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THE WORLD BANK

Yerevan City: Public Expenditure and Financial Accountability (PEFA) Performance Review

Yerevan, October 2013



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CURRENCY AND EXCHANGE RATES

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Contents

Acronyms and Abbreviations	5
Foreword and acknowledgements	7
Summary	8
1 Introduction	16
1.1 Objective of the PFM-PR	16
1.2 Process of preparing the PFM-PR	16
1.3 Methodology	17
1.4 Scope of the assessment	18
2 Background information	19
2.1 Economic Context, Development and Reforms	19
2.1.1 Country context	19
2.1.2 City of Yerevan	20
2.2 Description of budgetary outcomes	20
2.2.1 Fiscal performance	20
2.2.2 Allocation of resources	21
2.3 Overall Government reform program	22
2.3.1 Overall Government reform program	22
2.4 Legal and institutional framework for PFM	24
2.4.1 The legal framework for PFM	24
2.4.2 The institutional framework for PFM	25
3 Assessment of PFM Systems, processes and institutions	32
3.1 HLG-1 - Predictability of Transfers from a Higher Level of Government	32
3.2 Budget credibility	36
3.2.1 PI-1 Aggregate expenditure out-turn compared to original approved budget	36
3.2.2 PI-2 Composition of expenditure out-turn compared to original approved budget	37
3.2.3 PI-3 Aggregate revenue out-turn compared to original approved budget	38
3.2.4 PI-4 Stock and monitoring of expenditure payment arrears	40
3.3 Comprehensiveness and transparency	42
3.3.1 PI-5 Classification of the budget	42
3.3.2 PI-6 Comprehensiveness of information included in budget documentation	44
3.3.3 PI-7 Extent of unreported government operations	45
3.3.4 PI-8 Transparency of inter-governmental fiscal relations	47
3.3.5 PI-9 Oversight of aggregate fiscal risk from other public sector entities	47
3.3.6 PI-10 Public access to key fiscal information	51
3.4 Policy-based budgeting	57
3.4.1 PI-11 Orderliness and participation in the annual budget process	57
3.4.2 PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	59
3.5 Predictability and control in budget execution	61
3.5.1 PI-13 - Transparency of taxpayer responsibilities and obligations	61
3.5.2 PI-14 Effectiveness of measures for taxpayer registration and tax assessment	64
3.5.3 PI-15 Effectiveness in collection of tax payments	67
3.5.4 PI-16 Predictability in the availability of funds for commitment of expenditures	69

3.5.5	PI-17 Recording and management of cash balances, debt and guarantees	72
3.5.6	PI-18 Effectiveness of payroll controls	72
3.5.7	PI-19 Competition, value for money and controls in procurement	76
3.5.8	PI-20 Effectiveness of internal controls for non-salary expenditure	87
3.5.9	PI-21 Effectiveness of internal audit	89
3.6	Accounting, recording and reporting	92
3.6.1	PI-22 Timeliness and regularity of accounts reconciliation	92
3.6.2	PI-23 Availability of information on resources received by service delivery units	94
3.6.3	PI-24 Quality and timeliness of in-year budget reports	96
3.6.4	PI-25 Quality and timeliness of annual financial statements	99
3.7	External scrutiny and audit	100
3.7.1	PI-26 Scope, nature and follow-up of external audit	100
3.7.2	PI-27 Legislative scrutiny of the annual budget law	103
3.7.3	PI-28 Legislative scrutiny of external audit reports	107
4	Government Reform Process	110
4.1	Current approach to PFM reforms	110
4.2	Recent and ongoing reforms	110
4.3	Forward looking perspective on institutional factors supporting PFM reforms	112
Annexes		
	Annex 1: Sub-national government in Armenia	114
	Annex 2: PFM Performance Measurement Framework Indicators Summary	120
	Annex 3: Sources of information and evidence	132
	Annex 4: List of Stakeholders Interviewed	148
	Annex 5: Files for calculating HLG-1, PI-1 and PI-2	152
	Annex 6: Timetable for the assessment process	161
	Annex 7: Organisational chart of Financial Department at Yerevan Municipality	162
	Annex 8: Disclosure of Quality Assurance Mechanism	163

Acronyms and Abbreviations

AD	Administrative District
ADB	Asian Development Bank
AGA	Autonomous Government Agencies
AMD	Armenian Drams
CBA	Central Bank of Armenia
CC	State Committee for Real Estate Cadastre
CG	Central Government
COC	Chamber of Control
CNCO	Community Non-commercial Organization
COFOG	Classification of the Functions of Government
DD	Development and Investment Programs Department
EC	European Community
FD	Financial Department at Yerevan Municipality
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
HLG	Higher Level Government
IA	Internal Audit
IMF	International Monetary Fund
JSC	Joint Stock Company
LLC	Limited Liability Company
MDA	Ministries Departments and Agencies
MTEF	Medium Term Expenditure Framework
MOF	Ministry of Finance
MOFE	Ministry of Finance and Economy
MTA	Ministry of Territorial Administration
NGO	Non-Governmental Organisation
OD	Organisational Department at Yerevan Municipality
PD	Procurement Department at Yerevan Municipality
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PMF	Performance Measurement Framework
PSC	Procurement Support Centre
RA	Republic of Armenia

RC	State Revenue Committee
RD	Revenue Accounting and Taxation Department at Yerevan Municipality
SAFE	Strengthening Accountability and the Fiduciary Environment
SCFE	Standing Commission on Financial-Credit, Economic Issues
SD	Supervision Department at Yerevan Municipality
SMD	Staff Management Division at Yerevan Municipality
SECO	State Secretariat for Economic Affairs (Switzerland)
SNCO	State Non-commercial Organization
SN	Sub-National
SNG	Sub-National Government
TIN	Tax Identification Number
TSA	Treasury Single Account
TTL	Task Team Leader
WB	World Bank
YM	Yerevan Municipality

Foreword and acknowledgements

The present PEFA evaluation of the City of Yerevan is based on field work in January through June 2013 carried out by Arman Vatyan (TTL World Bank), Andrew Mackie (PFM Consultant), Karen Brutyan (Fieldwork Coordinator), Vahan Sirunyan and Sergey Shahnazaryan (Local Consultants). Paul Harnett (PFM Consultant) delivered the introductory training workshop in January 2013. The information provided in this report is drawn mainly from official documents and communications as well as from working sessions with qualified counterparts in Yerevan Municipality and other government bodies. The Municipality confirmed the Report as final on September 2013.

The authors are particularly grateful to the City authorities at Yerevan Municipality and other government bodies who provided a great deal of the information for the report and have been constantly available and accessible during the field work. Mr Vahe Nikoyan (Deputy Mayor) was the Chair of the Sub-National Government Steering Committee which coordinated the PEFA work and has shown a great commitment and involvement in the exercise.

Summary

This Public Expenditure and Financial Accountability (PEFA) performance review assessment is the first assessment both for Yerevan Municipality and for any community in Armenia. The main objectives of the current assessment are set a baseline for PFM performance in the Municipality and provide input into its PFM reform strategy which will be developed later in 2013. The assessment follows the PEFA Framework methodology and supporting guidelines and clarifications to the Framework. No deviations from the methodology were made.

This report presents the indicator-led assessment of the functioning of the PFM systems in YM which will allow subsequent assessments measure the progress achieved by on-going reforms. Following the philosophy of the PEFA framework this performance review report does not comment on policy and capacity issues, nor does it include any specific recommendations for PFM improvements.

This section of the report provides an integrated assessment and a summary of the main performance changes in the functioning of the PFM systems in Yerevan against the six core dimensions of PFM performance in the performance Measurement Framework, and the extent to which this performance may impact upon the achievement of the three main objectives/outputs of a sound PFM namely aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

I. Integrated Assessment of PFM Performance

Predictability of Transfers from a Higher Level of Government

The funds provided to the Yerevan community through the RA Government transfer or revenue sharing arrangements comprise a significant proportion of the total revenues of the Yerevan Municipality budget for 2010-2012 (more than 60 percent). For each of the last three years transfers over-performed budget estimates and allocations arrived on a timely basis. For 2011-2012 allocations in the form of targeted government transfers to the Yerevan budget showed significant positive variances from the original budget, due mainly to increases in central government (CG) allocations in non-conditional grants and to a number of sectors.

A. Credibility of the budget

Lower-than-budgeted revenue receipts contributed to negative expenditure deviations in each of the three fiscal years (2010-2012). The principal reason for the underperformance was the late receipt or cancellation of donor funding, which are transfers from CG. The unpredictable nature of funding from donor projects was the main reason for the significant deviations across categories in all three years.

Domestic revenue out-turn in Yerevan budget over 2010-2012 underperformed by 96.6%, 93.5% and 81.0% respectively. The major underperformance has been in tax revenues, administrative charges and rental income. Flawed baseline information on

property tax base received from State Committee for Real Estate Cadastre and other government bodies has impacted on the quality of domestic revenue forecasting.

Treasury controls over commitments and the execution of the budget provide a reasonably strong platform for the management of expenditure arrears. Some weaknesses in the recording of arrears do exist however, as a result of controls exercised at the year end, there were no arrears at the end of 2011 and 2012.

B. Comprehensiveness and transparency

Yerevan budget is prepared, executed, recorded and reported using functional (including also sub-functional), economic and administrative classifications. Although budget classifications are based on GFS2001 standards, there is an exception from those standards regarding the functional classification. The reserve funds are presented both in the budget and execution report as a separate head of functional classification named “Reserve funds not classified in main categories”.

The budget documentation presented to the Council is reasonably comprehensive but does not present a full set of information on prior year budget outturn and current year’s budget, nor is the estimated outturn in the same format in the budget proposal (including summarized budget data for expenditures). New budget initiatives and significant changes to programs are not clearly identified in budget documents.

The large number of autonomous State Non-Commercial Organizations (SNCOs) and Community Non-Commercial Organizations (CNCOs) use a significant amount of budget resources that runs a potential fiscal risk for YM. All NCOs submit fiscal reports to YM, however these are not fully aggregated, nor are these reports publicly available.

Annual budget documents and year-end financial reports are published however in-year budget execution reports and external audit opinions on budget execution reports are not fully available to the public.

C(i). Policy-based budgeting

The budget calendar provides sufficient time for budget spending entities to prepare their budget requests and the timetable was observed by these units at all phases of the budget process. However this calendar is not comprehensive as it excludes the part of the budget procedures relating to planning resources received from the state budget. Budget guidelines issued by Yerevan Municipality (YM) are not comprehensive as they do not contain all relevant information necessary for the preparation of budget requests (including sector priorities, expenditure ceilings, and major cost drivers).

Yerevan’s budget for each year is based on its four-year and annual development plan, which does not contain information on fiscal aggregates. The development plan is updated annually, however not on a rolling basis. The impact of investment projects on recurrent expenditure for future years is not taken into account during the preparation of the annual budget proposal. This is due to (i) budget planning being undertaken annually without a comprehensive medium-term expenditure planning process, and (ii) the investment approval process failing to address forward estimates of recurrent expenditure in making investment decisions.

C(ii). Predictability and control in budget execution

Legislation and procedures for most major taxes are comprehensive and clear, with fairly limited discretionary powers. Taxpayers can access user-friendly and up-to-date information on tax liabilities and administrative procedures for most taxes. Taxpayers are registered in a database system which is linked to the systems of other state bodies, however controls over the integrity of data are inadequate. Penalties for all areas of non-compliance are sufficiently high to serve as a preventive measure, and they are consistently applied.

Although data entry on tax collections takes place every day, the lack of linkage between LS Finance and the tax registration software is a weakness in the present system as data entry procedures are done manually, which is time-consuming and runs the risk of data entry errors. Reconciliation of tax assessment, collections and transfers to the Treasury are handled through the software on a daily basis. The system generates comprehensive timely reports at an aggregate level and by individual taxpayers. The debt collection ratio in the most recent fiscal year was 43.6% and the total amount of tax arrears is significant.

The present system of cash flow planning relies on daily decision making based on expenditure priorities and daily receipts of the Yerevan budget. The Municipality does not have a comprehensive forward looking cash flow management system. Spending units are able to plan the expenditures and assume expenditure commitments at least six months in advance, consistent with their budget allocations. All cash balances are reconciled and consolidated through the treasury single account (including all accounts) on a daily basis.

Salary calculations are performed centrally and personnel information is updated on a daily basis. Salaries are paid solely to employee bank accounts. There is no direct link between the personnel records (position list, logbooks and other personnel information) and the payrolls; however payroll is supported by full documentation of changes made to the personnel records. These changes are reviewed in the finance department on a monthly basis. The controls over changes to personnel records and payrolls are clear and conducted in a timely manner. Internal audit (IA) regulations and standards require personnel management and compensation systems to be subject to regular audit, however this has not been complied with in YM over the last 2 years.

The procurement legislation in Armenia provides a transparent, comprehensive legal and regulatory framework and makes open competitive procurement the default procurement method in the country. In practice there is no comprehensive and reliable data management system at YM which inter alia will enable staff to verify the completeness of procurement method justifications or to ensure that procurement information is published in a timely manner.

A comprehensive system for controlling expenditure commitments is applied to all types of expenditures financed from the Yerevan budget. Ex-ante treasury controls are exercised through the LSFinance treasury software system maintained in the YM, in line with clearly documented procedures. These automated controls effectively limit commitments to the amounts approved under the budget, and payments can only be exercised against authorized commitments. Basic internal control policies and procedures appear to be documented and are well understood by YM personnel; providing for a clear segregation of duties. For most transactions, the rules are

observed, however a recent Chamber of Control (COC) Report highlighted some irregularities and deficiencies in the internal control system.

In 2011 and 2012 around 5-6% of the total Yerevan budget expenditures were subject to IA on an annual basis, and this work has focused exclusively on NCOs and JSCs. The low coverage results from the large number of spending units and the small number of YM internal audit staff. In 2012 around 40% of the actual time spent on IAs focused on systemic issues; while the new internal audit system and many of the requirements of IA standards have not yet been fully complied with. IA reports have been consistently prepared for all audited units but are not regularly provided to the COC. Timely and comprehensive measures are taken by YM management in addressing issues raised in internal audit reports.

C(iii). Accounting, recording and reporting

Quarterly and annual reports on the financial and economic activities of general education schools and kindergartens are checked, verified and aggregated in YM, however they do not issue summary reports on NCOs. Information on resources received by individual schools and kindergartens is not published and not accessible to the public. Internal audits invariably raise concerns regarding the quality of SNCO/CNCO accounting and financial reporting.

There are issues with the completeness of information presented in quarterly Yerevan budget execution reports, which are prepared on a cash basis, and are not disaggregated at the level of individual budget programs. Their exclusion from the report significantly reduces the usefulness as it provides less detailed information than the data approved by the budget.

The annual financial reports are prepared on a cash basis with no information on financial assets and liabilities. The annual financial report is prepared in a consistent format but there is no disclosure of the accounting policies, and public sector accounting standards have not yet been introduced in Armenia. The report is presented for external audit within one month of the year end.

C(iv). External scrutiny and audit

External audit consists of:

- (1) The audit of the annual budget execution report, conducted by a licensed private sector auditor; and
- (2) Audits conducted by the Chamber of Control.

(1) The audit of the annual budget execution report - The audit firm provided an unmodified audit opinion on recent reports however they did not provide a management letter which would have provided YM with comments on improving the internal control environment or other issues arising from the firm's audit work. The

audit report was submitted to the Yerevan Council on a timely basis however there is no requirement to publish this report under Armenian legislation.

(2) Audits conducted by the CoC - During the assessment the CoC audited the YM only once, covering the period from 2010 -2012. The audit focused on budget compliance issues and, more specifically the use of public assets and revenues. The audit report does not disclose the auditing standards applied and did not fully meet the requirements for INTOSAI financial or performance audit standards. The report is provided to the Major and is reported on the CoC website, however there is no evidence that the report was discussed in the Council or its Standing-Committees.

The Yerevan draft budget submitted to the Council for review comprises the budget message of the Yerevan Mayor and the draft resolution of the Council on the Yerevan budget. The budget documentation submitted to the Council for review includes detailed breakdowns of revenues and expenditures, the budget deficit or surplus and the sources of deficit financing. The message contains the main development priorities and assumptions underlying the budget. The budget covers only a one-year horizon and does not include a medium-term fiscal framework or priorities. The stipulated procedures for the budget review by the legislature are in place and they are observed. The legislature has at least one month at its disposal for reviewing draft budgets. There are clear rules in place for in-year budget amendments without ex-ante approval by the legislature and strictly defined restrictions on the level and nature of changes which are consistently observed.

The Council review of audit reports is performed within 20 days of receipt of the report in each of the three years. Over the last 12 months one audit report/opinion was presented to the Yerevan Council for review. The committee discussions and the Council session for approving the report were not attended by the audit firm representative and there were no in-depth hearings conducted by the Council. Recommendations are not provided by the Council.

Table - Summary of PFM Performance by Indicator		Scoring Method	Dimension Ratings				Overall Rating
Predictability of Transfers from a Higher Level of Government							
HLG-1	Predictability of Transfers from a Higher Level of Government	M1	A	D	A		D+
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B				B
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	A			D+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	C				C
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	B			B+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C				C
PI-6	Comprehensiveness of information included in budget documentation	M1	B				B
PI-7	Extent of unreported government operations	M1	A	A			A

Table - Summary of PFM Performance by Indicator		Scoring Method	Dimension Ratings				Overall Rating
PI-8	Transparency of inter-governmental fiscal relations	M2	n/a	n/a	n/a		n/a
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	n/a			C
PI-10	Public access to key fiscal information	M1	B				B
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	C	D	A		C+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	n/a	B	D	D+
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	B	n/a		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	A	n/a		B
PI-15	Effectiveness in collection of tax payments	M1	D	A	A		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	D	A	A		D+
PI-17	Recording and management of cash balances, debt and guarantees	M2	n/a	A	A		A
PI-18	Effectiveness of payroll controls	M1	B	A	B	D	D+
PI-19	Competition, value for money and controls in procurement	M2	A	D	D	A	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	C	C		C+
PI-21	Effectiveness of internal audit	M1	D	C	A		D+
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	B			B+
PI-23	Availability of information on resources received by service delivery units	M1	C				C
PI-24	Quality and timeliness of in-year budget reports	M1	D	A	C		D+
PI-25	Quality and timeliness of annual financial statements	M1	C	A	D		D+
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	D	A	A		D+
PI-27	Legislative scrutiny of the annual budget law	M1	B	A	B	A	B+
PI-28	Legislative scrutiny of external audit reports	M1	A	D	D		D+
D Donor Practices							
D-1	Predictability of Direct Budget Support	M1					n/a

Table - Summary of PFM Performance by Indicator		Scoring Method	Dimension Ratings				Overall Rating
D-2	Fin. info. provided by donors for budgeting and reporting	M1					n/a
D-3	Proportion of aid that is managed by use of national procedures	M1					n/a

II. Assessment of the impact of PFM weaknesses

1. Aggregate Fiscal Discipline

At an aggregate level budget resources received from CG (more than 60 percent of total resources) have arrived on time and have exceeded YM budget estimates mainly due to increases in CG allocations in non-conditional grants and a number of sectors. Flawed baseline information on property tax base received from CG and other government bodies have historically impacted on the quality of domestic revenue forecasting for own-tax revenues, which has underperformed for all three years.

The amount of donor funding received through CG is unpredictable and makes meaningful capital budget planning difficult. Due to this uncertainty and the lack of a multi-year expenditure framework the investment approval process fails to address forward estimates of the impact on recurrent expenditure of investment decisions.

Strict treasury controls over commitments and the execution of the budget contributed to the absence of arrears however budgeting planning, execution, cash flow and reporting arrangements indicate that processes are noticeably fragmented, separating those procedures which relate to resources provided by the state with those relating to YM's own resources. This leads to double standards for many budgetary procedures which affects the effectiveness of the PFM system.

The large number of autonomous SNCOs and CNCOs use a significant amount of budget resources that runs a potential fiscal risk for YM. All SNCOs, CNCOs submit fiscal reports to YM which are then sent to the Mayor or MOF (as applicable); however these are not fully aggregated to provide an overview of fiscal risk, nor are these publicly available.

2. Strategic Allocation of Resources

Strategic allocation of resources in YM is hindered by a number of elements. The lack of a rolling development plan or a meaningful medium term perspective in budgeting makes it difficult to link spending to policy objectives. While some priority sectors are aligned to the development plan, only some are fully costed and none are fully developed within a comprehensive fiscal framework. Commitment controls and releases to spending units work well however while there is some aggregated information on the use of funds provided for NCOs this is undermined by weak accounting and reporting in service delivery units, and a lack of aggregated reporting by YM.

