols, certificates, etc.) to the treasury, justifying the payment orders against the expenditure commitments and the payments schedule. The system automatically compares the amounts mentioned in the payment order with the documents justifying the expenditure and with the payments schedule.
- In the case of changes in the quarterly budgets the respective changes are also made in the expenditure estimates and payment schedules with respect to budgeted expenditures not yet committed to.

All of the aforementioned controls are performed by the TOD software, where all of the processes, documents and commitments have been recorded and registered. The system excludes the possibilities of bypassing the controls. Since 2010, all public bodies have been connected to the TOD system through the Client-Treasury system installed at these bodies. This system enables the public bodies to perform the entire control over the expenditure commitment electronically, instead of having to go through the local treasuries, thus resulting in efficiency gains in the commitment-payments process.

As a result of the controls, expenditure commitments are effectively restricted within the budget approved ceilings and cash flow forecasts and the payments from the treasury accounts are made only against the commitments that have been undertaken according to the prescribed processes. Any expenditure commitment undertaken in violation of the controls described above is considered invalid.

The efficiency of the controls over expenditure commitments and payments is substantiated by the absence of expenditure arrears over the last ten years.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures

The PFM-related internal control processes are stipulated by the relevant laws, and government decisions, circulars and instructions issued under these laws. These documents stipulate the control processes for budget planning and execution (covering commitments, procurement, asset use, payments) and accounting.

Although these processes are mostly well regulated, nevertheless, the integrity, availability and timeliness of circulars and methodological instructions establishing internal controls leave something to be desired. Inquiries made by the assessment team to internal auditors and employees indicated that circulars and methodological instructions are updated only with delays and tend to be incomplete. There tend to be no internal regulations governing the updates of internal control processes.

The level of understanding of internal control processes varies between public bodies. Training courses routinely provided by the MoF's Training Centre (TC) help government employees to better understand internal control systems, but no special induction courses on internal controls are provided for new employees. Courses related to internal controls that are provided by TC are "Electronic management of treasury accounts", "Budget execution" and "Organization of procurements". Other courses cover budget preparation and performance budgeting, public investment management, project management, internal audit, public sector accounting, tax administration and computer skills. The number of trainees (from all of central government) was 1820 in both 2012 and 2013 (planned).

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

Internal controls are observed and bypassing them is not frequent, but nevertheless financial inspections (through the Inspectorate of Financial Control in MoF) and audits conducted by internal audit units in public bodies and audits conducted by the Chamber of Control identify regular violations of internal control processes and the unjustified use of simplified procedures.

The assessment of the effectiveness of control systems is the responsibility of the internal audit departments of public bodies (the Inspectorate of Financial Control only checks compliance of individual transactions with the rules, as stated in legislation). As elaborated on in PI-21, the process of establishing internal audit units in these bodies only started in 2012. Thus, the number of comprehensive assessments of internal control systems, that provide a complete and holistic understanding of the efficiency and proper application of controls and the extent of compliance with them, has been very few. Nevertheless, the internal audit reports prepared so far in some public bodies regularly identify violations connected with undue authorizations; improper oversight over contract implementation; inadequate accounting of transactions, amongst other things.

Chamber of Control annual reports over the last few years also identify numerous violations and systematic shortcomings, which re-occur every year and impact on the efficiency of the internal control processes. The violations include: inadequate authorization of decision making; violations of asset management, technical and other control rules, established procedures and norms; acceptance of incomplete works and payments thereof; wrong accounting of transactions; and many other cases of inadequate and incomplete application of controls and the bypassing of controls.

On-going and planned activities

A major component of Phase 1 of the PFMS is the Public Internal Financial Control (PIFC) Strategy. Under the Strategy, management will be 'decentralised' in the sense that lower level managers will be provided flexibility to manage spending in the interest of enhancing the quality of public expenditure, consistent with the programme budgeting framework. Under the current system, management is strongly concentrated at the top of the hierarchy in line ministries. Increased flexibility comes with accountability requirements and internal audit functions in line ministries can monitor the robustness of internal control systems that support accountability.

A key component of the PIFC Strategy is the establishment of a financial management and control (FMC) system based on managerial accountability. This is not yet in place due to the absence of enabling legislation.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-20	**C+**	**C+**	**Overall performance has not changed, due to shortcomings with regard to the understanding of, and compliance with, internal controls other than expenditure commitment controls (ii) & (iii). The effectiveness of commitment controls (i) has strengthened due to the introduction of the Client-Treasury system in 2010, periodic upgrades to the TOD software system and the inclusion of PIUs in it.**
(i)	B *(revised from A)*	A	***Performance improved. The introduction of the Client-Treasury system and periodic upgrades to the TOD system has led to efficiency gains in terms of commitment control, while the scope of the system has expanded to include PIUs.*** Since 2012 all public bodies have been directly connected to the TOD system through Client-Treasury system (established in 2010) and are now able to execute complete electronic control over the expenditure commitment process, including control over PIU commitment processes. Previously, public bodies had to go through the local treasury system, which linked up with the central treasury system. The situation has definitely improved, the main change in terms of the score being the inclusion of PIUs in the system. Their previous exclusion indicates that the rating should have been B the 2008 assessment and the score has been revised accordingly. *SC for (i): Comprehensive commitment controls are in place and effectively limit commitments to cash availability and approved budget allocations.*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(ii)	C	C	***Performance unchanged:*** *The integrity, availability and timeliness of circulars and methodological instructions establishing internal controls are inadequate*. No special induction courses on internal controls are provided for new employees. *SC for (ii): Other internal control rules & procedures consist of a basic set of rules which are understood by those directly involved in their application. Some rules and procedures may be excessive.*
(iii)	C *(revised from A)*	C	***Performance unchanged.*** Financial inspections (through the Inspectorate of Financial Control in MoF), audits conducted by internal audit units in public bodies and audits conducted by the CoC identify regular violations of internal control processes and the unjustified use of simplified procedures. This dimension was clearly mis-understood in the 2008 PEFA assessment. The supporting narrative was only 1 line long and referred only to transactions recording. The rating has bee revised to C. *SC for (iii): Rules are complied with in a significant majority of transactions, but the unjustified use of simplified procedures is an important concern.*

SC = Scoring criterion

3.5.3.4. PI-21: Effectiveness of internal audit

Background

The internal audit function is still in its early days of operation, following the adoption of the RA Law on Internal Audit in 2012.

The adoption of the Law enabled significant amendments to the legislative and regulatory framework for internal audit (IA). The changes aimed at putting the organizational and functional aspects of IA into conformity with accepted international criteria. The amendments stipulated the legislative foundations of the system, the standards for internal audit, the instructions for their application and the rules for conduct of internal audit activities. In this way, the amendments ensured the functional independence of the IA function through its direct subordination and accountability to the head of a specified organization. They also enabled the preparation of internal audit regulations, manuals and guidelines, in turn enabling the stipulation of the scope of audit.

An internal audit information management software system was introduced in January 2013, apparently unique to the region. The system enables the efficient documentation of all the stages of the internal audit process (planning, implementation, report preparation and revision). It had been introduced in only 37 public bodies at the time of this assessment, due to technical issues.

(i) Coverage and quality of the internal audit function

The new internal audit system is being implemented in stages according to an RA Government approved schedule. At the time of this assessment, internal audit units (IAUs) had been established in 52 out of the 55 state government agencies (98.7%). The number of internal auditors in these agencies amounted to 153, of whom 131 were qualified auditors (according to MoF's internal qualification system), the remaining 22 undergoing on-the-job training. The IAUs are also responsible for ensuring the establishment and functioning of internal audit functions in SNCOs and JSCs with over 50 percent state participation and in public institutions under the authorized control of these entities. Comprehensive information about the audit environment is not available as not all public entities use the integrated automated internal audit information management system, but the number is at least 3115.

The distribution of internal auditors by auditee is not proportionate. For example, in the Ministry of Education and Science only 3 auditors cover 300 auditees. As a result of this significant mismatch, only about 50 percent of the internal audit environment can be covered under the three-year internal audit strategic plans, representing a significant capacity limitation.

The scope and coverage of the IAUs is based on their three-year strategic plans and annual programmes, with priorities based on risk assessments, and are required to be approved by the managers of the respective public bodies.

Prior to 2012, internal audit was predominantly focused on financial issues in terms of checking for compliance with rules, and no internal control assessments were conducted. Attention to systemic issues only began in 2012. According to MoF in its annual report for 2012, out of 642 audits carried out (other than for Yerevan Municipality), 92 (14.3%) had a systems focus; in terms of man-hours of audit time, the proportion was 30%.

The internal audit system is still at an early stage of implementation. Professional standards and internal audit manuals are still being adopted and developed, according to the standards set by the International Institute of Internal Auditors. Quality assurance systems are in place in only 7 state agencies. The internal audit committees of public bodies are still being defined. The responsibility for external evaluation of the quality of the internal audit function was assigned to the MoF only recently, and no such evaluations have been performed yet.

(ii) Frequency and distribution of reports

Prior to the preparing of audit reports, the audit results should first be discussed with the head of the audited unit and preliminary versions of the reports then submitted to the management of the audited units for feedback. The final versions of the reports should be approved by the heads of the audit departments and then submitted to the heads of bodies, internal audit committees and heads of the audited units.

In line with the adoption of IA international standards the mandatory requirement to submit audit reports to RA MoF was removed; only annual summary reports are submitted to the latter. As referred to above, the operation of the internal audit information system is only partially working. So there is no reliable way for MoF to know the extent to which public bodies observe the rules stipulated for the submission and distribution of audit reports. During 2012, around 80% of public bodies submitted summary annual reports to RA MoF.

The internal audit reports are not submitted to RA Control Chamber, unless the latter requests them (according to RA MoF order N974-N dated 08.12.2011), but this appears to be a formality.

(iii) Extent of management response to internal audit findings

The RA Law on Internal Audit requires that in each public body, where there is an internal audit department, there should be an internal audit committee headed by the head of the given public body. The head of the internal audit department should perform the functions of the secretary thereof. The supervision over the activities of an organization's internal audit department, as well as the coordination of the relations of the internal audit department with other departments are the main functions of the internal audit committee. The head of the organization and internal audit committee members should discuss the internal audit reports, as well as other significant issues relating to the internal audit function, including the implementation of the action plan prepared on the basis of the internal audit recommendations.

Information provided by RA MoF, indicates a fair degree of action taken by many managers with regard to the implementing of recommendations. Internal audits of 45 bodies during 2012 revealed 1648 flaws. These flaws relate to issues concerning the public procurement process, as well as control, accounting and other issues concerning the implementation of contracts. Action plans were developed to rectify the flaws. Out of 900 envisaged measures 754 had been implemented by the deadlines stipulated by the action plan, 25 measures had been implemented in violation of deadline, 4 measures had not been implemented at all and 117 measures were still ongoing in compliance with the action plans. Interviews with the internal auditors indicate that the introduction of the new system of internal audit has considerably improved the response of managers to challenges raised in internal audit reports, and response continues to improve.

Evidence is not sufficient; however, to indicate that implementing of recommendations is being conducted in most public bodies. In some ministries and agencies the internal audit committees function incompletely. Review of a sample of proceedings of internal audit committee meetings indicates that, in general, some public bodies prepare action plans based on the recommendations of internal audit reports. However, implementation of recommendations appears not to be monitored in a coordinated way by internal audit committees. The internal audit reports reviewed by the assessment team did not always contain recommendations for action plans. Moreover, the only partial functioning of the internal audit information system means that reliable information on the timeliness and comprehensiveness of measures taken by management in response to the action plans recommended by internal audit functions is only partially available.