3. Efficient Service Delivery

Effective service delivery is supported in YM by solid treasury system, strong ex-ante controls and predictable release of budgetary resources to frontline service delivery units. In addition payroll, procurement and other internal controls appear to be well understood and largely effective. The internal audit function in YM is very much in its infancy and does not yet have the capacity or resources to provide adequate assurance on the efficient and effective use of budget resources in the Municipality. Private sector auditors that audited the annual budget execution report have failed to provide recommendations on issues arising from their work. The CoC only conducted one audit on the Municipality over the last three years and, while this report is published on the CoC website it was not presented or formally discussed in the Council. Finally oversight over NCO's is an area of significant concern - while they all submit fiscal reports to YM these are not fully aggregated or publicly available.

III. Prospects for PFM Reforms

Recent and ongoing reforms efforts are discussed in Chapter 4. The commitment to continuing improvements in PFM in Yerevan has political support at a high level through the Mayor and Deputy Mayor with responsibility for Finance. This Assessment contributes to the reform agenda by providing an overview of PFM performance and a baseline for measuring the impact of PFM reforms. The next step for YM management and other stakeholders will be to analysis the results and establish the level of improvement expected in the performance of the PFM system. Later in 2013 this will be articulated as part of a YM PFM reform strategy in line with the broader Government on-going PFM reform program. This will address, *inter alia* PFM reform prioritisation and sequencing, the establishment of an institutional framework for deciding reform sequencing as well as subsequent coordination of PFM reform implementation, financing and monitoring.

1 Introduction

1.1 Objective of the PFM-PR

The main objective of this assignment is to conduct an assessment of the PFM system in Yerevan Municipality (YM) that would help to the roll out of the Armenian Government PFM strategy and serve as an input to the YM PFM reform program. The PEFA was conducted in order to inform the YM and Armenian Government reform process, and to provide a baseline for the PFM reform roll out in the Capital. More specifically the objectives of the assignment were to (i) prepare the overview of PFM performance in accordance with the PEFA Performance Measurement Framework; (ii) establish and explain the level of improvement required in performance based on the PEFA indicators scores; and (iii) contribute to the development of the PFM reform strategy for the Yerevan Municipality in line with the broader Government PFM reform program. The assessment also provides a baseline for the Armenia PFM reforms at a sub national level. The results of the assessment will help to build consensus within the YM and Government on the PFM reform agenda through extensive consultations and identification of weaknesses of the system.

1.2 Process of preparing the PFM-PR

Role and involvement of various stakeholders

The assessment was directed by an SNG PEFA Steering Committee comprising the following or their representatives: Task Team Leader - Deputy Mayor of Yerevan City, Head of Financial Department, Head of Procurement Department, Head of the Revenue Accounting and Collection Department, Head of Internal Audit Department; as well as observers from the Ministry of Finance, the World Bank and other active development partners in Armenia (EC and SECO). The Steering Committee involved the Yerevan Municipality, the World Bank, SECO, and PEFA Secretariat for quality review (PEFA CHECK) at the stage of the concept note review and decision meeting as peer reviewers.

The Steering Committee including development partners representatives (i) met to review and approve the concept note, agree to the Assessment Team structure and Terms of References (TOR); (ii) participated in an inception training workshop; (iii) participated in a workshop for presentation of the Assessment Team findings, (iv) reviewed and provided feedback on the draft report, and (v) approved the final report.

Assessment team

The assessment was guided by a Team financed by the World Bank and SAFE Trust Fund. The team consisted of Arman Vatyan (Task Team Leader) and four consultants: Karen Brutyan, Andrew Mackie, Vahan Sirunyan and Sergey Shahnazaryan. Paul Harnett (Consultant) conducted introductory PEFA training for Municipality staff.

Assessment process

The field work took place between January - May 2013 undertaken primarily by the local consulting team, collaborating closely with Yerevan Municipality staff. Prior to the commencement of the field work a 2-day full training workshop was held in January to inform and train government officials and other stakeholders on the PEFA Framework and its application. The workshop was based on the standard PEFA Secretariat course. The workshop comprised: (i) a general session which provided a general introduction to the PEFA Framework; (ii) a technical session which provided more in-depth information on the performance indicators, their calibration and information requirements. This session was complemented with case studies and exercise which allowed the participants to get practical experience in application of the Framework, scoring performance Indicators, interpreting the scoring and drawing conclusions on what the score may tell to the government and other stakeholders.

After the workshop, the team of local consultants held numerous meetings with the key departments and units of the Municipality, as well as various representatives of development partners, the private sector, and the civil society. The list of people who were consulted is included in the Annex. For participants this was their first experience of the PEFA framework which resulted in lengthy discussions on the assessment methodology and its application. A write up for each indicator was prepared in Armenian and discussed and agreed between the consultants and YM management and staff. The local assessment team benefited from frequent contact with an International Consultant to clarify methodological issues and review and edit the translation of each indicator. The detailed timetable of the assessment is presented in Annex 6.

Quality Assurance

A Quality Assurance (QA) process to ensure the credibility of the current assessment was initiated at the early stage of the assessment. The Concept Note (CN) and Final Draft Report were reviewed by YM, development partners(WB, EC, SECO, GIZ) and the PEFA Secretariat. The Final Report has obtained the approval seal of the PEFA Secretariat under the PEFA Check Requirements.

1.3 Methodology

The assessment was conducted following the PEFA Performance Measurement Framework described in the revised PEFA manual of January 2011 and the Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments (January 1 2013). Further guidance and clarifications to the Framework were used including the “PEFA Fieldguide” (May 2012), Guidance on Evidence and Sources of Information (February 2007) and the Clarifications to the PFM Performance Measurement Framework of September 2008 issued by the PEFA Secretariat.

The assessment was based on the information and data which is available in the public domain and which was provided by the interviewed stakeholders following specific requests of the assessment team. A list of documents reviewed is included in the Annex.

As suggested in the guidelines for application of the PEFA PMF at SNG level, the following six PFM dimensions should be interpreted in following way:

- **Budget Credibility:** The original approved budget should be the total budget approved by the SN legislature.
- **Budget comprehensiveness and transparency:** The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
- **Policy based budgeting:** Budget policy from the national level should be interpreted in the context of the particular sub-national level.
- **Predictability and control in budget execution:** The budget of the SN should be implemented in an orderly and predictable manner and checks and balances should be put in place to enhance stewardship.
- **Accounting, recording, and reporting:** Adequate, records and information are produced, maintained, and disseminated to meet decision-making control, management and reporting at the sub-national level.
- **External Audit and Scrutiny:** A high quality external audit should be established to scrutinize the finances at the Sub-national level

1.4 Scope of the assessment

The scope of the assessment is confined primarily to the Yerevan Municipality and its 12 administrative districts. This comprises Departments, Services, and Agencies. The assessment covers the entire budget management cycle from financial planning and budget formulation, through budget execution, payroll and procurement, accounting, reporting, audit and legislative oversight, in accordance with the PEFA framework for Sub-National Government Level. The assessment is a high-level review of all the 28 indicators of the Framework as well as a specific indicator for SNG PEFA assessments (HLG-1). Performance indicators related to the Donor practices (D1, D2 and D3), were not assessed as YM does not receive any direct donor budget support. It does not make recommendations or propose reforms in poorly rated areas, in keeping with the Strengthened Approach to PFM Reform, which maintains a clear separation between determining the existing state of PFM and prescribing reform activities and their sequencing.

2 Background information

2.1 Economic Context, Development and Reforms

2.1.1 Country context

Armenia is a lower middle income country, achieving this status in the mid-2000s through a favorable macroeconomic environment and economic reforms. However, the bulk of the per capita income growth was associated with remittances-fueled construction boom. The construction sector saw a significant expansion in the run-up to the global crisis – growing 5.5 times in real terms and contributing to more than one third of the real GDP growth over 2003-08. The number of people employed in this sector and its share in total employment increased by around 67 percent during the same period. Despite the construction boom, mostly of high-end apartments in Yerevan, real estate prices increased 8.4 times in U.S. dollar terms during 2003-08.

The global crisis revealed the weaknesses and lack of sustainability of the construction-fueled economic growth. In 2009, remittances declined by 35 percent, investment declined 31 percent, and the construction contracted by 41.6 percent. Household consumption also contracted, although to a lesser extent (by -1 percent of GDP), due to fiscal stimulus somewhat compensated for the downturn, with a contribution to GDP growth of 2 percent. Nevertheless real GDP contracted by 14.1 percent in 2009.

In 2012 the Armenian economy demonstrated strong performance. With 7.2 percent annual growth, the real GDP is now almost restored to the pre-crisis level. The remaining gap is due to the lagging recovery of the construction sector while all other sectors have outpaced 2008 levels of activity. The trend of 2010-12 growth performance reveals a change in sectoral contributions and a shift towards trade through the industry sector's dynamic has been correlated with international copper prices.

The economic outlook largely depends on further developments in the Eurozone. Downside risks remain high because of uncertainties in the external environment and negative outlook for the Eurozone in 2013. The latter may transmit to Armenia through trade, banking, and foreign direct investment channels. In addition adverse developments in the Russian economy are likely to have an immediate effect on the scale of remittances to Armenia.

Key macroeconomic indicators, 2008-2012

	2008	2009	2010	2011	2012
Real GDP growth, %	6.9	-14.1	2.2	4.7	7.2
CPI (average), %	9.0	3.4	8.2	7.7	2.6

	2008	2009	2010	2011	2012
GNI per capita (US\$, Atlas method)	3440	3200	3380	3490	3770
CAB/GDP, %	-11.8	-15.8	-14.8	-10.9	-10.6
FDI/GDP, %	7.9	8.4	6.1	4.4	4.8
Fiscal deficit/GDP, %	-1.8	-7.6	-5.0	-2.8	-1.5
Poverty level, %	27.6	34.1	35.8	35.0	..

Source: NSS and Bank staff calculations

2.1.2 City of Yerevan

Yerevan is the capital of the Republic of Armenia. It is the largest community in the Republic of Armenia and over a third of Armenia's population (1.1 million people) reside in the City. Yerevan city was established as a community after the enactment of the RA Law on Self-Government in the City of Yerevan at the end of 2008. Yerevan City's sub-national government consists of the Council of Aldermen and the Mayor of Yerevan first established after the elections of the Council of Aldermen in 2009.

Yerevan City is divided into 12 administrative districts, which are dedicated units of the Municipality. The position of the head of an administrative district is a discretionary position, and the head is appointed to and dismissed from office by the Mayor. The administrative district expenditure to be shown separately in the budget of Yerevan City. In addition to administrative districts, Yerevan community has community non-commercial organizations (256), state non-commercial organizations (150) and commercial organizations (73) within its jurisdiction. This organisations are autonomous legal entities with a certain degree of financial and managerial independence, representing schools kindergartens, music schools, sport schools, libraries, museums, theatres and cultural centers.

In accordance with the PEFA methodology a complete sub-national profile can be found in Annex 1.

2.2 Description of budgetary outcomes

2.2.1 Fiscal performance

During the period of 2010-2012 the Yerevan budget demonstrated steady upward trends. For these three years a stable increase of revenues was achieved primarily through a growth of own revenues and State budget transfers. Conversely State budget allocations provided to the Yerevan City through delegated powers declined slightly although this did not significantly affect the overall dynamics of the Yerevan budget revenues. For all 3 years, the ratio of own revenues to inflows from the State budget sources was maintained around the range of 30/70. Receipts from sale of non-financial assets also had a significant share in the Yerevan budget inflows, and during period under review they comprised 19.1%, 20.6% and 13.7% of the total budget inflows respectively.

A steady growth trend was also observed in the expenditure part of the budget, and,

subsequently, the Yerevan budget surplus (deficit) by years was 1.9% (2010), -2.6% (2011) and -3.1% (2012) of total expenditures. The budget deficit was financed from own sources for all three years (from the opening balance of the budget account and the proceeds from privatization). As a result Yerevan community has had no requirement for internal or external debt. For details, see the table presented below:

in mln AMD

	2010	2011	2012
Total revenue	48,785.1	51,147.9	57,247.7
Own revenue	12,105.2	13,365.0	16,084.5
Receipts from the State Budget for exercising the powers delegated by the state to local governments	20,896.9	19,261.4	17,648.8
Grants	15,783.0	18,521.5	23,514.4
Total expenditure	47,890.1	52,494.8	59,085.7
Non-interest expenditure	59,424.8	65,736.0	68,207.0
Interest expenditure	-	-	-
Receipts from sale of non-financial assets	(11,534.8)	(13,241.2)	(9,121.3)
Budget surplus (deficit)	895.0	(1,346.9)	(1,838.0)
Net financing*	(895.0)	1,346.9	1,838.0
External	-	-	-
Domestic	(895.0)	1,346.9	1,838.0
GDP	3,460,202.7	3,776,443.0	3,997,631.0

* The sources for deficit financing were opening balance of the budget account and proceeds from privatization of assets

(Source: Yerevan budget execution reports for 2010, 2011 and 2012)

2.2.2 Allocation of resources

Actual budgetary allocations by sectors

During 2010-2012 the shares of individual sectors in the overall budget spending were maintained, with the main share belonging to the education sector - explained by the large share of the State budget allocations to the Yerevan budget sectors as part of delegation of powers. Material changes in the share of expenditures in individual sectors by years were traced mainly in the 'Recreation, culture and religion' sector where expenditures sharply increased in 2011 due to allocations for construction of the new cycle track. In 2011 the decrease of share of expenditures in economic relations sector is mainly explained by decrease in expenditures for road renovation and increase of receipts from sale of non-financial assets. For details the table presented below:

Actual budgetary allocation by sectors	as % of total expenditures		
	2010	2011	2012
General Public Services	10.1%	13.4%	11.1%
Defence	0.0%	0.1%	0.1%
Economic Relations	14.5%	3.9%	21.8%
Environmental Protection	10.4%	10.3%	11.9%

	2010	2011	2012
Housing, Construction and Utilities	14.5%	14.3%	10.5%
Health	0.6%	0.3%	0.4%
Recreation, Culture and Religion	3.1%	14.8%	3.6%
Education	44.2%	38.2%	36.1%
Social Protection	1.1%	0.9%	1.5%
Reserve Funds not Classified in Main Categories	1.5%	3.9%	3.0%

(Source: Yerevan budget execution reports for 2010, 2011 and 2012)

Actual budgetary allocations by economic classification

Steady trends were also observed in the expenditure distribution of the 2010-2012 Yerevan budgets by economic classification. For all three years recurrent expenditures comprised around 90 percent of the total expenditures. The share of expenditures on wages and salaries were relatively small due to the fact that all expenditures on SNCOs and CNCOs are presented in the budget as expenditures for goods and services or subsidies.

In the expenditure structure for all 3 years, the share of other expenditures was significant: they varied within the range of 13-17 percent of the total spending. Those were mainly expenditures funds provided to the Yerevan budget by the RA Government for financing the delegated powers under donor-financed programs and expenditures from reserve funds. For details, see the table presented below:

Actual budgetary allocations by economic classification	as % of total expenditures		
	2010	2011	2012
Current expenditures	91.7%	92.4%	87.5%
Wages and salaries	6.9%	8.0%	7.8%
Goods and services	50.1%	43.8%	44.4%
Interest payments	0.0%	0.0%	0.0%
Subsidies	17.4%	20.2%	18.8%
Grants	3.8%	2.7%	3.0%
Social benefits	0.2%	0.2%	0.6%
Other expenses	13.4%	17.6%	12.9%
Capital expenditures*	8.3%	7.6%	12.5%

* Defined as capital expenditures less receipts from sale of non-financial assets
(Source: Yerevan budget execution reports for 2010, 2011 and 2012)

(Source: Yerevan budget execution reports for 2010, 2011 and 2012)

2.3 Overall Government reform program

2.3.1 Overall Government reform program

PFM reforms in YM are directly linked to and dependent to reform initiatives implemented by the Government of Armenia. The Government has adopted a long-term strategic approach to advancing the PFM reform in Armenia. The Government's current PFM reform is anchored in the Public Finance Management Reform Strategy which was approved by the Government on October 28, 2010 (Government Protocol Decree 42).

This strategy covers a 10 year period (2011-2020) and outlines the purpose of the reforms as “to increase the efficiency of public expenditure management thereby ensuring improved quality of policies and delivered services, specifically:

- ensuring fiscal discipline which will contribute to macroeconomic stability and predictability of budget system;
- guaranteeing the linkage of funds with main policies and priorities through following up on strategic approaches;
- ensuring value for money and guaranteeing efficient, effective and economic use of funds;
- ensuring accountability in public spending.”

The core vision of the reforms is: “Centralized regulation - decentralized management”. To accomplish this, public finance management system reforms should facilitate the establishment of a management culture which ensures centralized regulation of PFM-related procedures while granting powers to managers at all levels , who have accountability for the optimal use of resources.

The strategy outlines 3 stages of PFM reforms. These are:

- Stage 1: Complete the work on introduction of the basic systems and controls while gradually transitioning from centralized administration to decentralized management and result-based program management
- Stage 2: Increased managerial accountability
- Stage 3: Increase emphasis on efficiency and effective use of resources

The strategy is generally focused on the first stage and outlines priorities and action plan only for that stage of reforms, covering period from 2011 to 2014. The following are main directions of reforms for Stage 1:

- During the first stage of the reform process business processes were reviewed in all areas of the PFM system to ensure they are interconnected and complementary, and that appropriate managerial accountability and control systems are incorporated.
- Internal controls, including internal audit are being streamlined to make them more supportive to the effective utilization of resources.
- In parallel financial management and unified information management system (GFMIS) is being developed with an objective of automating PFM processes on different levels and ensuring effectiveness of transactions to the extent possible. Capacity building, particularly in spending units strengthened through ongoing development of PFM skills.

Currently there is no specific PFM reform program developed for YM. This assessment will contribute to the reform agenda by providing an overview of PFM performance and a baseline for measuring the impact of PFM reforms. Based on this assessment, YM will adopt PFM reform strategy for YM, which will be intended to address current issues and deficiencies in PFM system and will be in line with the broader Government on-going PFM reform program.

2.4 Legal and institutional framework for PFM

2.4.1 The legal framework for PFM

The legal framework for the Yerevan Community PFM area consists of several 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 Armenian Laws on the RA Budget System; Treasury System; Local Duties and Fees; Taxes; Procurements; Financial Equalization, Internal Audit; RA Chamber of Control and their implementing legal acts promulgated by the Government of Armenia, the MOF, Yerevan Council and Mayor, as well as other government agencies authorized in the appropriate areas. At the same time, the relationships pertaining to financial decentralization and the local self-governance in Yerevan are also regulated by the RA Laws on Local Self-governance, and Local Self-governance in Yerevan City and their implementing legal acts.

Area	Description
Local Self Governance	<i>RA Law on Local Self-governance (2002)</i> - The Law defines the concept of local self-governance in Armenia, its principles, the local self-governance bodies, their powers, their legal, economic, financial bases and guarantees, as well as regulates the interrelations of the central government and local self-governance bodies.
Local Self-governance in Yerevan	<i>Law on Self Governance in Yerevan (2008)</i> - It defines the status of the Yerevan Council as the supreme local self-governance body. Regulates the activities of the council, its factions and standing committees, statue of the Mayor. The Law also defines the issues relating to the development plan, the preparation, discussion, adoption and publication of the Yerevan budget, the execution, servicing, reporting, audit, discussion and approval of the Yerevan budget, as well as the external control, sources for forming the Yerevan budget, its reserve fund, available balance at the year-start, as well as credits and advances of the Yerevan budget. Its PFM provisions repeat norms laid down in the RA Budget System Law.
Budget preparation and execution	<i>RA Budget System Law (1997)</i> - defines the RA budget system and regulates the budget process. It applies to the budgets at all levels of the RA budget system, including the State and community budgets. <i>RA Treasury System Law (2001)</i> - The Law defines the treasury system and regulates the relationships pertaining to the operations of the treasury for the purpose of ensuring the availability of a system of effective management of the financial assets and liabilities of Armenia and the communities through regulating the relationships pertaining to the operations of the treasury.
Procurement	<i>RA Law on Procurement (2010)</i> - regulates the relationships pertaining to the process of acquisition of goods, works and services by clients, and it establishes the main rights and responsibilities of the involved parties. It applies to the process of procurements undertaken for the needs of the State, communities, their subordinate institutions, state or community non-commercial organizations and entities with over 50 percent state or community participation.