On-going and planned activities

Current activities are mostly aimed at strengthening the capacity of RA MoF to carry out assessments/evaluations of internal audit functions in other public entities, as per its mandate. Priorities in the future are: (i) improving the internal audit information system and including all the bodies into that system; and (ii) strengthening the activities of internal audit committees.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-21	**D+**	**C▲**	**Performance improved under (i) and (iii), due to the establishment of a modern operationally independent systems-oriented IA function in 2012 and an improvement in follow-up by management.** Follow-up is continuing to improve. Under (ii) the MoF does not routinely receive audit reports, as the new internal audit information system is only partially working. It did receive reports at the time of the 2008 assessment, but the IA system was less developed. The B rating for (iii) in the 2008 assessment has been revised to D.
(i)	D	C	***Performance improved*** The IA function exists in almost all public bodies. IA standards, rules of conduct and manuals have been adopted, based on IA international standards. IA independence has improved, through the direct subordination of the IA function to the head of a specified organization. Around 30% of IA working hours are allocated to systems' audit. Audit standards are not fully observed, however. Capacity constraints limit the pace of establishment of the IA function. *SC for (i): The function operates for at least the most important govt. entities & undertakes some systems review, but may not meet professional standards.*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(ii)	C	C	***Performance unchanged.*** The IA information system is only partially working, so there is no reliable way for MoF to know the extent to which public bodies observe the rules stipulated for the submission and distribution of audit reports. Although the IA function was less developed at the time of the 2008 PEFA assessment, it was a mandatory requirement for line ministries to submit IA audit reports to MoF. IA reports are provided to the CoC and other controlling bodies upon request. *SC for (ii): "Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI".*
(iii)	D *(revised from B)*	C▲	***Performance improved and is continuing to do so.*** The introduction of the IA system has considerably improved the attention of the organization's management and the quality of response to the recommendations of IA reports. The imperfect functioning of the IA Committees indicate, however, that recommendations are not always implemented or even prepared. The only partial operation of the IA information system used by RA public bodies hinders the assessment of the timeliness and comprehensiveness of the measures undertaken by management, Nevertheless, the extent of follow-up continues to improve. The 2008 PEFA assessment seems to have over-estimated the situation at that time, as a systems focused IA function was not yet in place. The rating has been revised to D. *SC for (iii): A fair degree of action is taken by many managers on major issues, but often with delay.*

SC = Scoring criterion

3.6. Accounting, recording and reporting

Summary of assessment

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-22: Accounts reconciliation (M2)	**B+** ***(revised from A)***	**A**	***Performance improved due to the TSA including all transactions of foreign-financed projects/programmes implemented through PIUs starting in 2012***. The rating of dim. (i) in the 2008 PEFA assessment has been revised to B as the TSA did not cover the transactions of PIUs.
PI-23: Information on resources received by service delivery units (M1)	**C**	**A**	***Performance improved due to reports on resources received and spent by schools with SNCO status now being prepared and publicized***.
PI-24: In- year budget reports (M1)	**B+** ***(revised from C+)***	**B+**	***Though overall performance is unchanged, the quality of data (iii) is strengthening mainly due to the advent of the Client-Treasury system and the inclusion in it of financial flows related to DP -financed projects and programmes.*** The rating for dim. (iii) in the 2008 assessment has been revised to B, as the scope of coverage should have excluded the revenues and expenditures of SNCOs. The overall rating increases to B+.
PI-25: Annual financial statements (M1)	**D+**	**D+**	***Performance unchanged.*** The absence of modern accounting standards continues to hinder the preparation of meaningful auditable annual financial statements.

3.6.1. PI-22: Timeliness and regularity of accounts reconciliation

The overall reconciliation and clearance process of central government bank accounts and other accounting information related to suspense accounts and advances (travel advances, construction advances, operational imprests, etc.) are assessed according to the situation at the time of the assessment.

(i) Regularity of bank reconciliations

Debit and credit transactions shown daily in the Treasury Single Account (TSA) held by the RA Government in the RA Central Bank are electronically reconciled daily (using the Treasury Operating Day software) with Treasury transactions records held in MoF. A nostro reconciliation is conducted in line with debit and credit transactions. Reconciliation differences are settled the following day.

As indicated under PI-17 (ii) all disbursements under foreign-financed programmes/projects and expenditures made under these disbursements have been reflected in the TSA, starting in 2012. Prior to 2012, such disbursements and expenditures were not reflected in the TSA but in changes in balances of bank accounts outside the TSA.

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

Budgetary institutions submit weekly reports on cash expenditures to their Local Treasury Bodies (LTBs), according to clause 44 of RA Government decision No 48, January 18, 2002. These expenditures have been financed by advances from the LTBs. The reports indicate how the money has been spent consistent with budgetary allocations, thereby enabling the advances to be cleared and reclassified as expenditures. Concerning advances made for business trips, the procedure is the same; recipients submit a report on the use of the advances after the end of the business trip.

There is no need to reconcile/clear revenue-related suspense accounts through a separate system, as the inputs generated by the suspense accounts on a daily basis are formulated as revenue, according to the presented accounts. If inaccuracies are identified, they are cleared. Revenue-related suspense items may potentially arise if revenue payers do not have/use TINs. Reforms are ongoing to introduce mandatory requirements for taxpayers to use TINs during transactions.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-22	**B+** ***(revised from A)***	**A**	**Performance has improved under dimension (i) due to the TSA including all transactions of foreign-financed projects/programmes implemented through PIUs starting in 2012**.
(i)	B (*revised from A)*	A	***Performance has improved due to the TSA including all transactions of foreign-financed projects/programmes starting in 2012***. The 2008 assessment rating has been revised to B as the TSA did not cover PIU bank accounts at that time. *SC (i): Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.*
(ii)	A	A	***Performance unchanged***. Advances from LTBs for financing expenditures and travel advances are regularly cleared. *SC (ii): Reconciliation & clearance take place at least quarterly, within a month of end of period and with few balances brought forward.*

SC = Scoring criterion

3.6.2. PI-23: Availability of information on resources received by service delivery units

Problems can arise in front-line service delivery units (SDUs) in obtaining resources that were intended for their use. This indicator covers primary education and health care service delivery units that are under the responsibility of both central government and local governments.

Information about resources allocated from the state budget to budget entities is collected online through Local Treasury Bodies (LTBs), according to agencies, functions, programmes and economic classification, but, in general, not down to service delivery unit level.

Health: Most hospitals and polyclinics have closed joint-stock company (CJSC) status. The data on budgetary resources allocated to individual hospitals and polyclinics are submitted by them to the State Health Agency, which collects and summarizes these data and publishes them on the Agency's webpage[14]. The reports contain the amounts actually allocated to more than 450 health organizations, according to marz and national breakdown.

Education: Secondary schools have SNCO status. As is the case for all SNCOs in all sectors, they prepare and submit quarterly and annual reports to their authorized bodies (e.g. Ministry of Education) and then to the MoF on the planned and actual state budget resources received as well as other resources (i.e. own revenue) received in accounts held by them in commercial banks. Summaries of these reports are published by the SNCO division in RA MoF.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-23	C	A	**Performance improved due to reports on resources received and spent by schools with SNCO status now being prepared and publicized:** Public institutions (regional governors' offices (marzpetarans), State Health Agency (SHA), Ministry of Education, MoF) regularly (quarterly or annual) receive reports on the resources received by SNCOs and CJSCs from the state budget and other sources (e.g. own revenues). The information is also published in summary by MoF and SHA. Advancements in IT since the 2008 assessment have helped to improve transparency in the allocation of resources to service delivery entities. *SC: Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.*

SC = Scoring criterion

3.6.3. PI-24: Quality and timeliness of in year budget reports

The ability to "bring in" the budget requires timely and regular information on actual budget performance to be available both to MoF and Cabinet, in order to monitor performance and if necessary to identify new actions to get the budget back on track, and to line ministries for managing the affairs for which they are accountable.

[14] At the time of the PEFA assessment, the webpage of SHA was not functioning. The reports referred to above were submitted to the assessment team upon request.

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

Reports are prepared monthly and quarterly. Summary quarterly reports contain data on budget revenue out-turns and cash expenditures. Data in quarterly reports are presented according to economic and functional classifications consistent with the adopted budget classification. Reports also include the actual spending financed from DP-provided credits and grants, information on committed expenditures and the financing of expenditure. However, only data on cash expenditures are presented in summary reports.

(ii) Timeliness of the issue of the reports

The reports are prepared on a monthly and quarterly basis, and are all published, though they can be used by senior management prior to publishing, in terms of making decisions on whether budget adjustments are necessary. The interim monthly reports are published within 4-5 weeks upon completion of the period and quarterly reports within 45 days upon completion of the period as can be seen below.

Period of quarterly report submission		Reports publication date[1]
2010 թ.	I quarter	10.05.2010թ.
	2 quarter	12.08.2010թ.
	3 quarter	10.11.2010թ.
2011 թ.	I quarter	10.05.2011թ.
	2 quarter	09.08.2011թ.
	3 quarter	16.11.2011թ.
2012 թ.	I quarter	11.05.2012թ.
	2 quarter	10.08.2012թ.
	3 quarter	12.11.2012թ.
2013 թ.	I quarter	13.05.2013թ.
	2 quarter	09.08.2013թ.

Starting from the 2013 first quarter the quarterly reports are also discussed in the National Assembly Standing Committee on Financial-Credit and Budgetary Affairs with the participation of the Government.

(iii) Quality of information

The upgrading of the Treasury-IT systems is improving the quality of the data shown in quarterly budget performance reports. The Client-Treasury system enables line ministries to enter expenditure transactions data directly into the system instead of having to go through LTBs first, thereby reducing the extent of mismatches between expenditure financing figures contained in MoF and the actual expenditure records of line ministries. The increasing use by DPs of the treasury IT system is also resulting in the improved quality of information on DP-financed expenditures.

[15] Reports are posted on www.minfin.gov.am after submission to the National Assembly.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-24	**B+** ***(revised from C+)***	**B+**	**Though overall performance is unchanged, the quality of data (dim. iii) is strengthening mainly due to the advent of the Client-Treasury system and inclusion of financial flows related to DP-financed projects and programmes implemented through PIUs.**
(i)	A	A	***Performance unchanged:*** Budget performance reports are prepared for management using the same budget classification codes as those used in the approved budget, enabling direct comparison of actual expenditures and revenues with the originally budgeted amounts. The reports also include information on expenditure commitments to date. *SC (i): Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.*
(ii)	B	B	***Performance unchanged:*** The reports are prepared quarterly and published within 6 weeks upon completion of the period. The monthly reports are published within 4-5 weeks. In both cases, the reports are available earlier for senior management to use in terms of analyzing budget performance. *SC (ii): Reports are prepared quarterly and issued within 6 weeks of the end of the quarter).*
(iii)	B *(revised from C)*	B▲	***Performance is strengthening.*** The quality of the information provided in quarterly budget performance reports has improved, due to the advent of the Client-Treasury system and the use by PIUs of the treasury system. The rating in the 2008 assessment has been revised to B, as the coverage of this indicator should have excluded the reporting of financial flows in relation to SNCOs (assessed separately under PI-7). *SC (iii) There are some concerns about accuracy, but data issues are highlighted in reports and do not compromise overall consistency/usefulness.*

SC = Scoring criterion

3.6.4. PI-25: Quality and timeliness of annual financial statements

(i) Completeness of the financial statements

A consolidated government report is prepared annually. The report consolidates the budget execution statements of central government budgetary agencies (i.e. excluding community governments and autonomous central government agencies that have budgeting and accounting systems outside the central government's budgetary system[16]; in the context of Armenia, SNCOs are also excluded).

As indicated under dimension (iii), the RA Government is unable to prepare auditable annual financial statements due to the absence of modern accounting standards. As stated in the draft Strategy of Public Internal Financial Control (PIFC),[17] "Since modern accounting standards are not developed, the RoA Chamber of Control (CoC) is unable to provide an opinion about the fair presentation of the financial position and results of operations". The annual budget execution statements submitted to CoC omit much of the accounting information that typically appears in financial statements: statements of financial assets and liabilities.

The statements include information on the balance and movement of the treasury single account (TSA) and its sub-accounts, the balances comprising the bulk of GoA bank account balances. The proportion of the TSA coverage of GoA bank account balances has increased since the 2008 PEFA assessment due to the incorporation of PIU accounts into the TSA (PI-17). The balances of TSA sub-accounts are also shown, for example the privatisation account and the Stabilisation Fund (residual amounts from Eurobonds issue in 2013 and support from Russia during the global financial crisis) account. The information is provided in the form of a fact sheet rather than a financial statement that links the changes in account balances to the information on revenues and expenditures.

(ii) Timeliness of the submission of the annual financial statements (AFS) to Chamber of Control

Consolidated annual government budget execution reports are presented to the National Assembly within 4 months following completion of the fiscal year, as indicated in Table.19, which then forwards it to the Chamber of Control for audit purposes (as per requirement of the Constitution).

Table 19: Dates of submission of RA state annual budget execution reports to RA National Assembly.

Reporting period	Date of submission of report
2010	29/04/2011
2011	28/04/2012
2012	30/04/2013

[16] As clarified in the PEFA Field Guide, issued in March 2012, pages 143-144.

[17] Annex 1 to Protocol No. 44 of RoA Government Session held on November 11, 2010

(iii) Accounting standards used

Annual budget execution reports are prepared according to a consistent format, which, however, is not consistent with IPSAS or national standards consistent with IPSAS. Public bodies are guided by USSR-era accounting instructions (order No 61 of Armenian SSR Ministry of Finance dated March 10, 1987), but the accounting standards are not disclosed.