Area	Description
Internal Audit	<i>RA Law on Internal Audit (2010)</i> - defines the principles, nature, scope and the system of internal audit for public sector entities, the main rights and responsibilities of persons involved in internal audit, as well as regulates the main relationships pertaining to the organization and activities of the internal audit. It applies to the RA central government and local self-governance bodies, public or community institutions, state or community non-commercial organizations and entities with over 50 percent state or community participation.
External Audit	<i>RA Law on Chamber of Control (2006)</i> - defines the legal bases, principles, main tasks for the activities of the RA Chamber of Control, its functions, powers, structure, financial independence, the relationships pertaining to the approval of its annual work plans and reporting, the forms and types of control, the procedures and conditions for carrying out control, the procedure for providing information by the Chamber of Control, the main rights, duties and responsibility of its employees involved in the exercise of control, the procedure for performing state service in the Chamber of Control, as well as appealing the actions of the chamber and its cooperation with other bodies.

2.4.2 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 rule of law. In the Republic of Armenia the power belongs to the people, who exercise their power through free elections, referenda, as well as through state and local governments and public officials, as provided by the Constitution.

The Republic of Armenia consists of marzes [regions] and communities, where state governance and local governance is exercised. State governance in marzes is carried out by the RA Government through its territorial administration bodies (marzpetarans), while local governance is exercised in communities with the communities exercising their right to local governance through local governments.

Institution	Institutional Role
President	The RA President is the head of the state, who watches over upholding of the RA Constitution, and ensures the regular functioning of the legislative, executive and judicial powers.
Judiciary	In the RA, justice is exercised only by courts in conformity with the Constitution and laws. Courts of first instance of general jurisdiction, courts of appeal and the Court of Cassation, as well as, in cases provided by law, specialized courts operate in the Republic of Armenia. The highest judicial instance, in matters other than constitutional justice, is the Court of Cassation, which is called with ensuring the uniform application of law. The powers of the Court of Cassation are set out in the Constitution and the law.
National Assembly	The legislative power is exercised by the RA National Assembly. Among other powers of the National Assembly specified by the Constitution, the latter approves the state budget, oversees the state budget execution, as well as the use of loans and credits received from foreign states and international organizations, if the opinion of the Control Chamber is available, considers and approves the annual budget execution report, and upon the recommendation of the RA Government defines the administrative division of Armenia (including RA administrative units, i.e. the list of marzes and communities, settlements included in each of them, territories and boundaries of RA Communities).

Institution	Institutional Role
Executive	<p>The Government makes and carries out the RA domestic policy, while the foreign policy is made and implemented in conjunction with the RA President. The Government, in the manner prescribed by the RA Constitution, submits its Program to the RA National Assembly for approval, submits the State budget proposal for approval, secures the state budget execution, submits a report on execution to the National Assembly, manages the state property, carries out uniform state financial, economic, credit and tax policies, carries out the state policy in science, education, culture, health, social security and nature protection, ensures that the public order is upheld, implements other operations and exercises other powers defined by the Constitution and the laws.</p>
Ministry of Finance	<p>RA MOF is a republican body of executive power, which makes and implements the RA Government policies in the areas of raising revenue for the state and public financial management. It plays a key role in PFM for the Yerevan Community. Below are indicated those functions of RA MOF that have a direct bearing on the Yerevan community's PFM system.</p> <ul style="list-style-type: none"> • To decide on and set key macroeconomic targets, to conduct macroeconomic planning, macroeconomic reviews and analyses; to develop and implement the fiscal policy in coordination with the RA monetary policy; • To develop medium-term and strategic policies for tax and other revenue; to develop tax and customs administration methodology; • To organize activities in the budget process for the forthcoming year, including to prepare and issue methodological instructions and guidelines to local governments for making estimates necessary for community budget formulation, bids for budget funding, forms of estimates and submission procedures for operating costs of budgetary institutions; to regulate the relationships between the RA state and community budgets; • To organizing cash management and expenditure funding, to organize execution of community budgets; to provide methodological guidance for normative regulation of relationships with execution of community budgets; • To arrange the entry and spending of cash managed by the community through the treasury single account of the competent authority; to exercise ex ante control over payments made by community institutions during the execution of community budgets; • To record planned summary community budget indicators and outturn for a given year; • To develop the internal audit methodology, to ensure that a system of training and continuing professional development is in place in the area of internal audit; • To coordinate drafting activities of procurement related legal acts and to accept or submit them for approval, methodological guidance for the procurement process and to provide methodological support to clients in organizing the procurement; • To ensure that there is a system of professional training of coordinators of procurement of clients, continuing development and qualification evaluation in place; to issue the list of qualified procurement professionals (persons); • To organize the issuance the official procurement bulletin; • To develop accounting and auditing standards, prepare and approve the chart of accounts, and forms of financial statements, to organize and issue qualifications of accountants and auditors.

Institution	Institutional Role
Ministry of Territorial Administration	<p>MTA plays a key role in local development, municipal service and state oversight over community operations. Below are indicated those functions of RA MTA that have a direct bearing on the PFM system of Yerevan Community.</p> <ul style="list-style-type: none"> • State policy-making in municipal service; • Methodological guidance for and oversight of the human resources management of the staff of community heads, in the manner prescribed and in specified cases, carrying out official investigations, maintaining the staff reserve of the municipal service and the ledger of municipal servants, monitoring of the training of municipal servants, appealing to the court against actions and/or inaction that contradict the requirements of RA law, • Carrying out legal oversight of own and delegated (by the state) powers of the community head; • Monitoring RA community budget execution; • Providing official clarifications and advice on own and delegated powers upon the request by local governments; • Carrying out the powers reserved to RA regional governors by law and other legal acts in Yerevan.
Communities	<p>A community is the public residing in one or several localities; in addition, the community is a legal entity with ownership and other property rights. Local governance is exercised in RA communities, which is the right and ability of the community to address matters of local concern for the welfare of residents at their own responsibility. There are 915 communities in the RA.</p> <p>The land located within the administrative boundaries of the community other than the land for state needs and lands that belong to natural persons and legal entities is owned by the community. The communities formulate their budget independently, while the sources of community revenue are specified by law. The law specifies such sources of funding for communities, which ensure that their powers are exercised. Communities introduce local taxes and duties within the limits provided for by law. The powers delegated to communities by the state must be funded from the state budget.</p> <p>The local governance right of the community is exercised by local governments, the Council of Aldermen and the Head of Community, who are elected for a four-year term as prescribed by law.</p> <p>The Council of Aldermen of the community manages the community property in the manner provided by law, approves the community budget presented by the Head of the Community, oversees budget execution, introduces local taxes, duties and charges and bounding legal acts within the territory of the community. The acts passed by the Council of Aldermen of a community shall not contradict the legislation; the procedure for issuing and coming into force of acts is established by law. The powers of the Head of the Community and the procedure for exercising those powers are specified by law.</p>

City of Yerevan

Yerevan is the largest community in the RA. The RA law on Local Self-Government in the City of Yerevan defines the specifics of local government, territorial administration and forming the local government in the City of Yerevan.

Institution	Institutional Role
<p>The Council of Alderman</p>	<p>The Council of Alderman of the City of Yerevan is the highest body of local government in Yerevan. Among other powers, the following powers are reserved to the Council of Aldermen by law:</p> <ul style="list-style-type: none"> • To elect a mayor and oversee the mayor's activities; • To approve the charter, structure, staff list and pay rates assigned to positions for the municipality, administrative districts and entities in their jurisdiction; • To set the rates of local taxes, duties and fees for services delivered by the community; • To approve one year, four-year, and longer-term and special plans of development of Yerevan; • To take decisions on credits, and loans and attract other borrowings as defined by law; • To take decisions on Yerevan budget, its amendments, oversee budget execution and mayor's annual report; • To approving the annual plan for providing the property owned by Yerevan for use and disposing of it.
<p>The Mayor of Yerevan</p>	<p>The Mayor of Yerevan is the local government body managing the activities of Yerevan Municipality. The law specifies the legal acts adopted by the Mayor and the procedure for adopting them. Among other powers, the Mayor also has powers:</p> <ul style="list-style-type: none"> • To develop and submit to the Council of Aldermen for consideration the documents (including the budget, development plans and budget execution reports) passed within the powers of the Council of Aldermen listed above; • To manage Yerevan budget resources and their purposeful use; • To oversee the activities of the Chief Financial Officer and the secretary to the staff of the Municipality; • To organize collection of property and land taxes, local taxes, duties and fees for services delivered by them, collection of receipts from letting and disposal of property owned by Yerevan and oversight as provided by law and apply sanctions to the people failing to pay them in the manner prescribed by law; • To ensure that there is an internal audit system in place at the municipality within the framework of legislation. <p>The Mayor organizes his activities through the Deputy Mayor (deputies), Heads of administrative districts, the Chief Architect of Yerevan, Advisors, Aides to the Mayor, the Press Secretary and the staff of Yerevan Municipality.</p>

Institution	Institutional Role
Finance Department	<p>Supports the Mayor of Yerevan in exercising the powers in the area of finances reserved to the Mayor by law, including:</p> <ul style="list-style-type: none"> • Organizes the process of drafting Yerevan budget proposal, including providing methodological support to administrative districts of Yerevan for planning their expenditure and including in bids; • Prepares and submits to the Mayor the draft budget proposal for Yerevan and the budget message, as well as provides recommendations on the amounts of revenue and expenditure in the budget; • Prepares and submits budget expenditure estimates and quarterly expenditure breakdowns for approval; • If relevant decisions are available, makes reallocations between expenditure programs and economic classification items with respective changes in expenditure estimates; • Organizes the execution process for Yerevan budget, including ex ante control of budget expenditure and commitment, funds expenditure and provides treasury account service and disbursement functions using the LSFinance and Treasury-Client Treasury software. • Coordinates and provides the accounting process; • Prepares and submits instant, quarterly, and annual reports, as well as analyses on budget execution reports; • Accepts, reviews and aggregates quarterly and annual balance sheets of budgetary institutions and companies with community ownership; • Organizes the monitoring of the planning of income and expenses by commercial and non-commercial entities within the jurisdiction of the City of Yerevan and provides recommendations on improving their financial and economic situation. <p>An organizational chart of the Finance Department is presented in Annex 7 of this report.</p>
Revenue Recording and Collections Department	<p>Supports the Mayor of Yerevan in fully and effectively exercising the powers in the area of revenue reserved to the Mayor of Yerevan by law, including:</p> <ul style="list-style-type: none"> • Organizes and regulates property and land tax recording and collection, as well as organizes recording and collection of local taxes and duties, fees for services delivered by them, receipts from letting property and land owned by Yerevan; • Participates in the process of Yerevan budget revenue, regulates and supervises the recurrent revenue provision in a fiscal year; • Submits an annual report to the Council of Alderman and Mayor of Yerevan on budget revenue.

Institution	Institutional Role
Procurement Department	<p>Serves as the structure for organizing and coordinating the process of purchasing goods, works and services under the Yerevan budget and is responsible for:</p> <ul style="list-style-type: none"> • Ex ante control of the procurement process, • Preparing procurement plans and changes thereto and submitting to the Mayor for approval; • Reviewing specifications of items submitted during the procurement process and ensuring that they comply with legislative requirements; • Submitting copies of signed contracts and conclusions on them to the finance department; • Issuing conclusions on documents approved by the client as part of procurement; • Exercising the powers of a secretary to the evaluation committee; • Documenting procurement procedures and preparing contracts and submitting to the head of the client for approval. <p>The procurement coordinator or the staff of the unit should be included in the list of qualified procurement specialists issued by the competent authority.</p>
Internal Audit Department	<p>This department is responsible for carrying out the internal audit in Yerevan Municipality (including administrative districts) and entities within its jurisdiction (SNCOs, CNCOs and Joint-Stock Companies). It operates directly under the Mayor of Yerevan and reports to the latter and to the Internal Audit Committee. It is governed by the RA legislation, its Charter, internal audit standards and rules of conduct in its activities. All functions of the organization related to financial management and control are subject to internal audit.</p> <p>The Head of the internal audit unit and the internal auditors have no right to implement functions or activities in the organization other than those related to the internal audit. Internal auditors in communities and institutions within their jurisdiction, are municipal servants and qualified auditors simultaneously, who are appointed or dismissed from the position, as well as subjected to disciplinary fines by the head of the organization.</p> <p>The internal audit is based on the strategic plans and annual programs for providing assurance and advisory services to the management of the organization.</p>
Administrative Districts	<p>With a view to carrying out efficient local governance and territorial administration in Yerevan and making the local government more accessible for the public, the City of Yerevan has been divided into 12 administrative districts (Ajapniak, Avan, Arabkir, Davtashen, Erebouni, Kentron, Malatia-Sebastia, Nor Nork, Nork-Marash, Nubarashen, Shengavit and Kanaker-Zeitun).</p> <p>The staff of administrative districts represents dedicated units of Yerevan Municipality exercising the Municipality's powers in the territory of administrative districts of the City of Yerevan.</p>

Institution	Institutional Role
External Audit	<p>The RA laws on the Local Government in the City of Yerevan and the Budget System Law establish that the Council of Alderman of Yerevan approves the budget of the city of Yerevan and oversees the Yerevan budget execution. As part of that function, Council of Aldermen of Yerevan is authorized to review any budgetary action, effectiveness and quality of implementation of activities and request reports on executed expenditure.</p> <p>With a view to carrying out effective oversight of Yerevan budget, the Council of Aldermen must engage audit services in the manner prescribed to be paid from the Yerevan budget.</p> <p>Each year the budget execution report for Yerevan is accepted by the Council of Aldermen only if there is an independent audit opinion, with the auditor selected each year, according to the procedures specified by the RA Law on Procurement.</p>
Chamber of Control	<p>The Chamber of Control is an independent body overseeing the use of budget funds and the state and community property.</p> <p>By virtue of law, the RA Chamber of Control has wide powers in terms of the external oversight of community activities. Among other powers reserved to it by law, the latter is also responsible for overseeing community budget outlays, as well as performing compliance and performance audit of functions of bodies securing community budget receipts, overseeing how the community cash management and expenditure funding is organized, and management of community property (including, intellectual property, cultural values), use (disposal, privatization, letting out and providing for free use), development plot of land, trust management and concession.</p> <p>The Chamber of Control operates based on annual plans approved by the decision of the RA National Assembly. After the end of each year, but not later than within 3 months, the Chamber of Control submits an annual report to the RA NA containing progress reports on all programmatic items in the annual plan. The annual activity plan of the Control Chamber is discussed in the National Assembly without taking a decision.</p> <p>The Chamber of Control conducts oversight in form of monitoring, reviews, and analyses and may carry out the following types of oversight: financial, compliance, performance and environmental. During its activities the Chamber of Control is free to choose the form and type of oversight, except when the law specifies a specific type of audit for the subject of oversight.</p> <p>The RA state and local governments, businesses, officials and citizens have right to appeal the actions of the Chamber of Control administratively and/or in the court.</p>

3 Assessment of PFM Systems, processes and institutions

3.1 HLG-1 - Predictability of Transfers from a Higher Level of Government

Purpose: To assess the affect of transfers and revenue disbursements from a higher government level, as a rule, the central government on fiscal management and service delivery capacity of SNGs.

Background: The funding provided to the Yerevan community through the RA Government transfer or revenue disbursement arrangements are presented in the table below¹.

in mln AMD

Line number	Revenue type	2010		2011		2012	
		Ap-proved budget	Actual budget	Approved budget	Actual budget	Approved budget	Actual budget
1000	TOTAL REVENUES	33,491.5	33,319.7	29,993.5	32,899.0	30,445.9	37,941.7
1200	2. OFFICIAL GRANTS	15,528.3	15,783.0	15,504.9	18,521.5	16,800.9	23,514.4
1250	2.5 Current domestic official grants from other government levels	14,428.3	14,444.8	15,464.8	18,488.3	16,721.7	22,221.7
1251	a) Funds provided from the State budget by the principle of financial equalization	9,095.4	9,095.4	8,963.6	8,963.6	8,361.4	8,361.4
1254	b) Other State budget grants to the community administrative budget	0.1	0.1	1.7	2,944.5	1,734.6	7,234.6
1255	ba) Grants provided by the government for compensation of community budget revenue losses.	0.1	0.1	1.7	1.7	0	0
1256	bb) Other State budget grants to community administrative budget	0	0	0	2,942.8	1,734.6	7,234.6
1257	c) State budget targeted allocations (subventions)	5,332.8	5,349.3	6,499.5	6,580.2	6,625.7	6,625.7
1260	2.6 Official capital domestic grants from other government levels	1,100.0	1,338.2	40.1	33.2	79.2	1,292.7

¹ It does not include those funds provided to the Yerevan budget by the RA Government for financing the delegated powers under donor-financed programs which are groups at the RA Government level and channeled to the Yerevan community through line ministries.

1261	a) Targeted State budget allocations (subventions) for financing capital spending	1,100.0	1,338.2	40.1	33.2	79.2	1,292.7
1300	3. OTHER REVENUES	17,963.2	17,536.7	14,488.6	14,377.5	13,645.0	14,427.3
1340	3.4 Community budget revenues from delivery of goods and services	17,963.2	17,536.7	14,488.6	14,377.5	13,645.0	14,427.3
1342	State budget funds for financing expenditures related to execution of powers delegated by the State to local self-governance bodies	17,963.2	17,536.7	14,488.6	14,377.5	13,645.0	14,427.3

**(Source of information: Resolutions of the Council of Aldermen of the City of Yerevan on approving annual budget for 2010-2012 and on execution of budgets in those years)*

In the revenue part of the Yerevan budget, the funds provided to the Yerevan community through the RA Government transfer or revenue sharing arrangements (excluding disbursements for financing Yerevan budget delegated powers through donor-financed programs which are channeled to the Yerevan community through line ministries) comprised 68.3%, 64.3%, and 66.3% of the total actual revenues of the Yerevan budget for 2011-2012 respectively².

The types of non-targeted / non-conditional State budget allocations to the Yerevan budget are defined in the Budget System Law and the Law on Local Self-governance in Yerevan City. These inflows include the (i) State budget grants provided through financial equalization procedures, and (ii) other State budget grants provided for the community administrative budget. In turn, the latter include the amounts provided by the government for compensating community budget revenue losses resulting from the enforcement of RA laws which led to a reduction of community budget revenues, and other State budget grants provided for the community's administrative budget. The legislation does not envision any restrictions on the direction of spending these funds. During the period of 2010-2012 the actual share of these revenues in the State budget allocations to the Yerevan budget was 24.8%, 31.5% and 37.9% respectively.

The main directions of targeted / conditional State budget allocations to the Yerevan budget are: (i) targeted State budget allocations (subventions), (ii) targeted State budget allocations (subventions) for financing capital spending and (iii) State budget funds for financing expenditures related to execution of powers delegated by the State to local self-governance bodies. During the period of 2010-2012 the actual share of these revenues in the State budget allocations to the Yerevan budget was 75.2%, 68.5% and 62.1% respectively.

Dimension (i) Annual variance of actual transfers from a higher government level against the amounts initially budgeted by the higher government level for their inclusion in SNG estimates.

² If funds provided to the Yerevan budget by the RA Government for financing the delegated powers under donor-financed programs were included in the calculation, its share would be 77.9%, 73.9% and 74.2% accordingly.

For the purposes of assessing this dimension, the comparison was performed against the Yerevan budget indicators as initially approved by the Yerevan Council. The allocations for 2010-2012 (save for the year 2010) provided in the form of RA Government transfers (targeted and non-targeted), as well as other disbursements to the Yerevan budget³ have exceeded the planned levels of allocations initially approved in the Yerevan budgets for the respective years.

The variance of the Yerevan budget revenues against the approved Yerevan budgets is 0.5%, 9.7% and 24.6% respectively.

The high variance observed in 2012 is explained by the allocation of additional funds under capital subventions for installation of heating systems and reconstruction of schools, social packages under delegated powers and other State budget grants to the Yerevan budget.

Dimension (ii) Difference between actual and planned annual targeted grants.

For the purposes of assessing this dimension, the aggregate of all non-targeted State budget transfers to the Yerevan budget was estimated as a component of targeted transfers, and the variance of all other transfers was examined sector by sector (in accordance with the main functions / functional classification).

For 2010-2012 allocations provided in the form of targeted government transfers to the Yerevan budget, the difference from the total variance for transfers is 2.1%, 12.6% and 17.3% respectively.

The highest variances were observed in the receipts for the below areas:

- 2010: economic relations (4,9% of variance)
- 2011: environmental protection (24.6% of variance), non-targeted / non-conditional transfers from the central government (21.1% of variance), social protection (10.3% of variance),
- 2012: social protection (103.7% of variance), non-targeted / non-conditional transfers from the central government (24.0% of variance), environmental protection (20.0% of variance), general public services (19.9% of variance), utilities (19.8% of variance), recreation, culture and religion (19.8% of variance).

For 2011-2012 allocations in the form of targeted government transfers to the Yerevan budget showed significant positive variances from the original budget, due mainly to increases in central government (CG) allocations in non-conditional grants and to a number of sectors.

Dimension (iii) Timeliness of transfers from a higher government level during the year (consistency with the time-table for effecting in-year payments as agreed within one month after the start of the SNG fiscal year).

The Yerevan budget quarterly breakdowns are approved under the appropriate Yerevan Mayor resolution for each year where the distributions of budget revenues and expenditures by individual quarters are presented progressively from the beginning of the year. These breakdowns are approved based on the quarterly breakdowns of the planned execution of the RA State budget.

³ Amounts provided by the RA Government for financing the Yerevan budget delegated powers under programs which are delivered without donor financing and are grouped at the RA Government level and channeled to the Yerevan community through line ministries.

In order to assess the variances, the timing and amounts of the financing requests submitted by the Yerevan Municipality to the MTA and MOF in each quarter were reviewed and they were compared against the timing and amounts of the actual financing. These comparisons, as well as interviews with officers of the Yerevan Municipality, the MTA and the MOF testify that all financing requests filed by the Yerevan Municipality for receiving State budget allocations were financed in full during the appropriate quarters. Exceptions include the rare cases when, under the quarterly breakdowns the total value of financing requests filed in the quarter under a specific programs exceeded the limits for that program. In these cases the requests for the amounts in excess of the quarterly limits were financed during the next quarter. These variances do not constitute delays and therefore they have had no effect on the assessment of this dimension. Thus, delays in State budget transfers to the Yerevan budget have not been observed.

Subsequently, the time-schedule of disbursements of State budget transfers (targeted and non-targeted) to the Yerevan budget is approved at the start of the budget year in accordance with the State budget and Yerevan budget quarterly breakdowns, and during the last three years no delays in actual disbursements were observed or they were insignificant.

Dimension	Justification	Assessment
Overall assessment of HLG-1 indicator		D+
(i) Actual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	For each of the last three years transfers have over-performed the estimates in the budget.	A
(ii) Annual variance between actual and estimated transfers of earmarked grants	For 2010-2012 allocations in the form of targeted government transfers to the Yerevan budget, the difference from the total variance for transfers is 2.1%, 12.6% and 17.3% accordingly.	D
(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution agreed within a month of the start of the fiscal year.	The time-schedule of disbursements of State budget transfers (targeted and non-targeted) to the Yerevan budget is approved at the start of the budget year in accordance with the State budget and Yerevan budget quarterly breakdowns, and during the last three years no delays in actual disbursements were observed or they were insignificant.	A

3.2 Budget credibility

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

Purpose: To assess how closely actual budget expenditure reflect original budget plan/policies and understand reasons for deviation.

Explanatory Note: According to PEFA methodology for Sub-national (SN) assessments for this indicator the original approved budget should be the total budget approved by the SN legislature, including expenditure from own revenues, earmarked and non earmarked transfers from central government (including donor funding through central government) and budget support provided directly by donors and not limited to the transfers approved by the national legislature. As prescribed for central assessments, debt servicing (where applicable) and donor funded project expenditure should be excluded from the variance calculation. Donor funded project expenditure covers all donor funded expenditure included in the budget which is not fully aligned with SN government procedures. In contrast, general and sector budget support directly provided to the SN government should not be excluded.

During the last three years Yerevan budget did not include donor-funded projects with financing directly provided to Yerevan City budget. In practice, all donor funded allocations were provided to Yerevan through the Central Government as allocations for exercising delegated powers. Thus, no relevant donor-funded projects were included or implemented as part of Yerevan budget in the last three years.

Dimension (i) For rating this dimension the comparison was made with the original budget approved by Yerevan Council of Aldermen. The deviation in Yerevan budget out-turn in 2010-2012 was -9.4%, -9.9% and -7.3%, respectively (see table below).

(in billions of AMD)

	2010 approved budget	2010 actual expend.	2011 approved budget	2011 actual expend.	2012 approved budget	2012 actual expend.
Total expenditure excluding interest payments and expenditure from earmarked donor-funded loans and grants	52.85	47.89	58.30	52.49	63.77	59.09
Difference between approved expenditure and actual outturn		4.96		5.80		4.68
Deviation in primary expenditure		-9.4%		-9.9%		-7.3%

*(Source of information: Resolutions of the Council of Aldermen of the City of Yerevan on approving annual budget for 2010-2012 and on execution of budgets in those years)

Lower-than-budgeted revenue receipts contributed to the expenditure deviation above. Such deviations in revenue were mainly due to low revenue performance of donor-funded projects that are within the powers of Yerevan Municipality delegated by the

state. The principal reason for the underperformance of the budget in each of the three years is due to donor funding (which are transfers from Central Government) which was received late or was cancelled.

Dimension	Justification for Score	Score
PI-1 Overall indicator score		B
(i) Aggregate expenditure out-turn compared to original approved budget	Expenditure out-turn in Yerevan budget for 2010-2012 from the originally approved budget excluding interest on community debt and donor-funded earmarked projects, including budget support, i.e. expenditure from non-earmarked loans and grants accounted for -9.4%, -9.9% and -7.3 %, respectively.	B

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

Purpose: This indicator compares primary expenditure, budgeted and actual, at a sub-aggregate level across the main administrative headings. The first dimension measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition without taking the contingency vote into consideration. The use of a contingency vote is considered in the second dimension. The assessment is made for the local government and is based on the last three completed fiscal years FY.

Dimension (i) Extent of variance in expenditure composition during the last three years, excluding contingency items.

The deviation in primary expenditure out-turn in Yerevan Budget for 2010-2012 excluding contingencies exceeded the total deviation in primary expenditure by 24.0%, 21.7% and 16.5%, respectively or the deviation in Yerevan Budget expenditure outturn exceeded the primary expenditure deviation by more than 15 percentage points in all three years⁴.

The largest deviations occurred in the following expenditure items:

- In 2010 – economic relations (190.6% of deviation), recreation, culture and religion (54.9% of deviation), health (32,6 % of deviation), utilities (31.8% of deviation) and defense (30.1% of deviation).
- In 2011, health (66.0% of deviation), economic relations (63.7% of deviation), general public services (25.5% of deviation), utilities (20.4% of deviation), defense (17.1%) and education (16.8% of deviation)).
- 2012 social protection (58.4% of deviation), utilities (41.4 %), health (27.9%), recreation, culture and religion (18.1%)

Significant deviations mainly result the unpredictable nature of funding from donor projects managed through Central Government; and, to a lesser extent reallocations across categories. Funding of spending for exercising the powers delegated to Yerevan community by the state is a key constraint affecting the composition of expenditure

⁴ The calculation of PI-2 sub-functions in FY 2010 to FY 2012 is shown in Annex 5.

out-turn of Yerevan budget; it is made exclusively from the allocations made provided to the Municipality from the state budget. The Municipality has very limited powers for revising those expenditures (in the period of 2010-2012 the share of expenditure under delegated powers accounting for 43.6%, 36.7% and 29.5% of total expenditure, respectively).

Dimension (ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

Yerevan budget has two main contingency items: the recurrent reserve fund and the capital budget reserve fund⁵. According to the RA Law on Local Self-Government the recurrent reserve fund can be between 5-20 % of revenues in the recurrent budget and the capital reserve fund cannot exceed 30 % of capital budget revenues. Clear rules define the transfer of funds between the recurrent and capital reserve, and in any event reserve funds can only be used based on a decision of the Council of Alderman.

The comparison for rating this dimension was done with “Contingencies” in original Yerevan budget approved Yerevan Council of Aldermen. In case of Yerevan budget it refers to expenditure for reserve funds under the recurrent and capital components of the budget. The actual amount charged to contingencies in Yerevan Budget accounted for 1.4%, 3.5% and 2.8% of expenditure provided for the expenditure in the Yerevan City Budget approved by the Council of Aldermen, on average accounting for 2.6 %.

Dimension	Justification	Score
PI-2 overall indicator score		D+
(i) Extent of variance in expenditure composition during the last three years, excluding contingency items.	Variance in the composition of primary expenditure out-turn in Yerevan budget for 2010 -2012 excluding contingencies exceeded the overall deviation in primary expenditure by 24.0%, 21.7% and 16.5%, respectively or the variance in composition of expenditure out-turn in Yerevan budget for those years exceeded the deviation in primary expenditure by more than 15 percentage points for all three years.	D
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	Actual amount charged to contingencies in Yerevan Budget for 2010-2012 amounted to 1.4%, 3.5% and 2.8% of such expenditure provided for in the Yerevan City Budget approved by the Council or was 2.6 % on average.	A

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

Purpose: This indicator compares actual total domestic revenue to the originally budgeted domestic revenue for the last three fiscal years completed.

⁵ The literal translation for these two reserves are the administrative reserve fund and fund budget reserves in Armenian.

Dimension (i)

Budget revenue of the City of Yerevan is defined in the ROA Laws on the Budget System and Local Self-Government in the City of Yerevan, as well as other legal acts. Types of own source revenue within the specified revenue sources are shown in the table below: ⁶

in mln AMD

Types of revenue	2010		2011		2012	
	Approved budget	Budget out-turn	Approved budget	Budget out-turn	Approved budget	Budget out-turn
Total (A+B)	12,529.4	12,105.2	14,281.5	13,365.0	19,897.3	16,084.5
1. TAXES AND DUTIES (A)	9,949.6	10,304.2	11,421.3	10,999.5	12,418.4	11,357.3
1.1 Property taxes from real estate	4,751.3	3,258.6	5,094.3	4,921.2	5,391.5	4,635.4
1.2 Property taxes from other property	3,394.6	4,928.0	4,198.9	3,759.7	4,710.4	4,014.5
1.3 Fees for permits to use goods or engage in activities	1,363.8	1,666.2	1,683.1	1,882.2	1,866.6	2,316.6
1.4 Other mandatory fees from delivery of goods and services	440.0	451.4	445.0	436.4	450.0	390.8
3. OTHER REVENUE (B)	2,579.8	1,800.9	2,860.2	2,365.5	7,478.9	4,727.1
3.2 Dividends	167.0	131.2	133.6	137.8	133.5	96.1
3.3 Rental income	824.8	654.4	740.5	779.9	1,342.0	1,039.8
3.4 Municipal budget revenue from delivery of goods and services	20.0	194.9	100.0	120.9	201.1	208.8
3.5 Administrative charges	221.9	338.5	341.9	480.0	4,681.9	2,870.4
3.6 Receipts from fines and penalties	100.5	87.0	108.2	113.7	137.4	189.1
3.8 Non-official capital grants	-	-	-	170.7	150.0	25.8
3.9 Other revenue	1,245.6	394.9	1,436.0	562.6	833.2	297.1
Deviation	-424.2		-925.5		-3,782.8	
Deviation (Percentage)	-3.4%		-6.5%		-19.0%	

*(Source of information: Resolutions of the Council of Aldermen of the City of Yerevan on approving annual budget for 2010-2012 and on execution of budgets in those years)

- 6 The following types of Yerevan budget revenue were excluded from the estimated revenue:
- State Budget transfers based on financial equalization principle;
 - Other transfers to municipal administrative budget from the State Budget, including
 - Amounts compensated by the state for losses in municipal budget revenue resulting from enforcement of RoA laws that reduce municipal budget revenue
 - Other transfers made to municipal administrative budget from the State Budget
 - Earmarked transfers from the State Budget (subventions)
 - Earmarked transfers from the State budget to fund capital expenditure (subventions)
 - Funds from the State Budget received to fund the expenditure for exercising the powers delegated by the state to local governments.

The above figures were calculated based on the numbers presented in official Yerevan budget execution reports. Domestic revenue out-turn in Yerevan budget over 2010-2012 was 96.6%, 93.5% and 81.0% respectively of the domestic budget revenue approved by the Council of Aldermen.

The main components of the shortfall for each year were:

2012: Property tax on buildings and facilities located in the administrative territory of the communities (performance - 65 %), other revenue to be credited to municipal budget as defined by law and other legal acts (performance - 32 %). The poor tax revenue performance of Yerevan Municipality in 2012 was mainly due to enactment of the Law on Property Tax and Land Tax Arrears which forgave the backlog of arrears and accrued fines and penalties on property and land taxes going back to 2008 (estimated to amount to more than AMD 3 billion).

2011: Property tax on vehicles (performance-90%), other revenue to be credited to municipal budget as defined by law and other legal acts (performance-85%)

2010: Property tax on buildings and facilities located in the administrative territory of the communities (performance-91%), Property tax on vehicles (performance-85%), Rent on community owned land (performance – 58), local fees (performance 57 %), other revenue subject to crediting to municipal budget (performance 36 %)

Domestic revenue in Yerevan budget is forecast on annual, quarterly and monthly basis based on prior period collections, accumulated revenue, changes to the tax base occurring as a result of legislative changes and any revaluation of the cadastral value of property. Tax revenue (accounting for the bulk of domestic revenue in Yerevan budget) forecasting is affected by the fact that property and land taxes based on the baseline information shared by appropriate authorized government bodies (cadastral value of property, land zoning and cadastral appraisal value, engine capacity of vehicles, etc.). Flawed baseline information (incomplete and with errors) received from these bodies have historically impacted on the quality of domestic revenue forecasting by YM.

Dimension	Justification	Score
PI-3 Overall indicator score		C
(i) Aggregate revenue out-turn compared to original approved budget	Domestic revenue out-turn in Yerevan budget over 2010-2012 was 96.6%, 93.5% and 81.0% respectively of the domestic budget revenue approved by the Council.	C

3.2.4 PI-4 Stock and monitoring of expenditure payment arrears

Purpose: This indicator measures the extent to which there is a stock of expenditure arrears, and evaluates the existence and completeness of data on arrears. The assessment of the first dimension is as of the end of last FY (2012). The assessment of the second dimension is as of the end of last two FYs.

Dimension (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent changes in the stock.

At the end of the last two fiscal years Yerevan Municipality did not have any expenditure arrears. Strict treasury controls over commitments and the execution of the budget contributed to the absence of arrears.

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

Primary documents supporting expenditure related to payments from budgetary funds (invoices, transfer and acceptance statements and worksheets), are submitted, recorded and maintained by each of the spending units. They maintain these documents in paper form and key information on the commitments on them (execution, dates, amounts, etc.) are entered into appropriate accounting files. At the end of each year, spending units report to the finance department on the stock of payables. These do not however provide information on arrears (payables beyond the due date) as there is no information on their age.

For purposes of financing expenditure commitments spending units provide a copy of primary documents (mainly in paper form) supporting each expenditure to the Municipality Finance Department. The Finance Department performs critical functions related to liability recording (i) it performs standard treasury functions (ex ante controls, recording commitments, reviewing availability of finance and, (ii) verifying that all relevant grounds for the settlement have been met (e.g. availability of primary documents, consistency with signed agreements, payment schedules, and payment orders). These controls ensure that the information provided in primary documents is consistent with the requirements of the contract. After verification of supporting documents, information on relevant payment request is entered into LSFinance System but it lacks all the information contained in the primary documents. To address this deficiency staff in the Finance Department introduced an informal procedure to register contracts using Excel files. However, no uniform approach was taken across the Finance Department: the responsibility for file management is divided between different staff members and files maintained by them do not have a uniform structure. As a result the files do not fully capture all the information needed from the primary documents to provide a comprehensive system of recording arrears *during the year*.

In addition to the controls above, shortly before the end of each fiscal year, the Finance Department reviews all expenditure programs and items where there is an inconsistency between the payment schedules and actual payments. This process is not documented; however it is one of the key controls, which prevents cases of accumulation of arrears as of year-end.

In conclusion, despite some weaknesses in the arrears recording system, as a result of year end controls at the end of the last two fiscal years, no expenditure arrears were accumulated; as confirmed by the findings of external audit reports on the annual reports of Yerevan budget execution. As a result no special reports were prepared on the stock, composition and age of arrears. Information on changes in arrears was only provided in quarterly and annual reports presented to the RA MOF on expenditure from earmarked transfers from RA State budget.

Dimension	Justification	Rating
PI-4 overall indicator rating		B+
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock.	At the end of the last two fiscal years Yerevan Municipality did not have any expenditure arrears as indicated in the independent audit findings on the annual Yerevan budget execution reports. Strict treasury controls over commitments and executions contributed significantly to the absence of arrears.	A
(ii) Availability of data for monitoring stock of expenditure payment arrears.	There are some weaknesses in the arrears recording system, although reliable and complete data on the stock of arrears is generated through year end control procedures.	B

3.3 Comprehensiveness and transparency

3.3.1 PI-5 Classification of the budget

Purpose: This indicator assesses whether the budget classification and the chart of accounts are directly aligned so that, SNG accounts, budget execution reports and other budget execution data can be produced with a break-down that corresponds to the documentation for the proposed and approved budget. The assessment is based on the last completed Fiscal Year 2012.

Dimension (i)

The Budget System Law prescribes a uniform procedure for the legal basis, forms of budget documents and budget classification, as well as financing of budget outlays at different levels of the budget system and budgetary recording of budget funds at all levels of Government. This law also specifies classifications for budget revenue, expenditure and nonfinancial asset operations, sources of deficit financing and budget debt, the details of which are defined in the relevant order by the MOFE.⁷ These legal requirements provide that the City of Yerevan should use administrative, functional and economic classifications for budgeting planning and execution. 11 heads (functional classification) and 71 categories (sub-functional classification) are specified for the functional classification of budget expenditure of which 10 heads and 30 categories were used in the 2012 budget of Yerevan. Although budget classifications are based on GFS 2001 standards, there is an exception from those standards regarding the functional classification. The reserve funds of Yerevan city, are presented as a separate functional classification head in the budget formulation, budget execution report; described as “Reserve funds not classified in main categories”. In

⁷ RoA MOFE (Ministry of Finance and Economy) Order No.5-N of January 9, 2007 on Approving RoA Budget and Public Sector Accounting Classifications and Instructions for Application Thereof

2012 this represented 3 percent of the budget.

Other classifications are compliant with GFS 2001 standards. There are no limitations or issues with the use of the economic classification of budget expenditure. Also, it should be noted that neither the public sector accounting standards have been introduced, nor the accounting policy has been developed yet (see PI-25). Therefore, currently GFS-2001 classification is used only to reflect budget receipts and outlays while the codes pertaining to assets, liabilities and equity capital are not applied yet.

There are issues with the application of the administrative classification of budget expenditure. In The 2009 ROA Law on Local Self-Government in the City of Yerevan, founded the Yerevan Community and the previous Yerevan Municipality state institution and 12 district communities ceased to exist, however the MOFE order specifying the details of administrative classification of budget expenditure was not amended and the old administrative classification system has been used over the last 3 fiscal years (2010-2012) even though the district communities do not constitute separate agencies or general budget managers but are now rather dedicated units of Yerevan Municipality. However, notwithstanding the above, it should be noted, that in practice there are no limitations related to the administrative classification of budget expenditure and if necessary, changes may be introduced in the future.

Dimension	Justification	Score
PI-5 Overall Indicator score		A
(i) The classification system used for formulation, execution and reporting of the local government's budget.	<p>Yerevan budget is prepared, executed, recorded and reported using functional (including also sub-functional), economic and administrative classifications.</p> <p>11 heads (functional classification) and 71 categories (sub-functional classification) are specified for the administrative classification of budget expenditure of which 10 heads and 30 categories were used in Yerevan budget 2012 (The incomplete use of these classifications was due to the absence of expenditure programs).</p> <p>Although budget classifications are in general compliant with GFS2001 standards, there is an exception from those standards regarding the functional classification. The reserve funds are presented as separate head of functional classification named "Reserve funds not classified in main categories.</p> <p>Other classifications are compliant with GFS2001 standards.</p> <p>There are some practical issues with the use of administrative classification of budget expenditure however these do not impact on the indicator rating.</p>	C

3.3.2 PI-6 Comprehensiveness of information included in budget documentation

Purpose: This indicator assess the extent to which annual budget documentation as submitted to the legislative for scrutiny and approval allows a complete picture of local government fiscal forecasts, budget proposals and out-turn of previous years. The assessment is based on the last budget presented to the legislature i.e. the FY 2013.