Though not directly relevant to the scoring of this indicator, annual reports now contain information on planned and actual non-financial performance indicators for all budget programmes with narratives on variations.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-25	**D+**	**D+**	**Performance unchanged: The absence of modern accounting standards hinders the preparation of meaningful auditable annual financial statements.**
(i)	C	C	***Performance unchanged:*** The annual report prepared by MoF consolidates the budget execution statements prepared by budget agencies. The statements are comprehensive in terms of revenues, grants and expenditures and include the balances (and movements thereof) on most GoA bank accounts, the coverage having increased since the 2008 assessment due to the inclusion of PIU account balances in the TSA. The statements exclude, however, most of the accounting information that typically appears in financial statements: e.g. balance sheet and cash flow statements that formally link up to the revenue, grants and expenditure statements. The CoC reports indicate that it is not possible to issue an opinion on the annual budget execution statements; they do not contain the accounting information required for an opinion to be formed on whether the statements accurately represent the financial position of the government. *SC (i): A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.*
(ii)	A	A	***Performance unchanged:*** The consolidated government report is submitted to the CoC for audit within 5 months following the end of the fiscal year. *SC for (ii) The statement is submitted for external audit within 6 months of the end of the FY.*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(iii)	D	D	***Performance unchanged.*** The annual budget execution reports are prepared according to a consistent format, but the accounting standards that form the basis of report preparation are not disclosed. The absence of modern accounting standards hinders the preparation of meaningful auditable annual financial statements. *SC for (iii): Statements are not presented in a consistent format over time or accounting standards are not disclosed.*

SC = Scoring criterion

3.7. External oversight and legislative scrutiny

This set of indicators looks at the quality and timeliness of external scrutiny of the government's budget estimates as well as the public accounts.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-26 (M1): External audit	**D+**	**C+▲**	***Performance improved due mainly to the increased independence of CoC as a result of the last constitutional amendments and the RA Law on the Chamber of Control (dim. i). The CoC still lacks sufficient independence.*** CoC's performance under (i) is continuing to strengthen through its on-going reform activities. ***Progress is being made under dim. (iii) on the evidence of follow-up on audit recommendations, but not yet by enough to increase the rating***. The RA Government has been publishing information about CoC oversight/audit results and measures undertaken by audited entities in response to audit finding. The effectiveness of these measures is not yet clear.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-27 (M1): Legislative scrutiny of budget	C+ *(revised from A)*	C+	***No change in performance in terms of ratings, but the quality of the scrutiny of the draft state budgets(dim. i) has improved as a result of the on-going introduction of programme budgeting by the RA Government*** *Dimension (iv), on the legitimacy of in-year amendments to the budget without ex-ante approval of the legislature, has been revised to C in the 2008 assessment, as the legislation permitted and still permits MoF to increase total expenditure during the year up to the amount of any revenue surplus without seeking prior NA approval..*
PI-28 (M1): Legislative scrutiny of audit reports	D+	D+	***Performance unchanged The weakest link is dim. (iii) as proposals made by NA members following their review of audit findings have no mandatory force.***

3.7.1. PI-26: The scope, nature and follow up of external audit

A high quality external audit is an essential requirement for creating transparency in the use of public funds.

Background

At the time of the 2008 PEFA assessment significant changes in the regulatory and organizational-legal framework were taking place , with significant impact on the RA external state audit system. Following amendments to the RA Constitution in 2005 and the adoption in late 2006 of the RA Law on the RA Chamber of Control (and supporting regulations), the Chamber of Control (CoC) of Armenia has had a new more independent status since the Law became effective in June 2007. Under the Law it is now separate from the National Assembly (NA); previously it was known as the Chamber of Control of the National Assembly of Armenia.[18] The CoC is the only (supreme) body in charge of RA external state audit. Its activities are regulated by the above-noted legislation, which has ascribed broad audit powers to CoC, including audit of the state and community budgets' revenues and expenditures, as well as the use of the state and community property.

[18] The 2008 PEFA report assessed the performance of the "Chamber of Control of the National Assembly" under the previous legislation and not the new legislation.

The Law was amended once in 2010, twice in 2012 and once in 2013. The 2010 amendment enables the CoC to sends information to the Prosecutor's Office if it has revealed activities of a potentially criminal nature during the course of its audits. The other amendments are not significant in relation to this assessment.

The CoC is managed by a board, consisting of 7 members: chairman, deputy chairman and 5 board members. The chairman is the manager of CoC and is appointed by the NA upon nomination of the RA President for six years. The deputy chairman and other 5 board members are appointed by RA President upon nomination of the chairman for a period of six years. The powers of the chairman and other board members can be terminated earlier (e.g. if a member acquires foreign citizenship). The CoC itself is a public administration body, the staff members (currently 131) of which are civil servants.

(i) Scope and nature of audit

The 2006 RA Law on the Chamber of Control provided a new status of independence, but nevertheless some issues remain in terms of consistency with INTOSAI standards:

INTOSAI standards	Inconsistencies with INTOSAI standards
CoC independence: *Appointments & Termination*	CoC staff members are civil servants and CoC does not have full jurisdiction to employ, train and certify the employees, nor does it have dismissal powers. The legislation on civil service instead provides this jurisdiction through the Civil Service Council (CSC), which is the authorized public institution in this area. The CSC can therefore control CoC activities in terms of personnel matters.
CoC financial independence	RA Government can change the annual draft budget for CoC prior to its submission to NA. The Lima and Mexico declarations adopted by INTOSAI stipulate that only the legislature should have the power to reduce the draft budget of the external audit body and that involvement of the executive branch of government should be minimal.
CoC independence in terms of its mandate to audit the use of all public financial resources	According to the Constitution the CoC provides oversight over the use of budgetary resources and the use of public and community property. However, according to other laws enforced in Armenia, CoC is not entitled to provide oversight over the use of non-budgetary revenues earned by state and community non-commercial organizations and over the use of loans and grants received from external sources, which are later provided to the commercial banks and financial organizations and circulated by those organizations.
Independence of CoC in preparing its annual activities programme	The Constitution stipulated the independence of CoC in terms of its operations, but in practice this is not the case, as CoC's annual action plan requires NA approval.

CoC has broad powers by law to*, inter alia:* (i) oversee/audit the revenues and expenditures of state and community budgets and the use of state and community property; (ii) prepare opinions on RA Government annual state budget execution reports and to submit these to NA; and(iii) exercise supervision over public debt management.

The CoC has the mandate to oversee/audit all public and local self-governing bodies, including their staff and institutions subordinate to them. This mandate also covers SNCOs and joint-stock companies with state participation. Its powers, however, are limited to the amounts allocated to those organizations from the RA state budget. It does not have the mandate to oversee and audit the use of revenues received by these bodies from non-budget sources.

CoC operates on the basis of an annual programme, which is approved by NA. Programme activities are selected mainly on the basis of risk assessment. The 2012 programme covered 20 activities, including the audit of the RA Government State Budget Execution report for 2012 and the provision of an opinion on this. The audit is a mandatory annual activity, and includes all the levels of the state budget, thereby ensuring 100% coverage of the state budget expenditures.

The process of preparing the audit and presenting an opinion on the quality of the budget execution report needs to be improved, as it is not fully consistent with INTOSAI standards. An issue is that the CoC's opinion does not fully reveal the standards used by the RA Government in preparing its budget execution reports and does not reveal its own standards that it uses to audit these reports.

Other audits carried out by CoC as part of its programme for 2012 have covered, *inter alia,*10 public bodies, 1 community, 6 public institutions, and 1 joint-stock company. The audits of individual public bodies have also covered SNCOs and joint-stock companies operating under the authorized management of the public body. The audits of public bodies do not cover all the operations of a body but only those functions deemed to be an issue in terms of risk (e.g. procurement operations). The audits are therefore issue-specific and not time-specific and entity-specific. The audits are therefore not annual audits and tend to retroactively cover issues dating back 3 or more years. For example; much of the activities audited in RA Ministry of Education and Science in 2012 covered issues dating back to pre-January 2010.

The PEFA methodology relates only to audit reports covering the previous year, such reports covering the annual financial statements of government and an assessment of the operation of internal control systems of each budget entity during that year. In terms of this current PEFA assessment, the methodology only applies to the CoC's opinion on the latest annual budget execution report prepared by RA Government (i.e. for 2012) and those internal control issues that relate to 2012, as identified in the annual report. In practice, it is difficult to isolate the 2012 issues per category (e.g. procurement) from those in previous years, so the PEFA assessment only focuses on the CoC's opinion on the state budget execution report.

The audits carried out by CoC have mainly been financial, compliance audits. Increasing focus is being placed on a system-based audit approach. Such audits have still some way to go in terms of meeting INTOSAI standards. Hampered by capacity constraints, CoC started to introduce elements of performance (value for money) audits only recently.

The CoC has received TA from GIZ, WB, USAID, SIGMA and Netherlands in recent years. A new manual for financial audit was recently prepared. Manuals have also been prepared for performance audit (2008), tax administration (2007), environmental audit and sector audits (e.g. health, education), though they are mainly not used due to the main focus being on financial and compliance audit.

(ii) Timeliness of submission of audit reports to legislature

According to the RA Law on Budget System the RA Government submits the annual budget execution report to the Parliament by May 1 of the next year. According to the "RA Law on Chamber of Control", the CoC drafts an official opinion on the report and sends it to the NA, the RA President and the Government. The report and the CoC's opinion on it are considered in the NA and the report is approved on the second Wednesday of June in the year following the reporting year (the NA is not required to approve the opinion).

Table 20 shows information about the actual dates of submission to the CoC of the budget execution report and the submission to NA of CoC's opinion on it for the last three years.

Table 20: Dates of Receipt of Audit Reports by the National Assembly

Name of Audit Report	2010 Report: Date received	2011Report: Date received	2012 Report: Date received
Date the CoC received the draft RA state budget annual execution report	29.04.2011	28.04.2012	30.04.2013
Date the CoC submitted its opinion on the report to the Parliament	11.05.2011	07.06.2012	24.05.2013
Number of days between Parliament's receipt of CoC's opinion and the day the CoC received the draft report	12days	38days	24days

Thus, during the last 3 years, the CoC opinion on the annual report of the "RA State budget execution" has been provided to the legislator within a maximum of 38 days after the CoC received it.

Regarding the annual report on the implementation of the annual programme of CoC activities, the RA Law on "RA Chamber of Control", specifies that the report must be submitted to the NA and posted on the CoC website within a maximum of three months after the end of the budget year.

The annual report on the programme for 2012 was submitted to NA on March 29, 2013. The report describes the results of the 20 activities carried out during 2012 under the programme. As indicated above, these activities did not constitute annual audits of the state bodies. Almost all the activities covered the 3 year period between January 2010 and December 2012. Some of the programme activities covered events of more than 5 years ago.

This situation is not covered by the PEFA methodology, the reference period for which is the previous fiscal year. This dimension therefore is assessed on the timeliness of the submission of the opinion on the budget execution report. On this basis the rating for the 2008 PEFA assessment should also have been A.

(iii) Evidence of follow up on audit recommendations

The RA Law on RA Chamber of Control defines, that officials of the audited body must, within one month, submit to the CoC written information on eliminating issues identified in audit reports. Following the audit, the CoC as a rule requires the audited body to submit a timeline as to when and how the identified issues will be eliminated. The audited body must provide evidence to show that the issues have been resolved. If resolution requires the returning of funds to the state/community budget, the CoC can directly check this through the treasury electronic system. The CoC then assesses the comprehensiveness and effectiveness of the steps taken.

The RA Government officially responds to the problems discovered by the CoC with information provided to it about the measures implemented by public bodies in response to the audits. It has been publishing on its official webpage (www.e-gov.am), established in 2010, information about CoC oversight/audit results and measures undertaken by audited entities, feedback and official responses from the controlled entities. Despite this, it is not always possible to draw firm conclusions about the effectiveness of the measures taken by the RA Government to resolve the issues raised by the CoC as the information posted has not been fully comprehensive.

On-going and planned activities

With on-going and planned support from WB, GIZ, EU and SIGMA, the work of the CoC will improve in the near future:

- Strengthen conformity with INTOSAI standards through training, receipt of relevant handbooks and pilot audits.
- Strengthen the quality of the CoC's opinion on the budget execution report.
- Prepare a draft revision of the RA Law on CoC, aimed at ensuring and maintaining the independence of the CoC.