Dimension (i)

The following budget documentation submitted to Yerevan Council of Aldermen for consideration as part of 2012 and 2013 budget processes were reviewed. These included (a) Yerevan Mayor's budget messages for 2012 and 2013, (b) the draft Council of Aldermen resolutions on the City of Yerevan Budgets 2012 and 2013, (c) the City of Yerevan Development Plan and, (d) other supporting budget documents submitted to the Council of Aldermen of the City of Yerevan for approval. The table below summarizes both the availability and quality of relevant information against the PI-6 criteria. Out of the nine indicators; eight are applicable to Yerevan Community. Based on the assessment four out of eight meet the criteria set out in the indicators.

Elements/Information	FY 2012 & 2013	Comments/Explanatory Notes on the detail and quality of information
1. Macro-economic assumptions, including at least estimates of aggregate growth and inflation	n/a	The absence of such information is due to the following circumstances: <ul style="list-style-type: none"> • RoA legislation does not require including such information in the City of Yerevan Budget documents; • In practice macroeconomic projections covering forthcoming years are prepared and published by the RoA Government as part of formulation of the state budget and MTEF expenditure programmes; Hence, such information was considered as non applicable to the City of Yerevan and excluded from indicator scoring.
2. Fiscal balance, defined according to GFS or other internationally recognized standard	YES	Information on the fiscal balance or deficit (surplus) for a planned year for the City of Yerevan is provided in budget documents, both in the message and as a separate annex to the budget according to budget classifications approved by the MOFE order, which, in turn, generally corresponds to GFS 2001 classifications.
3. Deficit financing, describing anticipated composition	YES	Sources of deficit financing in a planned year are presented as a separate annex to the City of Yerevan budget according to budget classification details, as well as included in the budget message
4. Debt stock, including details at least for the beginning of the current year	YES	Yerevan City has no debt in recent years:- a note is made on the absence of debt as of the beginning of the year at the end of budget messages.
5. Financial Assets, including details at least for the beginning of the current year	YES	Information on financial assets including the opening available balance, is included in the annexes to the City of Yerevan budget according to budget classification details

6. Prior year's budget outturn, presented in the same format as the budget proposal	NO	Annexes to the budget do not present information on the prior year's outturn (in case of 2013 budget it would be 2011 budget), however the message does contain such comparisons. Such comparisons are only provided for the revenue and mostly at aggregated level (for instance, total revenue, tax revenue, etc.). No comparisons are done at the level of summary numbers of functional and economic classification. In conclusion, comparisons of budget outturn are only partially performed.
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	NO	Annexes to the budget do not present information on the current year's budget (in case of the 2013 budget it would be 2012 budget), but the message does contain such comparisons. On the revenue side these comparisons are presented at all levels, but on the expenditure side the comparisons are only done at programme level with no such comparisons made at the level of economic or functional classifications.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	NO	See comments on 6 and 7. above.
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 programs	NO	The budget message presents revisions to revenue policy and their impact on budget revenue, as well as expenditure estimates for individual expenditure programmes. However, new expenditure initiatives of the budget or significant revisions to programmes are not clearly identified in the text.

Dimension	Justification	Score
PI-6 Overall indicator score		B
(i) Comprehensiveness of information included in budget documentation.	Out of nine indicators, eight are applicable to Yerevan Community against which the indicator was assessed. Four of the eight indicators were fully met based on benchmarks set out in the PI.	B

3.3.3 PI-7 Extent of unreported government operations

Purpose - To assess the elements of government operations which affect the efficient allocation of resources as reflected by unreported government operations. The extent of unreported government operations is assessed against unreported extra-budgetary expenditure, and income /expenditure information on donor-funded projects which is included in fiscal reports

Dimension (i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in budget reports

YM does not have any extra-budgetary accounts with RoA commercial banks; this means that all revenue⁸ and expenditure of YM is made through the treasury single account. In addition there are no extra-budgetary accounts held as YM sub-accounts in the treasury single account.

30 percent of receipts from privatization and sale of government shares in the authorized capital of companies located in the administrative territory of Yerevan, state-owned real estate (other than land), including unfinished construction units, are deposited into a special treasury account opened in the name of YM. The Council may only use these funds for funding capital projects or deficit financing agreed with the RoA Government. The total amount of receipts are unreported in the budget - only the use of these funds in accordance with the above procedure is reported in the budget. In 2011 and 2012 the movement in this account and the year-end balance did not exceed 1 percent of total Yerevan budget expenditure for those periods.

Dimension (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports

According to the existing practice, donor funds are provided to Yerevan community and projects funded by them are implemented on the basis of bilateral or multilateral agreements. During the last three years (2010-2012) donor funds were mainly made available to Yerevan through the RoA Government, were denominated in Armenian drams and were provided as funding for delegated powers under donor-funded projects implemented in respective sectors. Donor funding was not made available to Yerevan Community in form of general budget support, sector-specific support or individual projects. The only exception was *Beautiful Yerevan* project with donor contribution amounting to 50 percent of the total project cost. Only the amount of Yerevan community contribution was reported in Yerevan budget and the budget execution reports, while the donor contribution was not (these funds were only shown in Yerevan development plans, despite the fact that donor agency provided regular reports to municipality – quarterly progress reports). The total amount of donor funds for this project was AMD 64,680 million, which accounted for 0.11% of Yerevan budget.

Dimension	Justification	Score
PI-7 Overall Indicator Score		A
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in budget reports	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	A

⁸ Except for donor funds made available directly to Yerevan and expenditure made from them.

(ii) Income and expenditure information on donor-funded projects which is included in fiscal reports	During 2010-2012 no donor funds were made available directly to Yerevan community in form of overall budget support, sector-specific support or individual projects with one exception. The <i>Beautiful Yerevan</i> project was implemented in 2012 with donor contribution amounting to 50 percent of the total project cost. Only the Yerevan Community contribution for this project is reported in Yerevan Budget and its execution reports - donor contributions were not reported in Yerevan Budget or execution reports. The total amount of donor funds for this project was AMD 64,680 million accounting or 0.11% of the Yerevan budget.	A
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3.3.4 PI-8 Transparency of inter-governmental fiscal relations

This indicator is applied to a sub-national government and its relationship with lower levels of government. In the case of Yerevan and other urban and rural communities the Constitution and local government laws and regulations provide for a flat structure with no lower levels of government. Thus, this PI does not apply.

Dimension	Justification	Score
PI-8 overall indicator score		Not Applicable
Transparency of Inter-Governmental Fiscal Relations	(i), (ii), (iii) According to RoA Constitution, laws on Local Self-Government and on Local Self Government in Yerevan there are no lower level governments in Yerevan community's jurisdiction.	Not Applicable

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

Purpose - This indicator assesses the extent to which YM government monitored and manages fiscal risks with national implications arising from activities of SN levels of government, autonomous government agencies and public enterprises. Fiscal risk can take the form of debt service defaulting (with or without government guarantee), operational losses caused by quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations.

Background -Yerevan Municipality exercises founder's (or owner's) rights and powers over a number of Community-owned organizations, i.e. Joint-stock companies (JSCs). According to the RoA Law on State Non-Commercial Organizations Yerevan Municipality also exercises founder's⁹ rights over a number of State Non-Commercial Organizations (SNCOs) and Community Non-Commercial Organizations (CNCOs).

⁹ For SNCOs as a delegated authority of the functions of the state authorized body.

These organizations were transferred to Yerevan Municipality's jurisdiction pursuant to the Government Decree No. 604-N of May 29, 2009 on "Approved List of Property Transferred to Yerevan Municipality with Title", which established specific features in relation to SNCOs transferred to Yerevan's jurisdiction. Particularly, this Decree established that the powers of the founder of SNCOs as well as those of the authorized body had been transferred to Yerevan Municipality as delegated authority, implying that all expenses related to the exercise of these authority should be made from appropriate earmarked transfers made available to Yerevan Community from the RoA State Budget.

As a matter of fact, within the delegated authorities, Yerevan Municipality practically enjoys the same powers as any other authorized state body with SNCOs transferred to its jurisdiction; it also implies the use of the same reporting and monitoring mechanisms over the activities of these organizations. Moreover, while RoA State Budget allocations for the exercise of delegated authorities are made available to Yerevan Municipality as part of the programs and actions planned in the RoA State Budget for the Ministry of Territorial Administration, in practice, however, relevant decrees of the RoA Government on commencing the budget process for each year directly assign the powers of the general budget manager reserved to the RoA Ministry of Territorial Administration by law to Yerevan Municipality.

The picture varies in relation to CSCOs in the jurisdiction of Yerevan; the latter represent entities created by the community and the relations with regard to their activities (including reporting) are established by relevant resolutions of the Council of Aldermen and the Mayor of Yerevan.

Dimension (i) Extent of YM government monitoring of AGAs and PEs

Given the specific characteristics of entities in Yerevan jurisdiction, overall fiscal risk arising from the activities of CNCOs, SNCOs and JSCs has been considered separately for purposes of assessing this indicator.

SNCOs and CNCOs.

As of January 1, 2013 160 SNCOs were operating in the jurisdiction of Yerevan and represented general education schools operating in the territory of Yerevan. As mentioned earlier, in case of these entities, the functions of Yerevan Municipality were defined as delegated authorities and funded from budget allocations provided to Yerevan Municipality. Reporting and monitoring mechanisms for SNCOs in Yerevan jurisdiction are specified by ROA Government decrees and MOF orders and Resolution No. 896-A of Mayor of Yerevan of March 22, 2011 on Regulating the Procedure for Reporting on Financial and Economic Activities of State and Community Non-Commercial Organizations.

As of January 1, 2013 256 CNCOs were operating in the jurisdiction of Yerevan and represented kindergartens, music schools, sport schools, libraries, museums, theatres, cultural centers, etc. In contrast to SNCOs, these entities are considered established by Yerevan Municipality, i.e. it does not constitute delegated authority. Budget financing of CNCOs is made at the expense of Yerevan budget funding, under procurement or other civil and legal contracts signed with these entities. In parallel, current subventions (or earmarked transfers) are made available from the State Budget to Yerevan Budget for funding maintenance costs of individual CNCOs

(theatres, museums, Yerevan zoo, etc.). In terms of their organizational and legal type and financial management issues SNCOs and CNCOs are almost identical (the main difference being the community jurisdiction). The other important difference is that Government prohibits SNCO contracting loans and credits; no such restrictions exist for CNCOs. Nevertheless, to date no CNCO has exercised this right which in any event require the consent of the Municipality.

By February-March of the current fiscal year all SNCOs and CNCOs prepare and submit budgets to the financial department of Municipality (including cost estimates, estimated cash flows, payroll etc.). In November-December they submit adjustments to budgets if justifications exist for in-year deviations. Upon the receipt of estimates noted above and relevant justifications, the financial department of the Municipality reviews, adjusts and submits them to the Mayor for approval.

During the year SNCOs/CNCOs submit quarterly and annual reports to the Municipality on the results of their financial and economic activities – including on the quarterly basis by 10/15 of the month following the reporting quarter and on an annual basis by 20/15 of February of the year following the reporting year. These reports contain detailed information on the financial and economic activities of organizations (including cash flows, balance sheet items, etc.).

The targets and reporting information noted above are reviewed, adjusted and aggregated by the Municipality's Financial Department and submitted to (a) the Ministry of Finance for SNCOs and (b) the Mayor of Yerevan for CNCOs. Reports provide aggregated information on expenditure based on both a functional and economic classification. Aggregate SNCO data are provided to the Ministry of Finance by the end of the month following the reporting quarter for quarterly reports and by March 1 of the year following the reporting year for annual reports; aggregated annual information on SNCO targets is provided by April 10 with a quarterly breakdown. These same reports for CNCOs are filed with Yerevan Municipality by the 10th of the second month following the reporting period and March 10 of the year following the reporting year.

Based on 2011 and 2012 results all SNCOs and CNCOs in the jurisdiction of Yerevan Municipality submitted their targets, quarterly and annual reports according to the established procedure without significant delays.

According to the requirements of the current legislation, aggregate SNCO data filed by the Municipality are consolidated by the MOF with similar information received from other Government entities, which is then submitted to the RoA Government and National Assembly with the budget execution report. In contrast, the Municipality neither publishes aggregate reports nor consolidates information on CNCOs, SNCOs and Joint –Stock Companies; nor are summary reports on fiscal risks published.

Finally there is no legislative requirement for the audit of annual reports of SNCOs and CNCOs. Reports of the Internal Audit Unit of Yerevan Municipality have raised questions on the reliability of information provided in SNCO and CNCO reports.

On Joint-Stock Companies

As of January 1, 2013 73 joint-stock companies (JSC) are operating under the jurisdiction of YM covering *inter alia* transport, utilities and health organizations.

Reporting and monitoring procedures for these JSCs are set out in the resolutions of the Mayor. According to these procedures during the year all JSCs are required to file quarterly and annual statements with the Municipality on their financial and economic activities. Quarterly statements are filed by the 20th of the month following each reporting quarter and the annual statement is filed by April 1 of the year following the reporting year. These statements include detailed information on the financial and economic activities of entities.

Reports are reviewed and aggregated and then submitted to the Mayor by the end of the following month (for quarterly reports) and by June 1 (for the annual report). Based on 2011 and 2012 data all JSCs in the jurisdiction of Yerevan Municipality filed their quarterly and annual reports according to the established procedure without significant delays. As noted above this information is neither published or consolidated with similar information on other entities.

Under RoA legislation only JSCs with more than AMD 1 billion in annual revenue or book value of assets are required to have an external audit and publish their annual financial statements. On this basis only 9 JSCs financial statements were published. As with the financial reporting of SNCO and CNCOs the Municipality Internal Audit Unit has questioned the reliability and quality of JSC reports provided to the Municipality.

Conclusion

Thus, it can be noted that all SNCOs/CNCOs in the jurisdiction of Yerevan Municipality submit fiscal reports on their activities at least on a quarterly basis and on an annual basis, no later than 2 and 6 months after the end of the reporting period, respectively. These reports are aggregated both by individual items and functional classification heads and categories (SNCO and CNCO) and submitted to the Mayor of Yerevan as well as MOF (for SNCOs). Yerevan Municipality neither publishes consolidated reports on these entities nor consolidates them with the reports of other similar entities in the jurisdiction of Yerevan Municipality (CNCOs, SNCOs and JSCs). Annual statements of these entities are not required to be audited annually (except for those JSCs with AMD 1 billion in annual revenue or book value of assets) and there are concerns regarding the quality of these statements.

Dimension (ii) Extent of government monitoring of lower level governments' fiscal position

There are no lower levels of government in the jurisdiction of Yerevan Municipality according to the Laws on Local Self Government and Local Self Government in the City of Yerevan. Therefore, Dimension (ii) of PI-9 is not applicable to the assessment of Yerevan Municipality.

Dimension		Score
PI-9 Overall indicator rating		C
(i) Extent of YM government monitoring of AGAs and PEs	All SNCOs, CNCOs and JSCs submit fiscal reports to Mayor or MOF (as applicable); however these are not fully consolidated to provide an overview of fiscal risk.	C

(ii) Extent of government monitoring of lower level governments' fiscal position	There are no lower levels of government in the jurisdiction of Yerevan Municipality. Therefore, Dimension (ii) of PI-9 is not applicable to the assessment of Yerevan Municipality.	Not Applicable
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3.3.6 PI-10 Public access to key fiscal information

Purpose -This indicator assesses the extent to which information on the budget and its execution by the government is easily accessible to the general public or at least the relevant interest groups. Transparency principle requires that the Government makes relevant information widely available in a comprehensive, understandable and timely fashion. The assessment is based on the last completed FY 2012.

Dimension (i)

1. Annual budget documents: when presenting the complete package of documents to the legislature, these documents are also accessible to the public through appropriate media.

According to the Budget System Law a draft resolution on the community budget must be publicized in local media within three days after its presentation to the Council, and, at the same time ,bulletins and booklets containing the main budget indicators, along with statistical and graphical data must be published. In accordance with these regulations the 2012 draft budget for Yerevan was presented to the Council on December 2, 2011 and on the same day it was published in the official website of the Yerevan City (www.yerevan.am).

2. In-year budget execution reports: through appropriate media these reports are normally presented to the public within one month after the date of their preparation.

The Budget System Law states that by the 15th day of the month following the reporting quarter the community head provides communications on progress in budget execution to the Community Council and the appropriate marzpet (head of marz administration).

The Law also requires the execution report to be published within a month of the end of each quarter. This has been interpreted as being adhered to through the publication of consolidated budget execution reports (including all communities) by the Ministry of Finance (MOF). More disaggregated budget execution data for YM is available on the Ministry of Territorial Administration (MTA) website but YM does not publicize this or provide links through its website. No quarterly reports on execution of the 2012 Yerevan budget were published by the Yerevan Municipality, however this fact does not affect the scoring of this sub-dimension.

3. Year-end financial statements: the latter are publicized through the appropriate media within 6 months after completion of audit.

Governed by the requirements of the RA Law on Local Self-governance in Yerevan, the Yerevan Mayor presents the annual audited Yerevan budget execution report to the Yerevan Council by March 1 of the following year. The report is discussed and approved at the Council session by March 20.

The final audit opinion on the 2012 Yerevan budget execution report was presented to the Yerevan Council on February 27, 2013, and the 2012 Yerevan budget report was approved per the Council resolution on March 19, 2013 (Yerevan Council Resolution H.606-N). The resolution was officially published (including the year-end budget execution report) in the legal acts bulletin on April 3, 2013. At the same time, the statements were posted in the official website of the Yerevan City (www.yerevan.am), as well as the legal acts website of the official bulletin (www.laws.am).

4. External audit opinions: all consolidated government transaction reports are published through appropriate media within 6 months after completion of audit.

The legislation does not require mandatory disclosure of the external audit report or opinion on the Yerevan budget execution report, and, subsequently; these documents are not disclosed and made available to the public. The budget documentation merely makes reference to the audit being completed and the annual budget report receiving an unqualified audit opinion.

5. Awarded contracts: all contracts equivalent to around US\$ 100,000 (under the Armenian legislation, above AMD 1 million) are published at least quarterly through appropriate means.

Pursuant to the requirements of the Armenian procurement legislation, announcements on awarded contracts are posted in the procurement e-bulletin within 7 calendar days after these contracts are concluded, if their price is above AMD 1 million (base unit) which is equivalent to US\$ 2500. The public announcement on an awarded contract must contain the brief description of the procurement object, name and address of the client, date of concluding the contract, name and address of the selected participant(s), price offers provided by the participants, contract price, information on public announcements for involving participants (if applicable) pursuant to law, the applied procurement procedure and its selection justification.

At the same time, the amendment made in September, 2012 to Government Decree 168-N on Organizing the Procurement Process of February 10, 2011 requires that the legally provided announcements and invitations on procurement processes as organized by clients for undertaking procurements for their own needs must be released by the clients independently in the Procurement e-bulletin in line with the procedure defined by the RA Ministry of Finance. Minister of Finance Order 1153-N on Approving the Procedure for Releasing Information Subject to Disclosure under the RA Procurement Legislation was promulgated on December 21, 2012. This means that the information on contracts awarded during 2012 was practically publicized by the MOF based on the information provided by the Yerevan Municipality. The above announcements were posted in the official e-bulletin for procurements at: www.gnumner.am or www.procurement.am.

The announcements on contracts concluded as a result of procurements undertaken by the Yerevan Municipality in 2012 are available in the official procurement bulletin. For some of the contracts, the bulletin clearly specifies the dates of releasing the above information but for a significant number of contracts these dates are missing and YM staff were unable to validate both the completeness of the contracts posted, and timeliness of postings in the bulletin.

Taking into account the foregoing, the above element has not been rated in accordance with PEFA Methodology Guidelines.

6 Resources available to entities delivering primary services: information on resources available to primary service providers(e.g., primary schools or primary health care institutions) is published through appropriate media at least once a year or it is provided upon request.

In the case of the Yerevan community, SNCOs, CNCOs and joint stock companies controlled by Yerevan which provide services in the areas of education, health, culture, sport, etc. are the main entities engaged in the delivery of direct services to the public. At the Yerevan Municipality detailed information is collected on the quarterly and annual basis on the financial and economic performance of the above entities which, however, does not constitute information subject to mandatory disclosure. Quarterly and annual information on financial and economic performance indicators of these entities is published and made available to the public only with regard to SNCOs controlled by the Yerevan City, and such information is disclosed by the MOF in the form of consolidated reports for all SNCOs of the appropriate sector functioning under the control of other government bodies. Moreover, it is impractical to separate from these reports the information on entities controlled by Yerevan. The mentioned information is made public through the MOF website (www.mfe.gov.am).

At the same time, financial statements are disclosed for those joint stock companies where Yerevan has 50 percent and more participation and where the annual return or the book value of assets exceed AMD 1 billion (in 2012 the annual balance sheets of 9 companies for 2011 were disclosed). These statements are mandatorily subject to annual audit and they are publicized in the official website for RA public notifications (www.azdarar.am), as well as in press.

No other information on resources received by CNCOs is published or made available to the public.

7. Information on fees and duties for major services is posted in the service delivery website and other appropriate locations/publicized through other communication media.

The rates of local taxes and duties, levels of fees against the delivered community services, as well as tax privileges in Yerevan are set by the Yerevan Council, and its respective resolutions which are posted in the Yerevan official bulletin of legal acts pursuant to the RA Law on Legal Acts, as well as in the Yerevan City official website (www.yerevan.am and www.laws.am). In order to increase public access to this information, as a rule, it is also placed on information boards of the administrative districts of Yerevan, as well as the service delivery locations.

8. Information on services delivered to the public, such as urban street lights, waste water removal, etc.

The Yerevan Municipality provides city management services in virtually all areas, including transport, utilities, urban development, etc. Information on the services delivered by the Municipality is publicized primarily at the Yerevan City official website (www.yerevan.am), including the provided key services, their main features, legal acts regulating the area of specific services, for certain services, the rights and obligations of citizens, the levels of service fees or details on their free delivery, some statistical data, etc. In addition, information on provided services and implemented measures in individual sectors is also presented in the Yerevan city development plan for each year which is posted in the official bulletin on legal acts of Yerevan, as well as in the

Yerevan official website.

While there is room for improving the above information however overall, it provides the main information on public services delivered by the Yerevan community.

Elements of information accessible to the public	Accessibility assessment	Comments, clarifications and explanations
<p><u>1. Annual budget documents:</u> when presenting the complete package of documents to the legislature, these documents are also accessible to the public through appropriate media</p>	Yes	<p>The 2012 draft budget for Yerevan was presented to the Yerevan Council for review on December 2, 2011 and on the same day it was published in the official website of the Yerevan City (www.yerevan.am).</p>
<p><u>2. In-year budget execution reports:</u> through appropriate media these reports are normally presented to the public within one month after the date of their preparation</p>	Yes	<p>While quarterly Yerevan budget execution reports are not released by the Yerevan Municipality, these reports are published by the MTA, as a rule, within one month after each reporting quarter. The mentioned reports are posted in the MTA website at www.mta.gov.am but no links are provided on the YM website and YM does not publish its budget execution reports, however this fact does not affect the scoring of this sub-dimension.</p>
<p><u>3. Year-end financial statements:</u> the latter are publicized through the appropriate media within 6 months after completion of audit</p>	Yes	<p>The Yerevan budget execution report is approved per the resolution of the Yerevan City Council within 20 days after receiving the independent audit opinion concerning the above report, and the report is officially published at the maximum within 1-2 months after the audit is completed. The reports are released in official bulletin on legal acts of Yerevan and posted at the Yerevan City official website (www.yerevan.am), as well as at the website for the official bulletin legal acts (www.laws.am).</p>
<p><u>4. External audit opinions:</u> all consolidated government transaction reports are publicized through appropriate media within 6 months after completion of audit.</p>	No	<p>The legislation does not require mandatory disclosure of the external audit report or opinion on the Yerevan budget execution report, and, subsequently; these documents are not disclosed and made available to the public. The budget documentation merely makes reference to the audit being completed and the annual budget report receiving an unqualified audit opinion.</p>
<p><u>5. Awarded contracts:</u> all contracts equivalent to around US\$100,000 (under the Armenian legislation, above AMD 1 million) are publicized through appropriate media at least once a quarter.</p>	Not Rated	<p>The announcements on contracts concluded as a result of procurements undertaken by the Yerevan Municipality in 2012 are available in the official procurement bulletin. For some of the contracts, the bulletin clearly specifies the dates of releasing the above information but for a significant number of contracts these dates are missing and YM staff were unable to provide data to validate both the completeness of the contracts posted, and timeliness of postings in the bulletin.</p>

Elements of information accessible to the public	Accessibility assessment	Comments, clarifications and explanations
<p><u>6. Resources available to entities delivering primary services:</u> information on resources available to primary service providers (e.g., primary schools or primary health care institutions) is publicized through appropriate media at least once a year or provided upon request</p>	No	<p>Quarterly and annual information on financial and economic performance indicators of direct service providers is publicized and made available to the public only with regard to SNCOs controlled by the Yerevan City, and such information is disclosed by the MOF in the form of consolidated reports for all SNCOs of the appropriate sector functioning under the control of other government bodies. Moreover, it is impractical to separate from these reports the information on entities controlled by Yerevan. The mentioned information is made public through the MOF website (www.mfe.gov.am).</p> <p>At the same time, financial statements are disclosed for those joint stock companies where Yerevan has 50 percent and more participation and where the annual return or the book value of assets exceed AMD 1 billion (in 2012 the annual balance sheets of 9 companies for 2011 were disclosed). These statements are mandatorily subject to annual audit and they are publicized in the official website for RA public notifications (www.azdarar.am), as well as in press. No information on resources received by CNCOs and all other entities controlled by Yerevan, in practice it is not publicized and made available to the public.</p>
<p><u>7. Information on fees and duties for large services</u> is posted in the service delivery website and other appropriate locations/publicized through other communication media</p>	YES	<p>The rates of local taxes and duties, levels of fees against the delivered community services, as well as tax privileges in Yerevan are set by the Yerevan Council, and its respective resolutions which are posted in the Yerevan official bulletin of legal acts pursuant to the RA Law on Legal Acts, as well as in the Yerevan City official website (www.yerevan.am and www.laws.am). In order to increase public access to this information, as a rule, it is also placed on information boards of the administrative districts of Yerevan, as well as the service delivery locations.</p>
<p><u>8. Information on services delivered to the public</u>, such as urban street lights, waste water removal, etc.</p>	YES	<p>The information on services delivered by the Municipality is primarily publicized in the Yerevan City official website (www.yerevan.am). In addition, information on provided services and implemented measures in individual sectors is also presented in the Yerevan city development plan for each year which are posted in the official bulletin on legal acts of Yerevan, as well as in the Yerevan official website.</p> <p>While there is room for improving the above information both in terms of its level of detail and completeness, overall, it provides the main information on public services delivered by the Yerevan community.</p>

Observed facts		Brief explanation	Assessment
Overall assessment of PI-10 indicator			B
(i)		Out of the eight elements of information, five are published by the government	B
1. <u>Annual budget documents</u> : when presenting the complete package of documents to the legislature, these documents are also accessible to the public through appropriate media	Yes		
2. <u>In-year budget execution reports</u> : through appropriate media these reports are normally presented to the public within one month after the date of their preparation	Yes		
3. <u>Year-end financial statements</u> : the latter are publicized through the appropriate media within 6 months after completion of audit	Yes		
4. <u>External audit opinions</u> : all consolidated government transaction reports are publicized through appropriate media within 6 months after completion of audit.	No		
5. <u>Awarded contracts</u> : all contracts equivalent to around US\$ 100,000 (under the Armenian legislation, above AMD 1 million) are publicized through appropriate media at least once a quarter	Not Rated		
6. <u>Resources available to entities delivering primary services</u> : information on resources available to primary service providers(e.g., primary schools or primary health care institutions) is publicized through appropriate media at least once a year or it is provided upon request	No		
7. <u>Information on fees and duties for large services</u> is posted in the service delivery website and other appropriate locations/publicized through other communication media	Yes		
8. <u>Information on services delivered to the public</u> , such as urban street lights, waste water removal, etc.	Yes		

3.4 Policy-based budgeting

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

Purpose -This indicator assesses the organisation, clarity and comprehensiveness of the annual budget process as well as participation of ministries, departments and agencies (MDA)¹⁰ in the budget formulation process.

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

Per the Prime Minister Decree, the 2013 budget process started in January, 2012. In February the Yerevan Municipality was issued with the MOF methodological instructions for the preparation of the 2013 budget and the preparation and submission of budget financing requests for the RA State budget allocation. The resolution of the Yerevan Mayor on regulating the process of preparation of the Yerevan budget was issued by the end of June 2012 - the provision of the budget forms and instructions to spending units was on July 9 2012.

As part of the 2013 State budget preparation process, the Prime Minister decree sets forth measures which involve YM (e.g. submission of estimates or other information and requests for financial equalization and subventions from the RA State budget). These measures were planned and provided before the end of July. While these measures are part of the RA State budget planning process, they are also directly related to YM revenue planning process and the outcomes are reflected in the municipality budget (comprising about 70% of YM budget revenues). However these significant elements of budget preparation are excluded from the YM internal budget calendar.

As a result of the above the YM budget calendar approved by Council resolution cannot be regarded as comprehensive and complete. Notwithstanding the timetable set out in the calendar was observed by municipality units at all phases of the budget process.

According to the 2013 budget calendar, more than 8 weeks (from July 9 to September 10, 2012) were allotted to the Yerevan budget spending entities (separated and structural units, etc.) for submitting their budget requests which covered the process of preparing the requests and conducting consultations with various units on preparation of requests before their official submission.

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

YM issued the procedure for completing the 2013 draft budget requests on July 9, 2012 (approved by resolution of the Mayor) along with the accompanying note. These incorporated detailed forms and completion requirements however no information on budget ceilings, information on sectoral or expenditure priorities or key macro/fiscal data (inflation, demographic or other indicators) which would guide the process of preparing the budget request. Notwithstanding these short-comings, before the submission of the final requests, the spending entities did have regular discussions on their budget requests with the Municipality units responsible for coordinating

¹⁰ MDAs (or equivalents) which receive funds through a parent ministry (or equivalent unit) are not considered in the assessment; only those which are directly responsible for implementation of the budget or receive funds from Yerevan Municipality.

the appropriate sectors, as well as the Finance Department, and the results of these discussions were taken into account in forming the budget requests.

In conclusion, the guidelines for preparation of budget requests issued by the Yerevan Municipality are not complete and comprehensive and they do not contain the relevant information necessary for preparation of budget requests (sectoral priorities, expenditure ceilings, expenditure factors, etc.).

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

The procedures for approval of the Yerevan budget by the council are laid down in the Law on the RA Budget System, the Law on Local Self-Governance and the Law on Local Self-Governance in Yerevan. As stipulated by these laws, the Mayor presents the draft Yerevan budget to the Council for review within two months after the disclosure of the initial amounts of financial equalization provided to communities by the RA government. The draft budget which comprises the budget message of the Mayor and the draft Council budget resolution is disseminated to Council members at least 20 days before its discussion.

The table below presents the dates of approval of the Yerevan community budgets for 2011-2013 and their comparison to the dates of approval of the RA State budget for the same period. For 2011, 2012 and 2013 the Yerevan budget was adopted by the Council before the start of the respective budget year. After its approval the Yerevan budget is published in the official bulletin and posted at the Municipality website.

Year	RA State budget		Yerevan budget	
	Adoption date	References to legal acts	Adoption date	Reference to Council resolutions
2011	09.12.2010	HO-176-N	23.12.2010	169-N
2012	08.12.2011	HO-285-N	23.12.2011	356-N
2013	05.12.2012	HO-222-N	25.12.2012	558-N

Dimension	Justification	Assessment
Overall assessment of PI-11 indicator		C+
(i) Existence of and adherence to a fixed budget calendar.	According to the 2013 budget calendar, more than 8 weeks (from July 9 to September 10, 2012) were allotted to the Yerevan budget spending entities (separated and structural units, etc.) for submitting their budget requests which covered the process of preparing the requests and conducting consultations with various units on preparation of requests before their official submission. Notwithstanding the timetable set out in the calendar was observed by municipality units at all phases of the budget process. The default score of C arises because YM lacks a single comprehensive annual budget calendar; the important part of the budget procedures relating to planning the revenues from state budget are excluded in the YM budget calendar.	C

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	The guidelines issued by the Yerevan Municipality for the purpose of preparation of the 2013 budget requests and provided to the appropriate entities are not comprehensive and they do not contain the relevant information necessary for the preparation of budget requests (sectoral priorities, expenditure ceilings, expenditure factors, etc.).	D
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	Over the last three years the Yerevan budget was passed by the council before the start of the appropriate budget year.	A

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

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

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

Yerevan budget for each year is based on four-year and annual development plans of the City of Yerevan however this does not provide any information on fiscal aggregates. Moreover, the process for preparing the four-year development plans is not on a rolling annual basis. Yerevan budgets are approved for one year on the basis of main categories of economic and functional classification; no multi-year forecasts are prepared for years 2 and 3.

Earmarked and non-earmarked transfers from RA State Budget account for roughly 70 percent of all receipts of Yerevan budget. In relation to these transfers Yerevan Municipality does participate in the Central Government's Medium-Term Expenditure Framework (MTEF) (discussed in HLG-1).

Dimension (ii) Scope and frequency of debt sustainability analysis

During the last 3 years Yerevan Community did not have debts and therefore no debt sustainability analysis was carried out for Yerevan Community.

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

The four-year 2010-2013 Yerevan development plan was approved by Yerevan Council of Aldermen on December 23, 2009 (Resolution No. 52). It served as the first medium-term development plan for Yerevan covering specific sectors and priorities

for the development of administrative districts in Yerevan, key challenges, the current situation and planned programs. In addition an annual development plan is approved by a resolution of the Council of Aldermen; it is essentially an update of actions planned for each year of the four-year plan, and covers a one-year horizon.

The four-year plan was not fully updated each year with 2013 Yerevan budget approved on the basis of the 2013 annual development plan; and without a strategy of medium-term development priorities and programs for future years (discussed in Dimension (i) above). The next four year development plan for Yerevan covering 2014-2017 is scheduled for drafting and approval in 2013.

Both the 4 year and annual development plans cover all areas relevant for powers of local governments in Yerevan; however they did not provide detailed costings for all programs. Cost estimates were provided mainly for those programs and activities, which were deemed a priority or problematic, with estimates pertaining to both capital expenditure and recurrent expenditure. In general, cost estimates included in the development programs for the last 3 years on average amounted to approximately 50 percent of annual expenditure in Yerevan budget. The costed strategies in annual development plans are in line with aggregate annual fiscal forecasts.

Dimension (iv) Linkages between investment budgets and forward expenditure estimates

Investment projects are in line with the four-year development plan for the City of Yerevan and investments made in each fiscal year are consistent with the Yerevan City annual development plan for the given year. The impact of investment projects on recurrent expenditure in Yerevan budget for future years is not taken into account during the preparation of the annual budget proposal for Yerevan. This is due to (i) Yerevan budget planning being done on an annual basis without a comprehensive medium-term expenditure planning process, and (ii) the investment approval process failing to address forward estimates of the impact on recurrent expenditure of investment decisions.

Dimension	Justification	Rating
PI-12 Overall indicator rating		D+
(i) Preparation of multi-year fiscal forecasts and functional allocations	Yerevan budget for each year is based on four-year and annual development plans of the City of Yerevan, which do not contain information on fiscal aggregates. The process for preparation of four-year development plans is not on a rolling annual basis. The Yerevan budget is approved for one year, with aggregate fiscal forecasts (on the basis of main categories of economic and functional classification) provided only for the planned year. During Yerevan budget planning, no forecasts are prepared for the coming 2-3 years.	D
(ii) Scope and frequency of debt sustainability analysis	During the last 3 years Yerevan Community did not have debt, and therefore no debt sustainability analysis was carried out for Yerevan Community.	Not Applicable

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	The development plans covers all areas relevant for powers of local governments in Yerevan; however they did not provide detailed costings for all programs. Cost estimates were provided mainly for those programs and activities, which were deemed a priority or problematic, with estimates pertaining to both capital expenditure and recurrent expenditure. In general, cost estimates included in the development programs for the last 3 years on average amounted to approximately 50 percent of annual expenditure in Yerevan budget. The costed strategies in annual development plans are in line with aggregate annual fiscal forecasts.	B
(iv) Linkages between investment budgets and forward expenditure estimates	The impact of investment projects on recurrent expenditure in Yerevan budget for future years is not taken into account during the preparation of the annual budget proposal for Yerevan. This is due to (i) Yerevan budget planning being done on an annual basis without a comprehensive medium-term expenditure planning process, and (ii) the investment approval process failing to address forward estimates of the impact on recurrent expenditure of investment decisions.	D

3.5 Predictability and control in budget execution

3.5.1 PI-13 - Transparency of taxpayer responsibilities and obligations

Purpose: To assess the transparency of tax administration by reviewing clarity and comprehensiveness and accessibility of information for taxpayers and the functioning of tax appeal mechanism.

Dimension (i) Clarity and comprehensiveness of tax liabilities

During 2010-2012 the tax revenues of the Yerevan budget comprised of inflows from property tax on buildings, structures and transportation (vehicles, water transport etc.), as well as land tax (see table below of actual tax receipts in 2010-2012).

Type of Revenue	Actual annual receipts (AMD thousand)		
	2010	2011	2012
TOTAL TAX REVENUES	8,186,623.0	8,680,854.9	8,649,949.1
<i>Property taxes from immovable property</i>	<i>3,258,597.0</i>	<i>4,921,189.9</i>	<i>4,635,417.0</i>
Property tax for buildings and structures located in administrative areas of communities	2,626,313.7	4,261,871.9	4,037,792.4
Land tax for land located in administrative areas of communities	632,283.3	659,317.9	597,624.6
<i>Property tax from other property</i>	<i>4,928,026.1</i>	<i>3,759,665.0</i>	<i>4,014,532.1</i>
Property tax for transportation	4,928,026.1	3,759,665.0	4,014,532.1

(Source: 2010-2012 Yerevan budget execution reports)

During the period of 2010-2012 the share of tax revenues in the Yerevan budget revenues from own sources was 67.6%, 65.0% and 53.8% respectively, and their percentage compared to the total Yerevan budget revenues was 16.8%, 17.0% and 15.1%-ը. During the same period no State budget allocations were made to Yerevan (in the form of shared revenues) from either personal income tax or corporation tax.

All tax revenues of the Yerevan Municipality are defined by RA legislation. The established procedures are comprehensive and clear although a unified tax code is not yet in place. Property tax and land tax are direct taxes paid to the Yerevan budget; the tax recording, assessment and collection functions are performed by the Yerevan Municipality based on information provided by the Cadastre Council and transportation agencies (Police, Ministry of Transportation etc.)

The RA Laws on Property Tax and Land Tax clearly identify the cases for granting tax privileges and envisage certain powers in terms of setting property tax and land tax privileges. Thus property tax and land tax privileges are based on the community council decision and may not exceed 10 percent of the approved planned revenues of the community budget from property tax and land tax for the concerned year. During 2010-2012 no land tax privileges were granted based on the decision of the Yerevan Council, while property tax privileges were significantly below the permissible maximum levels. A summary of the number of tax privileges (by number and value) is presented in the Table below).

Year	Number of Yerevan Council resolutions on tax privileges	Total value of privileges (AMD thousand)	Total planned receipts from property tax (AMD thousand)	Share of privileges in total receipts from property tax
2010	5	92,500.4	7,446,440.0	1.2%
2011	7	385,391.9	8,500,800.0	4.5%
2012	2	7,345.9	9,154,873.0	0.1%
Total	14	485,238.2	23,628,201.2	2.1%

(Source: Yerevan Municipality and Yerevan Council resolutions on granting tax privileges)

The existing legislation on property tax and land tax has some procedures which effect the effectiveness of the tax system - for example the tax calculation which is required to be prepared by businesses duplicates information already held by the Municipality.

Dimension (ii) Accessibility of information on tax liabilities and administrative procedures for taxpayers

The rights and responsibilities of taxpayers are defined in the specific provisions of the RA Laws on Taxes, Property Tax, and Land Tax. Taxpayers can access detailed information on the property tax and land tax legislation, its clarifications and tax calendars from the website of the State Revenue Committee at the Government of Armenia (www.taxservice.am), information boards posted in the administrative districts of Yerevan, as well as the official legal acts bulletins and the www.laws.am

website. Significant changes to the tax legislation are covered in mass media. Besides, guidelines, booklets regularly published by the State Revenue Committee with the assistance of international organizations (WB, IMF) serve as a comprehensive and up-to-date source aimed to inform taxpayers on recent changes to the tax legislation.