- Strengthen the toolkit of the "Performance audit" carried out by the CoC, with particular focus on controls in the public procurement system, through education and training courses and pilot audits.
- Capacity building in general.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-26	**D+**	**C+▲**	**Performance improved due mainly to the increased independence of CoC as a result of the last constitutional amendments and the RA Law on the Chamber of Control (dim. i). The CoC still lacks sufficient independence.** CoC's performance under (i) is continuing to strengthen through its on-going reform activities. Progress is being made under dim. (iii) on the evidence of follow-up on audit recommendations. The RA Government has been publishing information about CoC oversight/audit results and measures undertaken by audited entities in response to audit finding. The effectiveness of these measures is not yet clear.
(i)	D	C▲	***Performance improved due to increased independence and is continuing to strengthen through CoC's on-going reform activities.*** Following the amendments to the Constitution in 2005 and the adoption of the RA "Law on the Chamber of Control" in late 2006 (effective June, 2007, the independence of the CoC has increased, but not yet by enough to fully meet the INTOSAI standards for independence. The other INTOSAI standards are not yet fully met during the auditing process, but more attention is gradually being paid to the systemic issues, as evidenced by the annual reports that CoC has conducted in recent years. The scoring is therefore mainly based on the audit of the annual State budget execution report, in this case the report for 2012. *SC (i): Govt. entities representing at least 50% of total expenditures area are audited annually. Audits predominantly comprise transactions level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(ii)	A *(revised from D)*	A	***Performance unchanged.*** This dimension is assessed on the timeliness of the submission of the opinion on the budget execution report. The annual reports prepared by CoC only partly count in terms of scoring, as they cover issues from earlier years and are not budget entity- specific. The CoC's opinion on the annual report of the "RA State budget execution" for 2012 was provided to the National Assembly within the maximum allowed 38 days after the CoC received it. On this basis the rating for the 2008 PEFA has been revised to A from D. *SC (ii): Audit reports are submitted to the legislature within 4 months of the end of the period, and in the case of FS, from their receipt by the audit office.*
(iii)	B	B▲	***Performance is improving with regard to the follow-up by auditees on audit recommendations, though not yet by enough to increase the rating***. The RA Government has been publishing on its official webpage (www.e-gov.am) information about CoC oversight/audit results and measures undertaken, feedback and official responses from the controlled entities. The effectiveness of the measures taken by the RA Government to resolve issues identified by the CoC is not clear. *SC (iii): A formal response is made in a timely manner, but there is little evidence of systematic follow-up.*

SC = Scoring criterion

3.7.2. PI-27: Legislative scrutiny of the annual budget law

Background

Since the 2008 PEFA assessment no significant regulatory or institutional changes have been made with respect to the scrutiny of the state budget law by the RA National Assembly (NA).

(i) Scope of the legislature's scrutiny

Before the submission of the draft of the RA state budget to the NA (as a rule not later than July 20 of every year), the RA Government makes public and submits to the NA the medium term expenditure programme for the coming three years. The programme includes detailed information about the fiscal policy, scope of the medium term fiscal and expenditure framework and the medium term priorities.

The draft state budget includes the budget message of the RA Government, the draft law on state budget and the official opinion of the RA Central Bank submitted to the RA Government on the draft of the state budget. The Government budget message includes the following: the Government report on the main directions for the socio-economic development and fiscal policy of the fiscal year and the justification for any significant changes in fiscal goals; forecast of the main indicators describing the socio-economic situation in the country for the coming three years; information on the priorities of the medium term expenditure programme, which forms the basis of the draft budget; and indicators of the medium term expenditure programme, with regard to inflation, real GDP growth, revenues, expenditures, deficit, gross and net debt.

The budget message also includes the explanation of the draft law on the state budget, which itself is a comprehensive document. The draft law includes: revenues and expenditures of the state budget, both in aggregate and detailed form, according to administrative, functional and economic classification, the state budget deficit or surplus and sources of financing the deficit or surplus.

As part of the programme budgeting reforms, the RA Government also presents the draft budget expenditures to the NA in programme budgeting format and classifications. This has improved the quality of the scrutiny of budget expenditures in the NA.

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

The introduction, scrutiny and approval of the RA State Budget are regulated by the RA Constitution, RA Law on the Budget System and the RA Law on Rules of Procedure[19]of the NA, as well as the timeline approved by the Chairman of the NA. These legal acts clearly define the measures to be implemented within the framework of the scrutiny process. The procedures are strictly followed so that the draft budget can be approved prior to the end of the fiscal year.

The RA Government submits the draft state budget to the NA for its scrutiny at least 90 days before the beginning of the fiscal year. Since 2007 the NA Standing Committee for Finance-Credit and Budget Affairs has presented the summary overview of the draft state budget to the Chairman of the NA within 10 days of putting the draft into circulation; this requirement has been strictly met in recent years. Scrutiny starts no later than the first four-day session in November of the previous fiscal year. Detailed procedures for scrutiny are defined by law. These

[19] Referred to as 'By-Laws' in the 2008 PEFA assessment.

procedures include clearly defined mandatory procedures and timelines for exchange of ideas, discussions, recommendations and conclusions, clarifications about them, negotiations and voting. In recent years all these procedures have been strictly maintained, so that the draft budget can be approved prior to the end of the fiscal year. The initial scrutiny is conducted by 12 standing line committees during joint and separate meetings in line with the timeline approved by the Chairman of the NA; the timeline is approved within two days of the receipt of the draft state budget.

All the committees have 10-18 members and they function in accord with their charters, namely by discussing the sectoral issues of the budget that are relevant to them. The deliberations of the committees are documented. Discussions are held with relevant Government officials.

(iii) Adequacy of time for the legislature to provide a response to budget proposals

The NA had 60 days for the scrutiny of the draft documents relating to the RA draft 2013 state budget and fiscal policy for the same period (Table 21).

Table 21: Amount of time allowed for NA to respond to budget proposals.

Document name	Date to be submitted to the NA for scrutiny	Date for making proposals after the preliminary scrutiny of the draft	Submission of revised draft by the Government for the scrutiny in the NA	Resuming scrutiny of the draft in the session of the NA	Date for the NA to adopt the document	Actual period for the study and scrutiny of the document	Compatibility with the dates defined by law
"RA draft law on RA 2013 state budget"	03.10.2012	11.11.2012	14.11. 2012	14.11.2012 -05.12.2012	05.12.2012	60 days	Yes
RA Government Decree 740-N from June 14, 2012 on "Approving the RA state midterm expenditure programme for 2013-2015"	28.06.2012	X	X	X	X	More than 3 months	Yes

Source -NA, Protocols of the sessions of NA and NA Standing Committee on Financial-Credit and Budgetary Affairs

Although the state medium-term expenditure programme is not a document to be approved by the NA, the information in it relating to the fiscal policy, medium-term fiscal framework and priorities, before the RA Government submits the draft state budget to the NA, is informally thoroughly studied by the Parliamentary groups and parliamentarians to the benefit of their proposals and decision making during further budget deliberations.

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

The right of the RA Government to make in-year amendments to the budget without applying to the NA is regulated by Article 23 of the RA Law on Budget System (1997, as amended a number of times since). During the execution of the budget, the head of the relevant state governing body can, with the consent of MoF and in the manner prescribed by the RA Government, reallocate line item allocations (by economic classification) within a programme up to 15% of the budgeted expenditure of the programme. At least from 2002, however, this limit has been virtually waived in the annual state budget laws, thereby extending the authority of the executive branch of government to adjust budget allocations within a programme without applying to the NA (i.e. article 11(point 12) in 2013 annual budget law).

Such enhanced flexibility seems legitimate on the basis of efficiency gains and is consistent with programme budgeting principles. Line item re-allocations within a programme are unlikely to undermine the purpose of spending. Moreover they are consistent with programme budgeting, which should provide flexibility for programme managers to allocate resources within a programme in the interests of efficiency and effectiveness.

The RA Government can also reallocate resources between programmes up to 3% of the total amount of the approved state budget for a given year. Inter-programme reallocations should not result in a reduction of budgeted allocations to communities under the system of financial equalization transfers. Furthermore, the RA Government can cut approved budgetary allocations by up to 10% of the approved budget due to shortfalls in financial resource inflows relative to the approved budget up to that amount.

Both these provisions seem reasonable in the interests of efficiency in terms of meeting programme objectives and managing macro-fiscal policy implementation. Allowing reallocations between programmes up to 3% is unlikely to undermine the purpose of spending, while efficient and responsible macro-fiscal management implies the need to act quickly in response to un-expected adverse macro-fiscal developments.

The Government can also allocate its reserve fund to budget entities without prior approval of the NA. This is legitimate, provided that the conditions for spending out of the reserve fund are met, as the budget reserve fund is already approved by the NA under the annual state budget law.

In one area, however, providing more flexibility to the RA Government to adjust budget allocations without having to apply to the NA appears to diminish the role and ability of the NA to effectively scrutinize Government proposals to increase budget spending and/or make significant re-allocations after the budget has been approved by the NA. Starting with the 2002 state budget law, the NA every year by annual budget law allows the RA Government to increase expenditures by up to the excess of actual budget receipts over the budgeted amounts, without applying to NA (i.e. article 11 (point 6) in 2013 annual budget law). This approach provides room for the Executive to significantly increase total budget expenditures during budget execution (within the limits of extra revenue) without applying to the NA. Moreover, this increase is not necessarily equi-proportionate between budget entities, so such permission allowed considerable flexibility to the Executive to increase allocations for budget entities by varying amounts (in percentage terms) in a somewhat non-transparent way.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-27	**C+** ***(revised from A)***	**C+**	**No change in performance in terms of ratings, but the quality of the scrutiny of the draft state budgets has improved as a result of the on-going introduction of programme budgeting by the RA Government**. Dimension (iv) of the 2008 assessment has been revised to C.
(i)	A	A	***Performance unchanged.*** Nevertheless, the quality of legislative scrutiny of state budget expenditures has improved as a result of the on-going introduction of programme budgeting. *SC (i): NA's review covers fiscal policies, MT fiscal framework, MT priorities & detailed estimates.*
(ii)	A	A	***Performance unchanged.*** *SC (ii): NA's procedures for budget review are established and respected.*
(iii)	A	A	***Performance unchanged.*** *SC (iii): The NA has at least 2 months to review the draft budget.*

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
(iv)	C *(revised from A)*	C	***Performance unchanged*.** Starting with the 2002 state budget law, additional flexibility was provided to the Executive branch of Government to increase spending after the budget is approved up to the excess of actual budget receipts over the budgeted amounts, without first applying to NA for approval. Moreover, the Government can spend the excess in any way it wants, thereby providing it with the potential to change the composition of the budget. *SC (iv): Clear rules exist, but they allow extensive administrative reallocation as well as expansion of total expenditure.* The 2008 assessment, rating has been revised to C, as the legislation permitted and still permits Government to increase total expenditure State bufget during the year up to the amount of any revenue surplus without seeking prior NA approval.

SC = Scoring criterion

3.7.3. PI-28: Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved. This indicator refers only to audit reports covering central government agencies.

Background

The scope of this indicator covers the annual reports of the CoC and the CoCs opinion on the RA state budget execution reports submitted to the National Assembly (NA).

No significant changes have been made to the regulatory and institutional framework for the legislative scrutiny of external audit reports since the 2008 PEFA assessment.

(i) Timeliness of examination of audit reports by the legislature

In line with the RA Law on Budget System and the RA Law on Rules of Procedure of the National Assembly, the RA Government submits the annual budget execution report to the NA by May 1 following the end of the financial year. The report is scrutinized and then approved in the presence of the CoC conclusion on the report (which is practically the audit report/opinion on the budget execution report) before the second Wednesday of June following the end of the financial year.

Table 22 shows the actual dates for submission to the NA and for deliberations of the CoC conclusions on the state budget execution report for the last three years.

Table 22: Status of review of audit reports by NA

	2010	2011	2012
Date the NA receives the audit report	11.05.2011	07.06.2012	24.05.2013
Date of approving the state budget annual execution report	26.05.2011	04.10.2012	13.06.2013
Total duration of the deliberation of the audit report by the NA	15 days	4 months	20 days

Source: NA, protocols of the sessions of the NA Standing Committee on Financial-Credit and Budgetary Affairs

In two of the last 3 years, audit reports have been deliberated within the dates defined by the law, the total duration not exceeding the one-month period following the receipt of the audit report. The nearly 4 month delay relating to the approval of the 2011 budget execution report was connected with the 2012 parliamentary elections. This diversion from procedures does not negatively impact the overall assessment of this indicator.

The submission of the CoC annual report to the NA and the subsequent review of it is regulated by the RA laws on the CoC and the Rules of Procedure of the National Assembly. Within 10 days after the CoC Board approves the annual report and its conclusions, the CoC submits them to the NA, informing the RA President and the Government about it. In addition, the CoC posts them on its official website within 30 days. The report is submitted to the NA no later than within 3 months after the end of the fiscal year. The report is reviewed by NA until the end of its session; no formal decision is made on the document.

Table 23 shows the dates of submission to the NA of CoC's annual report and the dates of the NA's review of the report during the last three years.

Table 23: Actual dates of submission of CoC's annual report to the NA and its discussion at the NA

	2010	2011	2012
Approval of the CoC annual report by the CoC Board	24.03.2011	27.03.2012	29.03.2013
Submission of the CoC annual report to the NA	30.03.2011	29.03.2012	29.03.2013
Deliberation of the CoC annual report in the NA	12.05.2011	12.09.2012	18.06.2013
Total duration of the study of the CoC annual report by the NA	42 days	4.5 months	78 days

Source - NA, protocols of the sessions of the NA Standing Committee on Financial-Credit and Budgetary Affairs

In two out of the last 3 years audit reports have been reviewed within the defined dates, and the time taken did not exceed the three-month period after the receipt of the report. The delay of nearly 5 months in the case of the deliberation of the CoC 2011 annual report was, as also the case for the review of the 2011 budget execution report, connected with the 2012 parliamentary elections.