Through cell phone communications (SMS) the Yerevan Municipality send regular reminders to all potential taxpayers on the need for complying with the tax payment timelines, tax legislation requirements and the consequences of their non-observance. Taxpayers are also periodically notified through phone calls and postal notices about their tax liabilities and arrears. Furthermore, each taxpayer can directly access information on its current property and land tax liabilities through the property and land tax on-line payment window posted at the Yerevan City website. For taxpayer training and education purposes the Municipality has developed and published booklets on property tax and land tax and their administration. The Yerevan Municipality operates a hot-line service which can also be used for providing clarifications on taxpayer questions. No specific training programs and seminar were organized for payers of property tax and land tax.

Dimension (iii) Availability and functioning of tax appeal mechanism

The property tax and land tax are direct taxes and do not depend on the results of taxpayers' economic activities, so appeals related to taxes payable to the Yerevan budget primarily cover issues pertaining to assessment of the tax base, i.e., the cadastral value of items of property or land or power of vehicle engines. Those assessments are performed by the authorized bodies responsible for maintaining the real estate cadastre and registration of vehicles.

These processes are straight forward and are conducted through standard administrative review procedures. In case of complaints related to the tax base assessment, as a rule, the Yerevan Municipality proposes that the complaining party clarifies these issues through the State Committee for Real Estate Cadastre or other appropriate government agencies. The process of appealing the decisions of the authorized government agencies on property cadastral values and vehicle engine powers are also carried out through standard administrative review procedures.

Given the nature of the taxes collected by YM the absence of an independent and transparent appeal system is not a cause for concern and the indicator has not been assessed in accordance with PEFA Guidelines.

Dimension	Justification	Assessment
Overall assessment of PI-13 indicator		B
(i) Clarity and comprehensiveness of tax liabilities	Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.	B

Dimension	Justification	Assessment
(ii) Accessibility of information on tax liabilities and administrative procedures for taxpayers	Taxpayers can easily access user-friendly and up-to-date information on tax liabilities and administrative procedures for certain main types of taxes. No specific training programs and seminar were organized for payers of property tax and land tax.	B
(iii) Availability and functioning of tax appeal mechanism	Given the nature of the taxes collected by YM the absence of an independent and transparent appeal system is not a cause for concern and the indicator has not been assessed in accordance with PEFA Guidelines.	n/a

3.5.2 PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Purpose: Assess control of taxpayer registration system, efficiency of penalties applied for failure to comply with registration and reporting obligations and planning and monitoring of tax audits and fraud investigation programs.

Dimension (i) Control in taxpayer registration system

The process of recordkeeping, assessment and levy of tax revenues of the Yerevan community budget is carried out through the interconnected property tax tracking information system (including land, buildings and vehicles) installed at the YM and 12 administrative districts. In the system each item of property (land) which is a tax base is assigned a unique registration code (Property Registration Number and Land Registration Number), and comprehensive information on the property is maintained, including the tax base, payments, liabilities and arrears. In the system taxpayer recordkeeping is performed by specific administrative districts where each taxpayer is assigned a taxpayer identification number (TIN). A taxpayer TIN is generated by the system automatically, and if the same taxpayer owns taxable property items in different administrative districts, then in practice he can be issued several TINs (this is explained by the specifics of the database inherited from the former Yerevan municipal communities). In the system taxpayer validation is ensured by the specifically implemented ID code which is linked to their passport details. Using these ID codes, the system generates the complete tax information concerning the individual. It includes the passport details of the taxpayer and information on property owned across all administrative districts. As a result, a complete and clear identification of taxpayer and taxation objects is ensured, however in the future a unified TIN would simplify data management and address the weaknesses inherent in the current system.

In addition to these automated procedures, legislative requirements¹¹ demand that the recordkeeping of organizations which are payers of property tax is also held in a paper format, through taxpayer personal account cards, thereby duplicating the automated recordkeeping process.

¹¹ Government Decree 192-N on Measures Ensuring Enforcement of RA Laws on Property Tax and Land Tax of February 13, 2003

The system maintains the recordkeeping of property and land based on the monthly information received by the Yerevan Municipality from the State Committee for Real Estate Cadastre (CC) (concerning the appraisal of structures and lands), and on vehicles provided to the Municipality by bodies responsible for their registration¹². While these processes provides some connectivity between the various IT systems, inaccuracies are often encountered in the YM property tax database. They are due to deficiencies inherited by the Municipality from the former databases (non-registered or inaccurately registered property items, inconsistency between the designated and actual use of property, etc.), as well as the fact that information on property values are delayed in being provided by registration agencies. In addition the shared data is not always provided in accordance with adopted standardized formats.

YM keeps a record of newly launched structures within the community and provides information on the stage of completion, changes to number of their floors and purpose of use to the CC for performing appraisals. The information that provided by communities to the Cadastre units contains significant deficiencies or was incomplete, and as a result there are numerous inconsistencies in the CC database, especially in terms of the functional use of property items.

An important feature of the existing system of control over tracking, assessment and levy of tax revenues of the YM is that the baseline real estate data (occupied area, materials, number of floors, height, etc.) are kept in the CC database of the Cadastre Committee, and data on the cadastral values of property items are provided to YM without this data. From January 1, 2012, as a result of amendments to the RA Law on State Registration of Property Title, the function of real estate measurement was transferred from the Cadastre Committee to the private sector. YM and owners of property act have to pay for real estate measurement at their own expense; it is now the responsibility of property owners or YM to initiate the assessment, adjustment and modification of baseline property data. YM have concerns that the costs of such services will exceed the benefits to the community. Under these conditions, taking into account the existing actual inconsistencies in the property tax base, without the availability of baseline property data the YM will not be able to efficiently assess and control the consistency of the property tax base and the need for adjusting it, as well as to ensure the efficiency of the tax recording process. Provision of the key baseline data on property items located within YM by the CC to YM would help to address the problem.

It follows from the above that although an automated system for tracking, assessing and levying taxes is in place in the YM these controls are inadequate (and sometimes excessive) for the efficient implementation of the tax tracking. The recent reforms implemented in the area of state title registration pose serious challenges and certain risks in terms of the efficiency of organizing this process in communities.

Dimension (ii) Efficiency of penalties applied for failure to comply with registration and reporting obligations

In Armenia issues related to responsibility for infringing the tax recording and reporting requirements are regulated by the Armenian legislation on taxes and administrative infringements. Failure to register or late registration with the tax

¹² Government Decree 641-N on Approving the Procedure for Filing Information on Buildings and Structures Which Are Objects of Taxation, Their Appraisals, As Well As Transportation Means of May 22, 2003

authorities, as well as failure to file or late filing of tax returns result in imposition of fiscal and administrative responsibility in the form of fines and penalties. The cases for imposition of fiscal and administrative fines and penalties, their levels, payment timeframe and consequences are clearly defined in the Armenian legislation.

According to the RA legislation, the control of local taxes, duly assessed fines and penalties thereon is exercised by the RA local self-governance bodies. The mentioned fines and penalties are applied by the latter mandatorily and universally, and they are not entitled to grant any privileges with regard to these fines and penalties.

In the Yerevan Municipality penalties on failure to file tax returns or declarations practically apply only to businesses. Pursuant to the requirements of the Armenian legislation, for late submission or non-submission of the tax assessment (declaration, return) by taxpayers a penalty at 5 percent of the total tax amount is charged against each 15 days after the completion of the legal timeframe which, however, must not exceed the assessed total tax amount. Pursuant to the requirements of the Armenian legislation on administrative infringements, in addition to the above penalties, an administrative penalty at a value ranging from 10 to 25-fold amount of the minimum salary is charged for these irregularities from businesses for such irregularities.

The below table shows the penalties applied for failure to submit property tax and land tax assessments for the period of 2010-2012.

	2010				2011				2012			
	Property Tax		Land Tax		Property Tax		Land Tax		Property Tax		Land Tax	
	No.	Amount (AMD)	No	Amount (AMD)	No	Amount (AMD)	No	Amount (AMD)	No	Amount (AMD)	No	Amount (AMD)
TOTAL	988	19065208.0	141	4173404.0	553	10773667.0	48	736316.0	114	169247.0	26	130778.0

(Source: Yerevan Municipality e-system for recordkeeping and collection of revenues from property taxes)

Over the last 3 years the number of penalties imposed for failure to file tax returns or declarations and hence, their underlying irregularities have significantly fallen. The improvement of these indicators is explained by both the decrease of the frequency of filing property tax and land tax assessments (their periodicity was changed from quarterly to semi-annual) as a result of legislative reforms in 2011 and the sufficiently high level of the applied penalties.

Dimension (iii) Planning and monitoring of tax audit and fraud investigation programs

YM has no mandate to conduct tax audits of taxpayers as their budget tax revenues derive exclusively from payments of property tax and land tax which are direct taxes and do not depend on the results of taxpayers' economic activities. Given the nature of its tax revenues, YM has information on the tax base, tax payments and tax arrears and there is no requirement to conduct tax investigations or audits to obtain or check this information. Although the quality of information on tax base at YM is a matter of concern, this information YM obtains externally from CC or other state agencies.

This sub-dimension has been treated as not applicable.

Dimension	Justification	Assessment
Overall assessment of PI-14 indicator		B
(i) Control in taxpayer registration system	Taxpayers are registered in a database system which is linked to a certain extent to the systems of other state registration bodies although controls over the integrity of data are inadequate (and sometimes excessive) for the efficient implementation of the tax tracking.	C
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration obligations	Penalties for all areas of non-compliance are sufficiently high to serve as a preventive measure, and they are consistently applied.	A
(iii) Planning and monitoring of tax audit programs	YM has no mandate to conduct tax audits of taxpayers as their budget tax revenues derive exclusively from payments of property tax and land tax which are direct taxes and do not depend on the results of taxpayers' economic activities. Not applicable	n/a

3.5.3 PI-15 Effectiveness in collection of tax payments

Purpose: To assess collection efficiency as determined by reviewing collection ratio for gross tax arrears, transfer mechanism of funds to the Treasury and frequency of complete accounts reconciliation. Accumulation of tax arrears can be a critical factor undermining budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of all taxpayers, whether they pay voluntarily or need close follow up.

Dimension (i) Collection ratio for gross tax arrears, being in the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).

Tax arrears collection ratio was 43.6% in the most recent fiscal year, and the total amount of tax arrears was significant (see the table below):

In thousands of AMD

		2011	2012	31.12.2012
Total tax arrears at the beginning of the year (January 1) including	A	11337695.8	9060779.6	5626094.1
Property tax		8867148.5	7064939.5	5130100.6
Other taxes (Land tax)		2470547.3	1990840.1	495993.5
Total annual collections of tax arrears, including	B	3883173.3	3949949.2	
Property tax		3521503.3	3552324.6	

		2011	2012	31.12.2012
Other taxes (Land tax)		361670	397624.6	
Annual total tax collections, including	C	8683173.3	8649949.2	
Property tax		8021503.3	8052324.6	
Other taxes (Land tax)		661670	597624.6	
Tax arrears collection ratio	D=B/A%	34.25%	43.59%	
Total tax arrears as % of total tax collections	E=A/C%			65.04%

Source of information: 2011 and 2012 Budget execution reports and Yerevan municipality.

The significant reduction in tax arrears in 2012 was due to an across-the-board tax forgiveness for property and land taxes accumulated until 2008 and fines accrued due to non-payment as a result of enactment of the Laws on Arrears of Property and Land taxes as well as forgiving the tax fines accrued over 2008-2010.

Dimension (ii): Effectiveness of transfer of tax collections to the Treasury by the revenue administration

The tax revenue of Yerevan Municipality is collected through (1) direct payments made by taxpayers via the banking system and (2) revenue collection and transfer inspection staff in the administrative regions (discussed in turn below).

Direct payments - taxpayers transfer taxes through the banking sector directly to the Treasury Single Account - accounts of Yerevan Municipality are used for each type of tax. Banks make daily transfers to the Treasury. Information on payments to Yerevan budget is captured in the LSFinance treasury system on the following bank business day; information on which is grouped by administrative districts and is reported on a daily basis.

Collection by Inspectors - Taxes are collected directly by municipality inspectors on a daily basis by using an official collection books issued by the MOF to the Municipality. Collections by 15.00 hours are provided by inspectors in the administrative district and a summary sheet is prepared and transferred through the banking system to respective revenue accounts of YM under the TSA. Information on payments to Yerevan budget is captured in the LS Finance treasury electronic system maintained at Yerevan Municipality on the following bank business day, grouped by administrative district.

Reporting of all collections - On the day following the payment and the information from the summary sheets is entered into the automated property and land tax system in the administrative districts and compared to the statement of daily receipts generated by the LSFinance system.

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

Data entry on tax payments to the YM budget into the computer database in administrative districts of Yerevan Municipality takes place every day (full data entry takes around 2-3 days). The lack of linkage between LS Finance and the tax registration software is a weakness in the present system as data entry procedures

are done manually, which is time-consuming and runs the risk of data entry errors. Reconciliations of tax assessment, collections and transfers to the Treasury are handled through the software on a daily basis (maximum in 2-3 days). As a result of reconciliations the system is able to generate reports by individual taxpayers, as well as aggregate reports on calculated taxes, accumulated arrears (including those that are less than 365 days and above 365 days past due), accrued fines, payments made and tax credits as well as amounts in claims filed with the court.

Documented Evidence	Brief Explanation	Score
PI-15 overall indicator rating		D+
(i) Collection ratio for gross tax arrears, being in the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	The debt collection ratio in the most recent fiscal year was 43.6% and the total amount of tax arrears is significant.	D
(ii) Effectiveness of the transfer of tax collections to the Treasury by the revenue administration	The tax revenue of Yerevan Municipality is collected in two ways: through (1) direct payments made by taxpayers via the banking system and (2) by collection and transfers of revenue by collection and recording division staff of administrative regions. In each case payments are made directly into YM controlled bank accounts on a daily basis.	A
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	Data entry on tax payments to Yerevan budget into the computer database in administrative regions of Yerevan Municipality takes place every day (full data entry takes 2-3 days at maximum). Reconciliation of tax assessment, collections and transfers to the Treasury are handled through the software on a daily basis. The system generates reports by individual taxpayers, as well as aggregate reports on calculated taxes, accumulated arrears, accrued fines, payments made and tax credits as well as amounts in claims filed with the court.	A

3.5.4 PI-16 Predictability in the availability of funds for commitment of expenditures

Purpose: To assess if Municipality/Municipal Departments/Administrative Districts/Municipal Program managers have access to reliable information on availability of funds within which they can commit expenditure for recurrent and capital items.

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

Within two weeks after the enactment of the Yerevan Council resolution on the Yerevan budget, the quarterly budget execution breakdowns are established by the Yerevan Mayor. Changes are made to the plan based on the decision of the Yerevan Mayor in the form of redistributions in the Yerevan budget and changes to the breakdowns. These redistributions and changes are effected frequently and as necessary (no specific periodicity for revising the breakdowns is prescribed by law).

The management of the Yerevan budget cash flows is carried out within the scope of the quarterly plan directly by the Deputy Mayor responsible for finance. Upon the approval of the quarterly plan, a monthly plan for collection of budget revenues is prepared. The monthly revenue plan, as a rule is only applied to receipts from own sources of the community and excludes State budget allocations to the Yerevan budget. This plan is the main tool for assessing the performance of collection of own source revenues and is not updated regularly.

As regards the expenditure forecasts, as a result of the operations of the primary treasury control, daily updated information about monthly time-schedules for payments under all programs and line items of the Yerevan budget, the commitments assumed for each month under contract extracts, payable amounts, actual payments and prepayments, as well as pending amounts claimed for payment is maintained in the LSFfinance automated treasury system installed in the Yerevan City. All information available in the system is readily accessible by the deputy Mayor responsible for finance who, on a daily basis identifies the expenditure priorities and takes decisions on payments based on the actual daily receipts of the Yerevan budget, the daily balance of the treasury accounts and submitted payment requests.

The present system of cash flow planning relies on daily decision making based on expenditure priorities and daily receipts of the Yerevan budget. It lacks a comprehensive cash flow and monitoring system.

Dimension (ii). Reliability and horizon of periodic in-year information to Municipal Departments/Districts on ceilings for expenditure commitment.

Pursuant to the procedures adopted per Government Decree 48 on Approving the Procedures for Execution of the RA State and Community Budgets of January 12, 2002, the Subordinate Budget Allocation Managers (Staff of the Municipality, Administrative Districts) may assume financial commitments only in consistency with the duly approved payment schedules. Treasury units approve the payment schedule if it has been submitted in the prescribed form and manner and the funds presented therein (by taking into account the total amount of funds approved for the line item) do not exceed the funds budgeted under that line item. Expenditure estimates are approved by the Yerevan Mayor based on the adoption of the quarterly breakdowns of the Yerevan budget, during the first month of the budget year. Payment schedules can be submitted to approval at any time dependent on the specifics of the commitment undertaken.

Spending managers file payment request for valid commitment within their approved expenditure estimates with their treasury unit; along with supporting documentation. These payment requests are accepted by treasury irrespective of the availability of funds in the treasury accounts. In the event of insufficient funds, payments are made in line with the priorities established by the Mayor or his deputy.

Thus, at the beginning of the budget year, starting from the approval of the estimates, spending agencies are aware of the permissible ceilings of expenditure commitments, and within these limits they can assume commitments for any time during the budget year.

Dimension (iii). Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of Municipal Departments/Districts.

According to the Law the Yerevan Mayor may redistribute the allocations across expenditure programs by up to 5 percent of the total allocation, and make internal redistributions among the economic classification items within the limit of 17 percent of the total allocations. The legislation also set rules for the reallocation to individual expenditure programs or items; expenditures may be incurred from the reserve funds of the recurrent and capital budget based on the resolution of the Yerevan Council. Limits are set on the reallocation between the recurrent and capital budgets.

All changes made to the Yerevan budget below the Yerevan Council are based solely on resolutions of the Yerevan Mayor - according to officials from the Municipality these are all based on written requests from departments of YM, and with the support of the deputy Mayor responsible for finance.

During 2012, 23 resolutions were passed by the Yerevan Mayor on redistributions in the Yerevan budget, and the total amount affected by these resolutions was AMD 1 104.1 million (1.7 percent of the total spending of the 2012 initial budget). Redistributions made under individual resolutions were not significant.

Dimension	Justification	Assessment
Overall assessment of PI-16 indicator		D+
(i) Extent to which cash flows are forecast and monitored	The present system of cash flow planning relies on daily decision making based on expenditure priorities and daily receipts of the Yerevan budget. It lacks a comprehensive cash flow and monitoring system.	D
(ii) Reliability and horizon of periodic i-year information to MDAs on ceilings for expenditure commitment	MDAs (ministry, department, agency) or equivalents are able to plan the expenditures and assume expenditure commitments at least six months in advance, consistent with the budgeted allocations.	A
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	All changes made to the Yerevan budget below the Yerevan Council are based solely on resolutions of the Yerevan Mayor - according to officials from the Municipality these are all based on written requests from departments of YM, and with the support of the deputy Mayor responsible for finance. During 2012, 23 resolutions were passed by the Yerevan Mayor on redistributions in the Yerevan budget, and the total amount affected by these resolutions was AMD 1 104.1 million (1.7 percent of the total spending of the 2012 initial budget). Redistributions made under individual resolutions were not significant.	A

3.5.5 PI-17 Recording and management of cash balances, debt and guarantees

Purpose: To assess the quality and reporting data on debt balances, government cash management and systems for contracting loans and issuance of guarantees

Dimension (i): Quality of debt data recording and reporting

No loans were provided to other communities or received from state and other community budgets over the last three years. To date, Yerevan community has not issued any municipal bonds due to legislative gaps, insufficient capacity and a recognition of the potential fiscal risks. As a result there is no debt or need for a debt management system.

Dimension (ii): Extent of consolidation of government cash balances

All YM revenue and expenditure are made through the treasury single account, in sub-accounts opened in its name. The municipality manages the treasury accounts opened through its LS Finance software installed in the municipality. This is an adapted version of the same software installed in the Central Treasury, through which it carries out its daily payment and settlement operations. All cash balances of Yerevan Municipality are calculated daily and consolidated through the treasury single account.