In summary, the NA usually reviews the CoC reports within 3 months after the receipt of the reports.

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

The annual reports of the CoC are discussed in the NA in accord with the procedures defined by the RA law on Rules of Procedure of the National Assembly. The CoC reports are first discussed by the NA Standing Committee on Financial and Budgetary Affairs, then in the NA itself. The discussions end with speeches without the adoption of any document.

As a rule, representatives from the CoC, as well as from the government (including state agencies where significant findings have been recorded) are present at the discussions. During its review of the audit reports the NA Standing Committee receives technical support from the NA's staff. The CoC Chairman is the main speaker at the NA session, but the representative of the Standing Committee also makes a speech. The Government has the right to respond.

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

The RA Constitution clearly stipulates that public agencies and public officials are empowered to conduct only actions that are authorized by law. The RA Constitution does not define an official procedure for the NA to make recommendations on the basis of the CoC's annual report. However, the members of the NA, standing committees, factions and parliamentary groups informally make a number of proposals during the review process, though these have no mandatory force. No official recommendations were made to the Government during the last 12 months on the resolution of issues raised in the reports of the CoC.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
PI-28	**D+**	**D+**	**Performance unchanged. The weakest link is (iii) as proposals made by MPs following their review of audit findings have no mandatory force.**
(i)	A	A	***Performance unchanged.*** In two out of the last 3 years audit reports have been reviewed within the defined dates, and the time taken did not exceed the three-month period after the receipt of the report. *SC (i): Scrutiny of audit reports is usually completed within 3 months of receipt of reports.*
(ii)	A	A	***Performance unchanged***. The CoC reports are first discussed by the NA Standing Committee on Financial and Budgetary Affairs, then in the NA itself. Representatives from the CoC, as well as from the government agencies where significant findings have been recorded are present. *SC (ii): In depth hearings on key findings take place consistently with responsible officers.*
(iii)	D	D	***Performance unchanged.*** Proposals are made by MPs during the review process, but these have no mandatory force. *SC (iii): No recommendations are being issued by NA*.

SC = Scoring criterion

3.8. Donor practices

This section assesses the donor practices that have an influence on the performance of the country's PFM system.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
D-1 (M1): Predictability of Direct Budget Support	D+	C+	**Performance improved** due to increased predictability of in-year budget support disbursements.
D-2 (M1): Financial information provided by DPs for budgeting and reporting on project and programme aid	A	A	**Performance unchanged**.
D-3 (M1): Proportion of aid that is managed by use of national procedures	D	B	**Performance improved** due to a significant increase in the proportion of aid that is managed by use of national procedures, partly due to the increased proportion of aid being provided as budget support.

3.8.1. D -1. Predictability of Direct Budget Support

(i) Annual deviation of actual budget support from the forecast provided by the DPs at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)

All amounts of direct budget support, according to the information received from DPs (in specific cases, according to preliminary information) are incorporated into the medium-term expenditure framework (which is approved by the RA Government by July 10 or around 11 weeks before the legally defined deadline for submitting the next year's draft State budget to the National Assembly).

As a rule, agreements on direct budget support signed between DPs (mainly EU and WB) and the government outline preliminary disbursement timelines which are dependent on the extent to which preconditions for receiving budget support or its proportions are met (mutually agreed specific reform policy measures to be implemented) under the agreements. In some cases this causes variances between the planned and actual timing and volumes for receiving disbursements of direct budget support from DPs. Actual budget support disbursements were 53.0%, 85.1% and 180.4% of budgeted amounts during 2010-2012 respectively (details are provided in Annex B).

(ii) In-year timeliness of DP disbursements (compliance with aggregate quarterly estimates

Quarterly disbursements of direct budget support were agreed with DPs before the start of the budget year. Actual quarterly disbursements differed from agreed amounts in weighted terms (the weights reflecting the extent of delays) by 20.6%, 11.7% and 0.0% in 2010, 2011 and 2012 respectively (details in Annex B).

PI	Score PEFA 2008	Score PEFA 2013	Assessment
D-1	**D+**	**C+**	**Performance improved** due to increased predictability of in-year budget support disbursements.
(i)	C	C	***Performance unchanged:*** Actual budget support disbursements were 53.0%, 85.1% and 180.4% of budgeted amounts during 2010-2012 respectively. Actual budget support fell short of budgeted amounts by more than 15% in one (2010) out of the three years. *SC (i) In no more than 1 of the last 3 years has direct budget support outturn fallen short of the forecast by more then 15%*
(ii)	D	B	***Performance improved***: Actual quarterly disbursements differed from agreed amounts in weighted terms (the weights reflecting the extent of delays) by 20.6%, 11.7% and 0.0% in 2010, 2011 and 2012 respectively. *SC for (ii):* Disbursement delays (weighted) did not exceed 25% in at least 2 of the last 3 completed financial years (2010-2012).

SC = Scoring criterion

3.8.2. D-2: Financial information provided by DPs for budgeting and reporting on project and programme aid

(i) Completeness and timeliness of budget estimates by DPs for project support

All major DPs (ADB, World Bank, KfW, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), International Fund for Agricultural Development (IFAD), and until recently, Russian Federation) providing support to the central government directly for projects/programmes do so through the central government budget.[20][21] The largest sectors where DP supported projects are implemented include water, roads, energy and agriculture. Most of these projects are implemented by Project Implementation Units (PIUs) located in the respective government agencies. These act as an interface between the agencies and the funding DPs. PIUs prepare budget estimates for their projects under the auspices of their parent ministries in stages which are consistent with the budget calendar. The PIUs use templates to convert DP classification expenditure codes into the Government's budget classification codes. As a result, there tend to be no problems with regard to reconciliation of data provided by government agencies implementing DP-supported projects with DP reported data.[22]

(ii) Frequency and coverage of reporting by DPs on actual DP flows for project support

According to the set procedures, upon the approval of disbursement requests by DPs, the appropriate information (in paper format or electronically) is provided to the RA Ministry of Finance, and this information is recorded on a daily basis and summarized on a monthly basis. The World Bank *Client Connection* and the ADB *LFIS/GFIS/LAS* on-line programmes allow the borrower to have on-line access to the process of approval of submitted disbursement requests. In 2010-2012 the share of the disbursements for credits provided by these DPs was 37%, 44% and 55% of total disbursements.

Information on actual disbursements by all other DPs (e.g. USAID, OPEC, Abu Dhabi Development Fund) is provided monthly or after the approval of the disbursement request by email or in paper format. The information provided by DPs tends not to be consistent with the government budget classification. This does not cause any problems, however, because the movement of treasury accounts opened for PIUs and the performance reports that they prepare in line with the government's budget classification (as noted under dimension i) are also a source of information on actual disbursements.

[20] Though some DP-funded expenditures (e.g. financing of consultants directly by DPs) may not be reflected in GoA budgets, if they are part of the operational expenditures of the DPs

[21] As mentioned under PI-7, USAID is also a major DP but the projects/programmes that it funds are mainly implemented through NGOs or through lower level governments (e.g. municipal infrastructure projects).

[22] Clarification Note D2-b in the PEFA Field Guide (page 176) points out 'Whether the information comes directly from the DPs to the government or indirectly via PIUs/ banks/ recipient institutions are not relevant for the purposes of scoring this indicator'.

PI	Score 2008 PEFA	Score 2013 PEFA	Assessment
D-2	**A**	**A**	**Performance unchanged for both dimensions**
(i)	A	A	**Performance unchanged.** All major DPs (EU, ADB, World Bank) providing support to the central government do so through the central government budget. PIUs prepare budget estimates for their projects under the auspices of their parent ministries in stages which are consistent with the budget calendar. The PIUs use templates to convert DP classification expenditure codes into the Government's budget classification codes. *SC (i): All DPs (except those providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar, and with a breakdown consistent with the government's budget classification.*
(ii)	A	A	**Performance unchanged.** Upon the approval of the majority of disbursement requests by DPs, the appropriate information (in paper format or electronically) is provided monthly to MoF. In the case of some DPs who provide low volumes of assistance the appropriate information (in paper format or electronically) is provided quarterly to MoF. *SC (ii): DPs provide quarterly reports within 1 month of end-of-quarter on all disbursements made for at least 85% of the externally financed project estimates in the budget, with a breakdown consistent with the government budget classification.*

SC = Scoring criterion

3.8.3. D-3: Proportion of aid that is managed by use of national procedures

The assessed dimension relates to the overall proportion of aid funds to central government that are managed through national procedures (procurement, accounting/ payments, audit and reporting systems).

The 2005 Paris Declaration and the 2008 Accra Agenda for Action require that in providing development aid DPs should apply the country systems consistent with the national strategies. Application of country systems and procedures means compliance with the national procurement legislation and procedures, payment of funds through the national treasury system, accounting and reporting of these funds through the application of the national accounting policies and procedures which are consistent with the country's reporting requirements, and auditing of the use of these funds through applying the national audit standards and procedures.

In recent years direct budget support (general and sectoral budget support), which by definition uses national procedures, has grown to over 50% as a share of total DP agency support to the government. Of the AMD 133 billion of DP aid provided in 2012, AMD 75 billion was in the form of direct budget support. This is explained by both the policy pursued by DPs and the reforms implemented in the Armenian PFM sector which contribute to such a policy. More specifically, compared to the 2008 PEFA assessment, the developments indicated below (and elaborated on in Section 4) have taken place in the country:

- Increasingly broader application of programme budgeting approaches in the area of budget planning which links financial resources to planned objectives and thereby makes the planned and actual outcomes against financing more transparent (including for DP programmes or focus areas);
- Moving the accounts of the existing project implementation units (PIUs) to the Treasury system;
- Introducing supplementary information (on performance) in budget reports;
- Internal audit reforms;
- The quality of external audits conducted by the CoC is beginning to improve.

In Table 24, the estimations were performed by segregating the amounts of direct budget support (for which all national PFM systems and processes are applied by default) from the sector programme spending by PIUs. For PIUs, the national processes are partially used. The use of public sector payments and accounting systems and procurements systems is significantly lower than the use of financial reporting and audit systems. Issues with accounting standards deter development partners from using GoA's payments and accounting systems (in the absence of modern standards in the public sector the guidelines from the Soviet period are applied[23]).

PIUs are increasingly using GoA's procurement system, but the data are not sufficiently available to estimate the extent precisely; an indicative estimate is shown below. With respect to GoA's internal and external audit systems and budget reporting systems, these cover all DP-funded projects and programmes executed by PIUs. The DPs may, however, still conduct their own audits through contracting private sector auditors.

Table 24: Use of country systems

	Total aid	**Use of country systems**				
		Procurement	**Payments and accounting**	**Financial reporting**	**Audit**	**Average**
Volume of aid (billion AMD)	**133.2**	75	75	133.2	133.2	**104.1**
Percent	**100%**	56.3%	56.3%	100%	100%	**78.2%**

Source: 2012 RA State budget execution report data

A factor contributing to the increased trust of DPs in the national PFM systems is that the same DPs are also involved in the development and implementation of PFM reforms; i.e. it is the same group of DPs that are increasingly using country systems.

PI	**Score 2008 PEFA**	**Score 2013 PEFA**	**Assessment**
D-3	**D**	**B**	**The rating has improved significantly** partly due to the increased proportion of aid being provided as budget support (use of country systems is close to 80%), and partly due to a significant increase in the proportion of aid that is managed by use of national procedures *SC: 75% or more of aid funds to central government are managed through national procedures (procurement, payments & accounting, financial reporting, audit)***.**

SC = Scoring criterion

[23] See also the narrative of PI-25 (iii)

4. Government reform process

4.1. Recent and on-going reforms

As noted in Section 3, the GoA started to implement its PFM Strategy (PFMS) in 2011, following its approval by the NA in 2010. The findings of the 2008 PEFA assessment helped to inform the preparation of the Strategy. The Law on the Chamber of Control (effective June 2007) provided greater independence for the CoC, enabling it to plan and implement its own reform strategy.

The main areas of reform have been:

Budgeting: The Budget System Law was amended in 2013, and it sets the necessary legal basis for gradual introduction of programme based budgeting by fixing the achievements of the reforms results in this sector. Programme budgeting will supplement the usefulness of the MTEF, which became legally binding in 2005. Supported by MoF, line government agencies are developing monitorable non-financial performance indicators for expenditure programmes under each year's State budget. A stepwise process of developing and implementing budget programme profiles (passports) is in progress. A full transition to programme budgeting is expected to be completed by 2018. In the meantime, various elements for the new technique are being gradually introduced to support smooth transition to the new systems, such as improvements of performance indicators for selected programmes, automatic modules on linking the existing databases with programme classification, piloting programme costing and policy-based prioritization approaches, as well as institutionalization of performance monitoring/reporting and performance audit procedures. Various DPs such as the GIZ, WB, IMF, ADB and others support the government in the above aspects through TA projects and DP coordination mechanisms with regular meetings are in place to synchronize these efforts.

Budget execution: Financial controls continue to be strong. Efficiency has improved through the advent of the IT-based Client-Treasury System in 2010 and 2013, whereby public bodies can execute their budgets directly with Central Treasury instead of having to go through Local Treasury Branches using semi-manual processes. The recent upgrade is operational from the beginning of 2014 that provided extended online access of Main Budget Users to the Treasury's Operational Day system, which increased the swiftness and reliability of the system. The treasury system also expanded its coverage by including all the PIUs (including for direct payment operations of the DPs).

- Efficiency and transparency is also improving due to Development Partners (DPs) using treasury systems through PIUs to execute their budgets, instead of executing their budgets outside government systems. The transparency of the operations of SNCOs, which provide public services, particularly in the education sector, is strengthening.

Procurement: A new law on public procurement came into effect in 2011. The responsibility for procurement has been devolved to line ministries, under the oversight and guidance of the Procurement Support Centre (PSC), which was formerly the State Procurement Agency (SPA) under the centralized procurement system. The expected efficiency gains have yet to materialize due to capacity constraints in both PSC and the procurement units in line ministries.

- *The E-procurement system* was developed in 2010 and was improved in 2013 to enable operational use of e-procurement modules. The system can be accessed through www.armeps.am portal. The number of electronic processes executed has been increasing since its practical introduction in early 2014 and exceeded 500 cases in the first 3 months of its introduction[24].
- The procurement system is supported by the recently introduced PCRB. The membership of the PCRB is comprised of both state and non-state actors and the government encourages wider involvement of NGOs in the PCRB. It is too early to determine how effective it has been as the number of appeals in recent three years remains somewhat low to represent the quality of the overall procurement system and the effectiveness of the PCRB in particular (26, 38 and 49 cases for 2011, 2012 and 2013 respectively).
- Procurement staff capacity has strengthened through the addition of more than 300 qualified procurement staff.
- Insufficient justification for the use of sole source procurement methods is a concern for Civil Service Organisations. Similarly, significant concerns remain on the level of fair competitiveness during the tenders and revealed pricing and tendering peculiarities in selected cases. Those concerns are explicitly presented in CoC annual reports for last years (including the 2013 report published in April 2014). The government responded with heavier price monitoring systems introduced in mid-2013, operationalizing the PCRB, increased transparency of procurement information, etc.
- New procurement coding system (Common Procurement Vocabulary) is operational from the beginning of 2014. The new EU-based internationally applied codes allow their applications across the years and effective command by international service suppliers.

Internal Audit: So far predominantly financial audit was carried out, but the new Law on Internal Audit (adopted on 22 December 2010) also foresees expanding to performance compliance audit. Capacity constraints are still central to magnify the scope and nature of the internal audit (hence forth IA) functions in line ministries and other public organizations. The government continuously provides efforts in this area to fill the capacity gaps both domestically (through trainings, adaptations of audit plans and practices, introduction of Audit Committees, development of

[24] Source: MOF website, http://minfin.am/index.php?art=1528&lang=3

integrated information management systems, etc.) and through DP support projects (e.g. EU's Twinning Project). A new regulation on internal auditors' qualification was adopted by the government in February 2014[25] that, *inter alia*, enables a mandatory Continuous Professional Development programme for the public sector internal auditors.

State Non-Commercial Organisations (SNCO): A new framework of fiduciary control has been developed with a support from the DPs and piloted in 2011to reduce the aggregate fiscal risk of these semi-independent organizations[26] which consume significant portion of state budget resources. The draft legislation has been developed and piloted. The government introduced new requirements[27] for the MOF to quarterly monitor SNCO performance.

Transparency: The government provides an online access to MTEF, budgets (including the whole set of attachments) and budget execution reports (monthly bulletins, quarterly and annual reports, procurement plans, tenders) and other information on various aspects of the PFM systems. Introduction of an E-gov "interactive budget" tool, *inter alia,* provides information on budget expenditures on a daily basis, including extensive details on the actual expenditures, including online access to contracts and invoices of the suppliers. The WB BOOST initiative also provides online access to Armenia's budget information on a dynamic basis and with database functionality[28].

External scrutiny: Since the 2006 RA Law on the RA Chamber of Control became effective in June 2007, the Chamber of Control (CoC) of Armenia has had a new more independent status. It is now separate from the National Assembly (NA); previously it was known as the Chamber of Control of the National Assembly of Armenia. Nevertheless, as noted under PI-26 in Section 3, it is still not achieved full compliance with INTOSAI standards in terms of independence. Strengthening of the CoC is still work-in-progress, with substantial TA being provided by DPs.

Challenges remain, that are being addressed under the PFMS:

- *The efficiency and effectiveness of public services is hindered by a centralized high level administration system that provides little scope for lower level staff to manage spending efficiently and effectively.* High level Inspectorates check budget execution processes in order to determine whether rules have been complied with, rather than whether policy objectives are being achieved and Value for Money (VFM) is being obtained, the latter not being part of their tasks.
    - o The Public Internal and Financial Control (PIFC) strategy, under PFMS, was approved in 2011 in order to address this challenge. The purpose is to

[25] See Government Decree #176, adopted on 13th February, 2014, source: www.e-gov.am
[26] There are around 1850 NCOs of which around 75% are schools.
[27] GoA decree 1397-N, adopted on 8th November, 2012
[28] Armenia is amongst 14 countries (as of March 2014) with such information covered by the BOOST initiative, source: http://wbi.worldbank.org/boost/country

decentralize management responsibilities and to introduce a modern internal audit system in place of the Inspectorate system in order to support managers by monitoring how well internal control systems are functioning in terms of achieving VFM. Establishment of a modern internal audit system began in 2012, and has been introduced in 52 state bodies. Otherwise the PIFC strategy is still at an early stage of implementation, as the basic enabling legislation, the Financial Management Control (FMC) law, is still not yet in place.

 - o The gradual implementation of programme budgeting and the PIFC strategy will complement each other through shifting the focus from the State budget treasury execution processes to the achievement of identified policy objectives and ensuring the Value for Money principle.'

- Revenue administration is still lacking in transparency to some extent due to significant levels of discretion in implementing the tax laws. Controls over registration and declaration still need strengthening in some respects. Non-transparency in revenue administration detracts from the quality of the business environment, as perceived by potential private sector investors. Substantial TA is currently being provided to State Revenue Committee in support of strengthening revenue administrative. Although still ranking low, Armenia recently showed some improvements in tax administration system, which were recognized by the WB's "Doing Business-2014" where Armenia scored 103 moving from 112 in the preceding year[29].
- Absence of modern public accounting standards is hindering the Chamber of Control from providing its opinion on the annual accounts of government. The MoF only prepares budget execution statements, with some information on bank account balances and their flows presented to the COC. The absence of annual financial statements limits the ability of the Government to demonstrate that it is providing full financial accountability for the use of public funds. New draft legislation on modern accounting standards (APSAS – Armenian Public Sector Accounting Standards) has been developed with a support from DPs and is expected to be enacted by the National Assembly during 2014.

Public Finance Management Strategy (PFMS)

As noted in Section 3, the RA Government started to implement its Public Finance Management Strategy (PFMS) in 2011, following its approval through Decree N42, October 28, 2010. The findings of the 2008 PEFA assessment helped to inform the preparation of the Strategy. The Law on the Control Chamber (effective June 2007) provided greater independence for the CoC, enabling it to plan and implement its own reform strategy.

The goal of the PFMS is to increase the efficiency and effectiveness of state

[29] http://www.doingbusiness.org/data/exploreeconomies/armenia/

expenditure management while ensuring improved quality of procedures and services provided and accountability in the *spending* of public funds. It defines the framework of reforms to be implemented during 2011-2020 according to international best practices and standards and the main reform issues in terms of priority of implementation. Implementation is to be assessed through a monitoring framework. The full document, including the Action Plans, can be found on MoF's website (www.minfin.am). The reforms cover all areas of PFM, including at public agency and local government level.

The PFMS is being implemented in three stages:

Stage 1 (2010-14): Complete the work on basic systems and controls while gradually transitioning from centralized administration to decentralized management.

PFMS business processes to be reviewed to ensure that all processes are interconnected and complementary and contain the necessary administrative accountability and responsibility and control systems:

- Internal control measures, including internal audits to be updated so that they help strengthen effective management of resources. A sub-strategy for Public Internal Financial Control (PIFC) has been prepared (as discussed in Section 3 and elaborated on below).
- The GoA to determine how best to strengthen both the budgeting system and he current Treasury IT system in order to increase the efficiency and effectiveness in the use of public resources. Establishment of a government financial management information system (GFMIS) is being considered as one of the options. A new WB supported project is launched in early 2014 to support the government in this area. Implementation of programme budgeting will by definition will result in much greater focus on cost efficiency and effectiveness, though a common approach to improving efficiency and effectiveness should be developed first.
- Institutional and human resource capacity to be strengthened on a continual basis.
- The PIFC strategy has three main components. Financial management and control (henceforth FMC) based on administrative accountability; Internal audit providing proper assurance at all levels of management; and a Central Harmonization Body (henceforth CHB) that defines standards and oversees implementation of the PIFC strategy.

The main completed activity under the Action Plan under the PIFC Strategy so far is the establishment of an internal audit function, following the enactment of a law on internal audit in 2012. On-going activities include the strengthening of definitions of internal control measures, preparation and enactment of a law on Financial

Management and Control (FMC) which will underpin the Strategy, developing modern accounting standards and strengthening the chart of accounts.

Implementing the PIFC strategy will be challenging. Moving towards a decentralised management system from the centralised system that has been in place in Armenia for a long time represents a change in paradigm, involving significant changes in management and institutional/administrative processes that go beyond the scope of PFM systems.

Stage 2: Enhancing managerial accountability

The second stage aims at practical application of the results of the first stage. The time frame and Action Plan have not yet been established, partly because an FMC law is not yet in place. Results include:

- Solid business processes in place to support strengthened administrative accountability and responsibility;
- Required institutional and human resource capacities in place for the practical application of the strengthened business processes and strengthened IT-based FM system;
- Comprehensiveness and transparency of public expenditure management is strengthened;
- Strengthened internal audit function contributes to strengthened management and accountability.

Stage 3: Improve the effectiveness of public funds (time frame and Action Plan not yet established)

The strengthening of administrative accountability and responsibility during the second stage, will form the basis for more in-depth observation and analysis of the effectiveness of public expenditure.

4.2. Institutional factors supporting reform planning and implementation

PFMS reforms are coordinated by the Minister of Finance through the MoF Collegium. The MoF submits annual report (statement) on the progress of the reforms and recommendations on reviewing this policy to the Government of Armenia.

MoF and relevant sections of other agencies working are mobilized, when required, to facilitate the implementation of specific sector reforms. The PFMS Reform Secretariat has been established by the Minister of Finance to monitor progress in the implementation of the reforms in various PFM areas and to play a co-ordinating role when appropriate. The Secretariat is effectively the Public Internal Financial Control (PIFC) and Public Procurement Methodology Department, headed by the

Director of the Department, who was the GoA counterpart for this PEFA assessment.

Heads of public entities are responsible for general coordination of PFMS reforms in their entities. Chiefs of Staff of those entities are responsible for the implementation of reforms in the entities. Government reforms agenda and efforts are coordinated with the DP community via reforms coordination meetings and regular discussions. All key DPs and relevant projects supporting the government in the PFM area are represented in that forum (e.g. ADB, EBRD, EU Delegation in Armenia, GIZ, USAID, WB). In practice, however, as indicated to the PEFA assessment team, formal meetings are held very infrequently.

The PFMS does not include the reform programme of the Chamber of Control (CoC) within its scope, the CoC being independent of GoA. The external audit function is an integral component of the PFM system, and ideally implementation of CoC's reform programme should be well-coordinated with the implementation of the PFMS, particularly those components dealing with internal controls and accounting. Such co-ordination has been somewhat lacking.

Meanwhile, although not directly reflected in the PFMS, Armenian authorities try to also build the demand side for the PFM reforms. For instance, institutional adjustments are carried out at the National Assembly where GIZ and other DPs support initiatives of the legislature in both establishment of the Budget Office and in building the parliament's staff capacity to meet the new requirements on policy-driven budgeting processes and techniques. The Budget Office is expected to become effectively operational from the beginning of 2015.

Annex A: Budget performance tables

Name of budget entity	2010		2011		2012	
	Plan	Actual	Plan	Actual	Plan	Actual
State social insurance service of the RA Ministry of Labor and Social Affairs	189,865,475.2	190,440,926.6	209,709,904.4	204,193,533.0	222,090,631.6	220,761,774.9
RA Ministry of Defense	132,486,721.7	146,689,688.8	142,962,557.1	143,055,017.9	150,982,211.5	151,576,511.0
RA Ministry of Finance	54,348,959.2	60,865,911.0	57,667,591.7	59,456,620.0	60,529,415.3	67,416,691.7
RA Ministry of Labor and Social Affairs	53,155,579.0	54,227,092.0	59,581,015.6	51,231,896.1	59,981,858.2	54,565,445.2
RA Ministry of Health	52,301,209.2	51,911,479.1	60,935,920.1	60,188,672.4	61,279,671.7	60,250,546.3
RA Ministry of Urban Development	27,857,321.5	31,358,171.4	35,681,624.3	38,337,518.3	12,427,147.7	12,426,643.9
RA Ministry of Territorial Administration	25,662,939.7	24,905,727.6	23,856,343.8	22,642,834.8	23,459,049.3	28,184,286.7
RA Police attached to the Government	23,565,981.9	23,582,493.5	24,666,118.6	24,679,210.2	25,666,004.2	25,511,206.1
RA Ministry of Education and Science	19,578,300.5	19,405,288.6	29,991,716.5	26,723,444.0	29,093,651.3	28,782,630.0
RA Ministry of Transport and Communication	14,521,170.9	18,210,278.3	15,650,292.4	14,867,740.3	19,167,827.3	17,257,312.3
State Water Committee of the RA Ministry of Territorial Administration	12,610,004.9	12,919,245.8	13,695,846.4	12,928,162.6	12,150,499.4	12,094,218.6

Name of budget entity	2010		2011		2012	
	Plan	Actual	Plan	Actual	Plan	Actual
RA National Security Service attached to the Government	11,795,001.4	11,969,141.8	10,907,845.9	10,979,739.0	11,601,879.7	12,029,357.8
RA State Revenue Committee attached to the Government	11,746,075.6	13,749,918.8	12,748,491.2	12,839,400.6	12,943,864.6	14,368,922.9
RA Ministry of Foreign Affairs	8,827,007.0	9,297,471.3	8,906,086.9	9,223,808.0	9,584,954.1	9,863,615.4
RA Ministry of Justice	7,826,034.6	8,302,994.1	9,867,472.6	10,603,188.7	9,987,067.5	10,870,295.5
RA Ministry of Culture	7,661,825.1	7,893,125.4	9,005,672.4	9,008,800.2	10,349,960.0	11,107,062.2
Shirak municipality	7,599,968.3	7,579,241.5	7,397,590.4	10,033,006.6	6,718,677.5	9,634,710.3
State committee on science of the RA Ministry of education and science	7,478,859.2	7,284,172.1	7,736,835.5	7,612,293.2	8,946,811.7	9,035,757.1
Gegharkunik municipality	7,294,066.3	7,215,453.2	6,867,120.3	9,071,014.0	6,923,394.5	8,192,083.9
Lorimunicipality	7,015,806.4	6,985,640.4	6,652,638.3	9,275,585.9		
Armavir municipality					6,363,408.8	8,267,324.5
Other agencies	89,319,035.4	91,163,774.5	91,892,824.1	108,798,064.9	97,350,427.7	112,090,352.9
Distributed expenses	772,517,343.0	805,957,235.8	846,381,508.5	855,749,550.7	857,598,413.6	884,286,749.0
Un-distributed expenses (unpredicted situations)	22,348,748.7		26,251,967.9		42,399,624.4	0.0
Total expenses	**794,866,091.7**	**805,957,235.8**	**872,633,476.4**	**855,749,550.7**	**899,998,038.0**	**884,286,749.0**

Annex B: Data for D-1

2010 Quarter	**agreed forecast (amount)**	**actual disbursed (amount)**	**planned quarter for actual (*)**	actual delayed in each period	delayed amount as share of total	cumulative delayed amount as share
Q1	2,854	-	2,854	2,854	7.3%	7.3%
Q2	14,455	15,161	14,455	(706)	-1.8%	5.5%
Q3	14,455	13,588	14,455	867	2.2%	7.7%
Q4	41,774	10,245	41,774	31,529	80.9%	
Total	73,536	38,993	73,536	34,543	88.6%	20.6%
2011 Quarter	**agreed forecast (amount)**	**actual disbursed (amount)**	**planned quarter for actual**	actual delayed in each period	delayed amount as share of total	cumulative delayed amount as share
Q1	20,000	21,281	20,000	(1,281)	-1.8%	-1.8%
Q2	10,023	20,005	10,023	(9,982)	-14.3%	-16.1%
Q3	31,999	-	31,999	31,999	45.8%	29.7%
Q4	20,103	28,577	20,103	(8,474)	-12.1%	
Total	82,126	69,863	82,126	12,263	17.6%	11.7%
2012 Quarter	**agreed forecast (amount)**	**actual disbursed (amount)**	**planned quarter for actual**	actual delayed in each period	delayed amount as share of total	cumulative delayed amount as share
Q1	-	20,247	20,247	-	0.0%	0.0%
Q2	-	37,166	37,166	-	0.0%	0.0%
Q3	-	-	-	-	0.0%	0.0%
Q4	41,557	17,540	17,540	-	0.0%	
Total	41,557	74,953	74,953	-	0.0%	0.0%

		D-1 dimension (i)	**D-1 dimension (ii)**
Results Matrix	year	deviation of actual budget support from forecast	in-year disbursement delays for budget support
	2010	-47.0%	20.6%
	2011	-14.9%	11.7%
	2012	80.4%	0.0%

Annex C: List of Documents

- Budget execution reports, 2012 and 2013, MoF
- Chamber of Control Annual Report, 2012
- Audited Budget Execution Report, 2012, Chamber of Control
- Annual Programme, 2011, Chamber of Control
- Law on Audit Activity, December 2002
- Law on Accounting, July 2003
- Law on Budget System, 1997
- Law on conducting audits, May 2000
- Laws on excise tax, income tax, profits tax: VAT, July 2000. December 2010, September 1997, May 1997
- Procurement Law, January 2013
- State Budget Law, 2013
- Treasury System Law, July 2001
- Rules of National Assembly, February 2002
- PFM Reform Strategy, PIFC Strategy, MoF. November, 2010, October, 2010
- Anti-Corruption Strategy, Implementation Action Plan, 2009-2012, July 2009.
- Medium Term Expenditure Frameworks, 2007-09, 2011-13, 2012-13.Po
- Poverty Reduction Strategy, Yerevan, 2003.
- 2011 Governance Report on Armenia, Transparency International
- Armenia Fact Sheet, ADB, 2012.
- ADB Business Plan, November, 2012.
- ADB, Case Study on e-procurement in Armenia, May 2011
- IMF Reviews, Armenia, December 2011, Dec. 2012, June 2013, Article IV Report, February 2013
- IFC, Doing Business Report,
- EBRD Country Focus Highlights, 2012 and Transition Report, Armenia, 2012, EBRD Strategy in Armenia, November 7 2013,
- IBRD Strategy, Armenia,
- Policy Forum, Armenia, Annual Report, 2008-10
- World Bank, Review of Country Strategy, June 2012 and Validation of Country Strategy, November 2012.
- World Bank, Country Snapshot, Armenia. October 2013 and Progress Report on Country Partnership Strategy, June 2011.
- World Bank, GFMIS Report, July 2013.
- World Bank, PFM Reform Priorities, October 2011
- World Bank, Tax Expenditure Report, final draft, April 2013.
- Transparency International, Report on Corruption, October 2013.

References specific to PIs 18-21, 26-28

PI-18	Legislative and Sub-legislative Acts • RA Law on Civil Service • RA Law on Remuneration to Civil Servants • RA Law on Special Civil Service • RA Law on Public Service • RA Law on Tax Service • RA Law on Customs Service • RA Law on Service in National Security Authorities • RA Law on Judicial Service • RA Law on Prosecution • RA Law on Diplomatic Service • RA President Executive Order No. NH-174-N on Establishing the Procedure for Organizing the Operations of the RA Government and Its Other Subordinate Public Administration Bodies of July 18, 2007 • RA Government Decree No 837-N on Setting the minimum Position Rates for Holders of Optional Positions in Central Executive Bodies, Persons Performing Civil Work in the Staffs of Central Executive Bodies and Marzpetarans, Persons Providing Technical Support in the Staffs of Central Executive Bodies, Marzpetarans, the RA Judicial Department, the RA Police at the Government of Armenia, as well as Employees of the RA Police at the Government of Armenia Without A Police (Military) Rank of July 10, 2003 • RA Government Decree No 550-N on Establishing Competence for Positions in the Police, Armed Forces, National Security Service, Penitentiary Service, Judicial Acts Enforcement Service, Rescue Service, Prosecution Service of April 30, 2009 • RA Government Decree No 620-N on Establishing the Maximum Number of Employees in Public Administration Bodies and the Number of Their Deputy Heads of November 6, 1998 • RA Prime Minister Decree No. 72 on the Timing of Paying Wages in Public Administration Bodies of January 31, 2001 • RA Government Decree No 294-N on Establishing Supplementary Remuneration to Diplomats for A Foreign Language Command of March 26, 2009 • RA Government Decree No 1299 on Approving the Minimum Diplomatic Ranks for Holding Diplomatic Service Positions and Revoking Government Decree No. 1639-N of November 11, 2004 (September 8, 2011) • RA Prime Minister Decree No 72 on the Timing for Paying Wages in Public Administration Bodies of January 30, 2001 • RA Government Decree No. 120 on Approving the Position Rates of Diplomats Who Are in the RA Diplomatic Service in Foreign States, As Well As the Maximum Level of Reimbursement of Their Service-Related Costs of February 13, 2002 • RA Government Decree No 1471-N on Establishing the Procedure for Maintaining Work Sheets and Its Format of August 25, 2005

	• Budget Message of the 2014 Draft State Budget Law • Resolution No. 14-N of the RA Civil Service Council on Approving the Procedure for Maintaining Personal Files and Log-book for Civil Servants of June 1, 2002 • Resolution No. 20-N of the RA Civil Service Council on Approving the Profile of Each Group of Civil Service Positions of June 18, 2002 *Documents and Statements Pertaining to Operation of the Remuneration System* • 2010-2012 audit reports of individual government agencies • Personnel records of government agencies, and personnel reports filed with the RA Civil Service Council and the State Revenue Committee at the Government of Armenia • 2013 report on the level of the basic salary and the remuneration system in the civil service • Applications, orders, personal sheets for recruitment, resignation, etc. in government agencies • Review of the Armenian Programs software system operated for calculating the payroll and payroll list of government agencies, including its procedures, database and statements generated by the above system • Worksheets for 2011 and 2012, detailed chess-like reports, assessment spreadsheets, payroll list, monthly summary income tax assessments, application for registration of hired workers and service providers under civil-legal contracts, etc. • 2011 and 2012 wage payment orders and statements generated by the LSFinance system on wage-related payments • Job descriptions of employees of the Personnel Management Department and Financial Department • Charters of the Personnel Management Department and Financial Department *Minutes of Interviews* • Interviews with employees of the Financial Department and the Personnel Management Department of the MoF and other government agencies *References to websites* • www.minfin.am • www.csc.am
PI-19	*Legislative and Sub-legislative Acts* • RA Procurement Law • RA Government Decree No. 168-N on Organizing the Procurement Process of February 10, 2011 • MoF orders regulating the procurement process
	Documents and Statements Pertaining to Procurement • 2012 and 2013 procurement plans of RA government agencies • Statements provided by the MoF on procurement volumes of government agencies in 2011 and 2012 • Announcements on individual procurement operations executed for public needs in 2012, records of procedures, etc.

PI-19	• Report of the Procurement Support Agency on Procurements Executed by Public Administration Bodies and Public Institutions during 2012 • 2012 Annual Audit Report of the RA Chamber of Control • Report on Inspections Conducted by the MoF Inspectorate of Financial Control during 2012 • Internal audit reports of government agencies (for audits conducted in the procurement area) *Documents and Statements Pertaining to Complaints* • List of members of the Procurement Complaint Review Board (www.gnumner.am), • Records on appeals filed in 2012 in relation to procurements for public needs and the related resolutions of the PCRB (www.gnumner.am), • Statement provided by the Procurement Support Agency on complaints received by the PCRB during 2011-2013 *Minutes of Interviews* • Interviews with officers of the PSA, MoF, responsible procurement officers of individual government agencies • Interviews with internal auditors of the MoES, MoF and other government agencies • Interviews with officers of the MoF Inspectorate of Financial Control and the RA Chamber of Control *References to websites* • Procurement Electronic Bulletin (www.gnumner.am or www.procurement.am) • www.azdarar.am • www.armeps.am • www.minfin.am
PI-20	*Legislative and Sub-legislative Acts* • RA Treasury System Law • RA Procurement Law • RA Government Decree No. 48 on Approving the Procedure for Executing the RA State and Community Budgets of January 12, 2002 • RA Government Decree No. 168-N of February 10, 2011 • MoF Order No. 730-N of September 18, 2008 • MoF Order No. 597-N of July 23, 2007 • MoF Order No. 898-N of December 24, 2007 • MoF Order No. 899-N of December 24, 2007 *Documents and Statements on Internal Controls* • Review of treasury internal control functions in the 'Operations Day' and 'Client-Treasury' systems, excerpts and statements generated by the systems, interviews with offers involved in these processes • Review of financial and other internal control systems, regulations and functions implemented by financial and procurement units of the Ministry of Finance, Ministry of Education and Science and other government agencies, interviews with officers involved in these processes

	Reports • Internal audit reports of government bodies and interviews with employees of their internal audit units • 2010-2012 annual and in-year reports of the Chamber of Control (www.coc.am) and interview with CoC officers *Interviews* • Interview with officers of the MoF Central Treasury and units responsible for regulating the procurement process
PI-21	*Legislative and Sub-legislative Acts* • RA Internal Audit Law • RA Government Decree No. 1233-N on Organizing the Internal Audit Process, Identifying the Authorized Body As Envisioned under the RA Internal Audit Law, and Amending RA Government Decree No. 503 of May 15, 2008 of August 11, 2011 • RA Government Decree No. 732-N on Transferring the Powers of Audit Committees (Auditors) of Joint Stock Companies with 50 Percent and Higher Government Share to Internal Audit Units of Government Agencies Entitled to Manage Their Shares, or Delegating These Powers to Private Companies under the Decision of These Agencies, and Revoking Government Decrees No. 1923-N (November 21, 2003) and No. 1187-N (May 19, 2005) of May 31, 2012 • Minister of Finance Order No. 974-N on Approving the Methodological Guidelines for Applying the RA Internal Audit Professional Standards of December 8, 2011 • Minister of Finance Order No. 143-N on Approving the Guidelines for Developing the RA Public Sector Internal Audit Manuals and Internal Audit Regulation, and Revoking Minister of Finance and Economy Order No. 934-N (December 30, 2002) of February 17, 2012 • Minister of Finance Order No. 165-N on Setting the Core Requirements for Internal Audit Units and Internal Audit Committees of February 23, 2012 • RA Government Decree on Approving the Procedures for Conducting External Evaluations of the Internal Audit System in Organizations for Their Internal Audit Quality Assurance Purposes, As Well As For Cooperation of the Internal Audit with Inspecting Bodies and External Auditors of August 8, 2013 *Reports* • 2012 annual summary statement on the RA public sector internal audit system, MoF (www.minfin.am) *Other Documents* • Correspondence on internal audit findings, recommendations and management follow-up actions • Review of the electronic audit system and specific documents (extracts from risk likelihood assessments and definitions of risk categories, etc.) • Review of audit reports and minutes of audit committees of government agencies

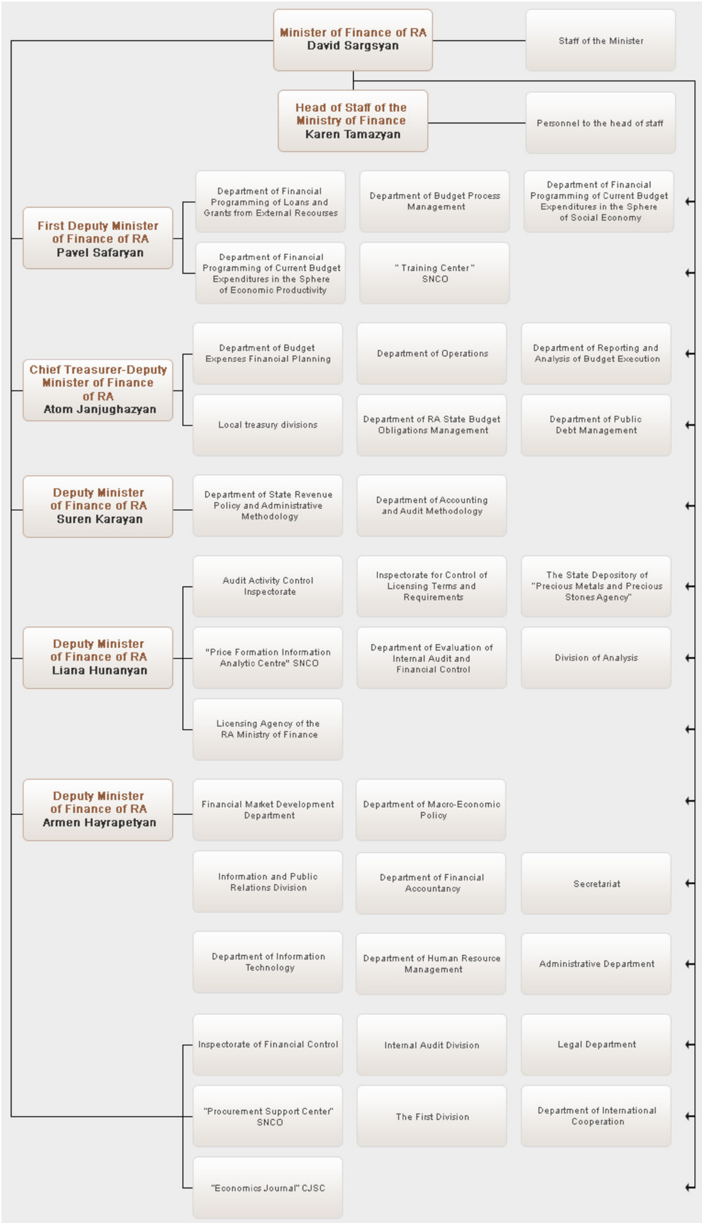
	Interviews • Interview with employees of the MoF Department for Public Internal Financial Control and Public Procurement Methodology • Interview with managers of internal audit units of the MoF, MoES and other government agencies *Websites* • www.minfin.am • www.laws.am
PI-26	*Legislative and Sub-legislative Acts* • RA Constitution • RA Law on the Budget System of the Republic of Armenia • RA Law 'Rules of Procedure of the National Assembly' • RA Law on the Chamber of Control of the Republic of Armenia • Rules of Procedure for the Chamber of Control *Reports* • RA Government Annual Report on Execution of the 2012 State Budget • CoC opinion on the GoA Annual Report for Execution of the 2012 State Budget (approved per CoC Council Resolution No. 10/1 of May 24, 2013) • 2010, 2011 and 2012 CoC annual plans and their annual performance reports (www.coc.am) *Other Documents* • Official responses of RA Government agencies to the 2012 COC Annual Report published in the GoA website (www.e-gov.am) • Statement prepared by the CoC on the follow up actions of RA government agencies towards eliminating the irregularities and deficiencies identified in the 2012 CoC Annual Report *Interviews* • Interview with CoC representatives *Websites* • www.parliament.am • www.e-gov.am • www.laws.am • www.coc.am
PI-27	*Legislative and Sub-legislative Acts* • RA Constitution • RA Law on the Budget System of the Republic of Armenia • RA Law 'Rules of Procedure of the National Assembly' • RA Law on the Chamber of Control of the Republic of Armenia • Rules of Procedure for Standing Committees of the National Assembly • RA Laws on 2002-2013 State Budgets

	• RA Government decrees on quarterly breakdowns for execution of the 2010-2012 State budgets • GoA Decrees on Reallocations in the 2012 State Budget <u>*Reports*</u> GoA Annual Report on Execution of the 2012 State Budget CoC opinion on the GoA Annual Report for Execution of the 2012 State Budget (approved per CoC Council Resolution No. 10/1 of May 24, 2013) <u>*Other documents*</u> • Reviews of documents pertaining to discussions of the 2013 draft RA State budget (packages of documents submitted to the NA, minutes of hearings of the Committee for Financial-Credit and Budgetary Affairs, minutes of hearings of the National Assembly, summary statements and other internal correspondence, etc.) <u>*Interviews*</u> • Interview with the Chair of the RA NA Committee for Financial-Credit and Budgetary Affairs • Interview with CoC representatives <u>*Websites*</u> • www.parliament.am • www.minfin.am • www.laws.am • www.coc.am
PI-28	<u>*Legislative and Sub-legislative Acts*</u> • RA Constitution • RA Law on the Budget System of the Republic of Armenia • RA Law ‘Rules of Procedure of the National Assembly’ • RA Law on the Chamber of Control of the Republic of Armenia • Rules of Procedure for Standing Committees of the National Assembly <u>*Reports*</u> • RA Government Annual Report on Execution of the 2012 RA State Budget • Opinion of the RA Chamber of Control on the RA Government Annual Report on Execution of the 2012 RA State Budget (approved per CoC Board Resolution No. 10/1 of May 24, 2013) • 2012 Annual Report of the RA Chamber of Control (approved per CoC Board Resolution No. 7/1 of March 29, 2013) • 2010-2012 State budget execution reports

	Other Documents • Minutes of RA NA hearings on approval of the 2010, 2011 and 2012 State budget execution reports, • Excerpts from records on timelines for submission of CoC opinions on the 2010-2012 RA State budget execution reports and 2010-2012 CoC annual reports to the National Assembly of Armenia • Minutes of hearings of the RA NA committees on opinions issued by the Chamber of Control on State budget execution reports for 2010-2012, and the CoC annual reports for 2010-2012 *Interviews* • Interview with the Chair of the RA NA Committee for Financial-Credit and Budgetary Affairs • Interview with CoC representatives *Websites* • www.parliament.am • www.minfin.am • www.laws.am • www.coc.am

Annex D: MoF Organisational Chart

As of the period of conduction of self-assessment activities



Annex E: Quality Assurance Mechanism (PEFA Check)

PEFA Assessment Management Organization

The following quality assurance arrangements have been established in the planning and preparation of the PEFA Central Government assessment report for the Republic of Armenia (Central Government) for the final report dated May 2014.

1. Review of Concept Note and/or Terms of Reference

Draft concept note was developed by MOF and reviewed by the following reviewers in April and May, 2013:

1) Arman Vatyan, World Bank
2) David Franzreb, GIZ
3) Varsenik Mnatsakanyan, GIZ
4) Alessandro Zanotta, EU Delegation to Armenia
5) MOF

On May 30, 2013 it was submitted to the PEFA secretariat (Ms. Helena Ramos) for review and the comments were received on June 4, 2013.

The Concept Note was finalised on June 25, 2013.

2. Review of draft report(s)

1st draft report dated January 9, 2014 was submitted for a review on January 9, 2014 to the following reviewers:

1) Arman Vatyan, World Bank
2) Garik Sergeryan, World Bank
3) David Franzreb, GIZ
4) Varsenik Mnatsakanyan, GIZ
5) Alessandro Zanotta, EU Delegation to Armenia
6) DEVCO Unit 03 (Budget Support and Public Finance Management)
7) Teresa Daban Sanchez, IMF
8) Mark Davis, EBRD
9) David Dole, ADB

10) Joop Vroljik, SIGMA
11) Oversight Team
12) Assessment Teams

2nd draft report dated March 24, 2014 was submitted for a review on March 25, 2014 to the PEFA secretariat (Mr. Phil Sinnett) and the comments were received on April 4, 2014.

3. Review of final draft report

The revised draft report and a table showing the response to all comments (including the PEFA Secretariat's comments) were presented and discussed during the workshop on April 9, 2014 with DPs, ATs and OT.

The final draft report dated April 23, 2014 was forwarded to the PEFA Secretariat on April 25, 2014 and included a table showing the response to all peer reviewers' comments. The PEFA Secretariat commented on this response on May 1, requesting some more clarifications. The assessment team addressed these comments on May 11.

4. Additional information

Date of establishment of the assessment Oversight Team (PEFA taskforce)	***25 June, 2013***
Chairperson and Members of the Oversight Team	***Leader:*** ***Mr. Pavel Safaryan*** *The First Deputy Minister of Finance of RA* ***Members:*** *1) Ministry of Finance of RA,* *2) EU Delegation to Armenia,* *3) GIZ,* *4) WB.*
Name of the Assessment Manager	***Makar Ghambaryan*** *The head of Public Internal Financial Control and Public Procurement Methodology Department at the Ministry of Finance of RA*

Names of the Assessment Team Leaders	***Gayane Zargaryan, MOF*** *Assessment Team 1 (State budget execution, accountancy, record keeping and reports)* ***David Hambardzumyan, MOF*** *Assessment Team 2(Budget composition completeness and transparency, cooperation with donor)* ***Makar Ghambaryan, MOF*** *Assessment Team 3(Public procurement, internal control and audit)* ***Arman Poghosyan, MOF*** *Assessment Team 4 (Tax administration)* ***Gagik Barseghyan, NA*** *Assessment Team 5 (Competences of the NA standing committee on financial, credit and budgetary affairs)* ***Karen Arustamyan, CoC*** *Assessment Team 6 (Competences of the Chamber of Control)*

PEFA assessment report Republic of Armenia
(Central Government), May 11, 2014

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat, May 28, 2014