Dimension (iii): Systems for contracting loans and issuance of guarantee

Legislation regulates relationships for providing loans or credits to the City of Yerevan budget from the RoA State budget and specifies objectives, mechanisms and criteria for providing those funds and provides for the approval and control over such credit provision transactions by a single Government agency – the MOF. As noted in Dimension (i) no loans have been provided to Yerevan Budget from the State budget or from other sources. RoA legislation does not have provisions which allow the issuance of guarantees by YM.

Dimension	Justification	Score
PI-17 Overall indicator score		A
(i) Quality of debt data recording and reporting	Yerevan community did not have debts in the last three years.	N/A
(ii) Extent of consolidation of government cash balances	All cash balances of Yerevan Municipality are calculated daily and consolidated through the treasury single account (including all accounts)	A
(iii) Systems for contracting loans and issuance of guarantee	Legislation provides that contracting of loans should be approved by a single responsible agency (MOF) although none have been taken out over the last three years. RoA legislation does not provide for the issuance of guarantees by Yerevan community.	A

3.5.6 PI-18 Effectiveness of payroll controls

Purpose: To assess the quality of internal controls, systems for payroll and personnel records

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

In the Yerevan Municipality community service is regulated by the RA Law on Community Service. The position list and rates of the Yerevan Municipality staff are approved by the Yerevan Council, based on the classifications, community service position grades established by this Law, and the list of community service positions as approved by the RA Ministry of Territorial Administration (MTA). The position list approved by the Council resolution includes the names of the positions of all Municipality units, their number, the monthly position rate, premiums and monthly salary based on their position. Position descriptions are approved for all positions included in the position list, and employees are appointed to the respective positions through a competitive process (with the exception of individual cases stipulated by Law).

The personal records of employees are maintained by the Municipality Staff Management Division. These records include all necessary information about employees (including appointment letters, applications, reports, personal sheets, service books). This information is maintained in the form of paper documents and electronic files, where the information on individuals holding community service positions is reflected for the personnel management purposes. Any changes in these records are provided to the MTA (within 15 days), which maintains a complete register of all community servants.

Within 3 days after the approval of the complete position list (covering all staff) of the Yerevan Municipality, or any changes thereto (orders on hiring, dismissal of employees, assignment of leaves, passport data, etc.) the list is provided to the Finance Department from the Staff Management Division where it is input into payroll database software maintained for salary computation. Each employee is assigned a unique reference number in the software, and these numbers are linked to the specific positions in the position list. In the Finance Department salaries are computed based on the time-sheets submitted by the Municipality units which are also input into the software system. Based on the actually worked time, the system automatically computes the monthly salary and deductions.

After the salary run is complete the system automatically generates a payroll which is submitted by the Head of the Finance Department to the Deputy Mayor for approval. Based on the approved payroll, a payment request is prepared by the Finance Department, based on which funds are transferred from the employees bank account. Salary payments are made exclusively through the banking system.

In conclusion there is no direct link between the personnel records (position list, log-books and other personnel information) and the payroll however the payroll is supported by full documentation of changes made to the personnel records; which is reviewed in the finance department on a monthly basis. In the Municipality salary calculations are performed in a centralized manner through specialized automated systems where the personnel information is updated on a daily basis. Salaries are paid in non-cash via transfers to the employee bank accounts.

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

Changes to the personnel records are updated daily after each change in the personnel (origination of a new or vacant position, filling of a position, etc.). Similarly, the information necessary for preparing the payrolls is provided to the Finance Department

of the Municipality within 3 days at the maximum after the appropriate change where it is immediately entered into the automated system operated for salary calculation purposes. As a result of the mentioned processes, the accuracy of payrolls is ensured in practice and any need for retrospective adjustments to the payrolls is prevented (such adjustments are very rare and their total amount does not exceed 0.1% of the payroll).

		2012
Total value of payroll (thousand AMD)	A	4,598,786.17
Total value of retrospective adjustments in payrolls / payments (thousand AMD)	B	30.00
Share of adjustments	C=B/A	0.001%

*Source of information: Yerevan Municipality

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

In the Yerevan Municipality the control of changes to the personnel records and payrolls is exercised in practice through the below processes:

- The RA legislation on community service clearly defines the processes of approving and making changes to the employee position lists, as well as appointment and resignation of employees and the units responsible for these processes.
- There is a procedure in place for maintaining registers for community servants, and a responsible unit for maintaining personal records is designated in the Municipality for performing these functions. The MTA conducts periodical reviews of consistency of the procedures required to maintain Municipality personnel records.
- All authorized changes to the personnel records are presented to the Finance Department of the Municipality which has sole authority to calculate the salaries and prepare the payroll.
- The process of computation of salaries and preparation of payrolls is carried out in the Finance Department through a specialized software operated by authorized employees,
- The salary calculations are performed based on the time sheets prepared and signed by unit heads of the Municipality. An appropriate e-system for recording entries is installed at the entrance of the Municipality building however this is not yet integrated into the payroll preparation process
- The payrolls are prepared automatically and they are reviewed and validated by the Deputy Mayor before any payments are effected
- Salaries are paid in non-cash via transfers to the employee bank accounts

Over the last 2 years, no internal audits of the personnel or payment systems have been conducted. At the same time, no irregularities related to the accuracy of information of salary costs from the Yerevan budget were identified in the external audit reports over the last few years.

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

The external control of the process of maintaining personnel records in the Yerevan

Municipality is exercised by the RA Ministry of Territorial Administration (MTA), which conducts regular reviews of Municipality personnel records.. This review focuses only on the completeness and consistency of the information held on personnel records and compliance with community service regulations (e.g. attendance on training courses), and cannot therefore be regarded as a payroll audit.

While pursuant to the internal audit regulations and standard, the personnel management and compensation systems must be subject to an internal audit review however this has not been complied with in YM over the last 2 years.

Dimension	Justification	Score
Overall assessment of PI-18 indicator		D+
(i) Degree of integration and reconciliation between personnel records and payroll data	There is no direct link between the personnel records (position list, logbooks and other personnel information) and the payrolls however the payroll is supported by full documentation of changes made to the personnel records, which is reviewed in the finance department on a monthly basis. In the Municipality salary calculations are performed in a centralized manner through specialized automated systems where the personnel information is updated on a daily basis. Salaries are paid in non-cash via transfers to the employee bank accounts.	B
(ii) Timeliness of changes to personnel records and the payroll.	The required changes to the personnel records and reflected within the payroll within three days thereafter. Retrospective adjustments are rare.	A
(iii) Internal controls of changes to personnel records and the payroll	The Municipality has in place internal control systems for making changes to personnel records and payroll which allow to avoid payment errors and to ensure the consistency of information. The powers to make changes in the personnel records and payrolls are clear and they are assigned to specific units and persons.	B
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	The external control of the process of maintaining personnel records in the Yerevan Municipality is exercised by the RA Ministry of Territorial Administration (MTA), which conducts regular reviews of the Municipality personnel records including the completeness and consistency of the information. While pursuant to the internal audit regulations and standard, the personnel management and compensation systems must be subject to an internal audit review however this has not been complied with in YM over the last 2 years.	D

3.5.7 PI-19 Competition, value for money and controls in procurement

Purpose: To assess the quality, application and functioning of the procurement regulatory framework in assuring effective and efficient use of public money

Background:

In 2011 and 2012 procurements at AMD 20,1 billion and AMD 33,3 billion were undertaken by the Yerevan Municipality which comprised accordingly 38,3% and 56,4% of the total Yerevan budget spending (excluding the procurement of goods, works and services under six donor-financed programs which follow donor procedures and amount to 5.5% of the YM budget).

The following procurement methods are applied by the Municipality (in accordance with the Procurement Law):

- Open procedure is considered as the preferred default method of procurement, and the legislation does not impose any restrictions on its application.
- Framework agreements: applied if the object of procurement is included in framework agreements.
- Simplified procedure: applied if the procurement price does not exceed AMD 20 million and the object of procurement is not included in framework agreements
- Negotiation procedure through prior release of procurement announcement: applied if:
 - a procurement is made for acquisition of individual intangible assets for design and development activities, expert assessments, experimental or scientific purposes;
 - an urgent need for procurement arises due to an emergency or any other unpredictable situation, and its nature and associated risks make the application of the open procedure impracticable in terms of its timeframe, provided that such a need could not have been foreseen.
- Competitive dialogue: this method is applied:
 - If the client is unable to define accurately (objectively) the specifications of the object of procurement as required by law;
 - If it allows the parties involved to provide alternative offers on potential specifications of the object of procurement;
 - If a need arises for negotiating with the involved parties in order to clarify certain specification features of the object of procurement;
 - In the event of entering into public and private partnerships, including trust management and concession agreements.
- Negotiation procedure without a prior release of procurement announcement: applied if:
 - The concerned good, work or service can be acquired only from a single entity because of the latter's copyright and related rights and the presence of a special or exclusive right;
 - An urgent need for procurement arises and, given the emergency,

the application of any other procedure is impracticable in terms of the timeframe, provided that such a need could not have been foreseen;

- Additional quantities of goods are acquired which are intended for replacing or supplementing the equipment (structures) earlier supplied by the vendor, and the change of the initial vendor will force the client to acquire goods with other properties which will cause their incompatibility or disproportionate technical complexities in terms of their operation and maintenance. This condition may be applied only during the first three years following the original contract award;
- Having procured works or services from an entity, the client decides to procure additionally works or services from the same entity that were not included in the original contract but, due to unforeseen circumstances, have become necessary for executing the original contract, provided that:
 - The contract for additional works or services cannot be technically or economically separated from the original contract without creating a significant difficulty for the client, and
 - Its price does not exceed twenty percent of the price of the original procurement contract. An additional procurement from the same person may be made once;
 - Goods are acquired from an organization which is completely terminating its business activity or from liquidators or administrators of organizations in the insolvency process, based on an arrangement with creditors or through a similar procedure under specific favorable terms and conditions for the client;
 - The procurement price does not exceed AMD 1 million.

All of the above procurement methods except for negotiated procedure without a prior release of procurement announcement are competitive since they are undertaken through public announcements and do not limit the participation of potential bidders in the procurement processes.

Armenian procurement legislation

In Armenia the central government and local self-governance bodies, their subordinate institutions, state and community non-commercial organizations, entities with state and community participation above 50 percent perform the acquisition of goods, works and services necessary for executing their assigned powers through uniform procedures, i.e., consistent with the procedures laid down in the RA procurement legislation.

The Armenian procurement legislation comprises the RA Civil Code, the RA Law on Procurements (2011) and other legal acts ensuring its implementation (RA government decrees, orders of the RA Minister of Finance). Exceptions apply to the cases when procurement norms other than the ones stipulated by the RA procurement legislation are set forth under international agreements (if any) and in this case the procurements are made in line with these norms. Procurements of goods, works and services under individual donor-financed programs represent such an example, and they are undertaken in conformity with the procedures established by the appropriate donors based on the respective international agreements.

Only the RA Government and the body authorized in the procurement area (the RA Ministry of Finance) are entitled to adopt legal acts for regulating and coordinating the procurement arrangements. Moreover, the law-making powers of each of the above bodies in the procurement area are clearly defined in the RA Law on Procurements. Thus, a uniform hierarchic system for regulating the public sector (including communities) procurement process is applicable in Armenia, i.e., the legal bases, the bodies with law-making powers are clearly identified, and there is a clear distribution of powers.

Institutional framework of procurement

In Armenia procurement undertaken for the needs of communities are distinguished by (a) the centralized regulation of procurement, and (b) the decentralization of the procurement process. This means that communities make procurements for their needs independently, by following the procedures laid down in the Armenian procurement legislation, and the process is regulated and coordinated in a centralized manner by the authorized body (MOF).

- The Authorized Body (MOF) is responsible for coordinating and regulating the procurements and within this mandate it (a) coordinates the methodological guidance of the procurement process, (b) ensures the availability of a system of professional education, (c) ongoing training and qualification assessment for persons responsible for coordinating the procurement by spending agencies (d) organizes the release of the procurement bulletin, (e) keeps records of procurement transactions leading to the origination of obligations for the government, (f) publishes the annual report on public procurements and the list of the qualified procurement specialists. The Authorized Body may not be engaged in the procurement processes or act as a contractual party, save for procurements undertaken for its own needs.
- Spending Agencies are responsible for organizing and effecting the procurement for its own needs, including the approval of the procurement plans and the specification of procurement requirements, selecting the procurement method, setting up evaluation committees, organizing the procurement process, selecting the winner, concluding contracts, overseeing the contract execution, accepting contract outcomes and effecting payments against them. In order to organize and coordinate the procurement process, the manager of the client designates a procurement coordinator who is responsible for the organization and coordination of the client's procurement process and providing conclusions on the documentation approved by the client as part of the procurements. In addition, the procurement coordinator exercises the powers of the secretary of the evaluation commission, prepares the protocol of the concerned procurement procedure and contract and submits them to the client's manager for approval. The procurement coordinator or the unit employees should be included in the list of qualified procurement specialists published by the Authorized Body.
- The Procurement Support Center (PSC) conducts the professional education and ongoing training of procurement coordinators, provides professional advice to clients and bidders, and, for the purpose of signing framework agreements, assesses the eligibility and qualification of bidders for participation in procurement. It also concludes framework agreements, prepares the list of participants which have entered into framework

agreements and the list of pre-qualified potential procurement participants and publishes these lists in the Procurement E-bulletin, performs the functions of supporting and coordinating the e-procurement system, prepares and discloses e-bulletins on goods, works and services, analyses the procurement data and issues conclusions. Besides, the PSC performs random assessments of procurement object specifications and the qualification requirements for participants as approved by clients and presents its assessment results to the clients and the Authorized Body. Apart from the foregoing, the PSC acts as the secretariat of the Procurement Appeal Council, and in this capacity it organizes the activities of the Council, evaluates the completeness of received complaints (applications) and provides its opinion to the Council on each complaint, as well as publicizes the decision of the Council. The PSC is a state non-commercial organization under the control of the MOF, and its powers are identified in the agreement signed between the PSC and the Authorized Body.

- The Procurement Appeal Council is an independent and impartial entity which examines the complaints related to procurements. By its decision the Council may suspend the procurement procedure or the execution of a decision made by the client or the evaluation commission, terminate individual decisions taken by the client or the evaluation commission in the course of the procurement procedure, including decisions on awarding a contract during the inactivity term, revoke an awarded contract, impose a limit on the execution of a contract through setting a shorter term for its execution, impose fines on clients at the maximum of 10 percent of the contract price, proclaim the client's procurement procedure legitimate or illegitimate, make announcements on the inclusion of a participant in the list of persons not eligible for participation in the procurement process, etc. The decisions of the Council have a binding legal force.

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

Elements/ Information	Yes/ No	Comments/Explanatory Notes on the detail of information
Is the legal and regulatory framework for procurement:		
(a) organized hierarchically and precedence clearly established,	Yes	A uniform hierarchic system for regulating the public sector (including communities) procurement process is applicable in Armenia, i.e., the legal bases, the bodies with law-making authorities are clearly identified and there is a distinct distribution of powers between the latter. Besides, the procurement system has a clear hierarchic institutional structure where the parties involved in the procurement processes are distinct and there is a clear segregation of their powers.
(b) freely and easily accessible to the public through appropriate means,	Yes	The legal acts regulating the relationships pertaining to the state regulation and coordination of the procurement process are normative by their nature and they are disclosed both in the official RA legal act bulletins and the Procurement E-bulletin as envisioned under the RA Procurement Law (www.procurement.am , www.gnumner.am) and other official websites (www.laws.am).

Elements/ Information	Yes/ No	Comments/Explanatory Notes on the detail of information
(c) applied to all procurement undertaken using local government funds,	Yes	<p>In Armenia all public sector entities, including the central government and local self-governance bodies, their subordinate institutions, state and community non-commercial organizations, entities with state and community participation above 50 percent perform the acquisition of goods, works and services necessary for executing their assigned powers through uniform procedures, i.e., consistent with the procedures laid down in the RA procurement legislation.</p> <p>Exceptions apply to cases when procurement norms other than the ones stipulated by the RA Procurement Law are set forth under international agreements (if any) and in this case the procurements are made in line with these norms. (Procurements of goods, works and services under individual donor-financed programs represent such an example, and they are undertaken in conformity with the procedures established by the appropriate donors based on the respective international agreements).</p>
(d) making 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	<p>Article 17 of the RA Procurement Law lays down the procurement methods, as well as prescribes that the open procedure is the preferred default method. The RA Procurement Law and the procedures established by Government Decree 168-N on Organizing the Procurement Process (dated 10.02.2011) clearly describe and provide for the appropriate justifications based on which a client is entitled to apply other procurement procedures.</p>
(e) providing for public access to all of the following procurement information: local government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints,	Yes	<p>The Armenian procurement legislation requires that the procurement plans, changes thereto, procurement announcements and invitations, changes to procurement invitations, clarifications on invitations, announcements on cancellation of procurement procedures, announcements on contract awards for contracts exceeding AMD 1 million, procurement-related complaints and decisions of the Procurement Appeal Council must be disclosed in the Procurement E-bulletin (www.procurement.am, www.gnumner.am).</p>

Elements/ Information	Yes/ No	Comments/Explanatory Notes on the detail of information
(f) providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	Yes	The Armenian procurement legislation prescribes that prior to signing a contract, the client must publish the decision on concluding the contract which contains a provision on the term for inactivity during which the interested parties may contest the decision with the evaluation committee and/or the Procurement Appeal Council. For procurements exceeding AMD 50 million, the inactivity term is at least 10 calendar days; for procurements which do not exceed AMD 50 million, the inactivity term is at least 5 calendar days. Moreover, no contract may be awarded during the inactivity term because, by virtue of law, a contract concluded under these conditions is deemed as void. At the same time, where a complaint is filed with the Procurement Appeal Council, the client again may not sign the contract unless the Council resolves the complaint (the Council passes and discloses its decision on the complaint no later than within 20 calendar days after receiving the complaint).

Dimension (ii) Use of competitive procurement methods

The table below presents information on provided by the Yerevan Municipality on non-competitive methods of procurements undertaken for the needs of the Yerevan Municipality during 2011 and 2012 based on justifications which are consistent with the requirements of legal acts. In the table procurements undertaken through the negotiation procedure without prior disclosure of procurement announcements have been treated as a non-competitive method of procurements for the needs of the Yerevan Municipality (see background above for full summary of applicable procurement methods in Armenia).

		2011	2012
All Procurement Contract Awards			
Total Number of Contracts Awarded	A	728	952
Total Value of Contracts Awarded (AMD thousand)	B	20,107,405	33,310,420
Procurement Contract Awards (awarded by methods other than open competition)			
Total Number of Contracts Awarded	C	300	425
Total Value of Contracts Awarded (AMD thousand)	D	2,630,928	6,626,429
Procurement Contract Awards (awarded by methods other than open competition) that are justified in accordance with the legal requirements			
Total Number of Contracts Awarded	E	300	425
Total Value of Contracts Awarded (AMD thousand)	F	2,630,928	6,626,429
Share of Justified Contracts (other than open competition)	I=F/D	100%	100%

(Source of information: Yerevan Municipality)

The review conducted as part of this assessment with regard to the YM procurement plan and the procedures for executed individual procurements created a general impression that, overall, the selection of procurement methods was performed in line with the requirements of the procurement legislation, but that in itself was insufficient to serve as reliable and adequate evidence for performing the assessments. It should be noted that during 2011-2012 the procurement system of the Yerevan Municipality was not audited by either the internal audit function of the Yerevan Municipality or the RA Chamber of Control. Subsequently, any independent assessment appropriateness of procurement processes (including the selection of procurement methods) undertaken by YM during the mentioned period are lacking.

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

The main information on the procurement process for the needs of the Yerevan Municipality, including the procurement plans, changes thereto, procurement announcements, invitations, changes thereto, clarifications on invitations, announcements on cancelling procurement procedures, for contracts exceeding AMD 1 million, announcements on concluding contracts and awarded contracts, is disclosed in the Procurement E-bulletin (www.gnumner.am or www.procurement.am). Procurement announcements, invitations and announcements on awarded contracts are also disclosed in the www.azdarar.am website.

The below table presents information about the openness of the process of procurements made during 2012 for the needs of the Yerevan Municipality.

Type of information	Information is publicly available	Regularity/timeliness of update to the public (describe)	Value of procurements in 2012 (AMD thousand)		
			All (AMD thousand)	Publicized (AMD thousand)	%
1	2	3	4	5	6
Municipality procurement plans	Adequate information is lacking	According to the requirements of the Armenian procurement legislation, procurement plans, as well as changes thereto are published in the Procurement E-bulletin (www.gnumner.am) within 5 working days after their approval. The 2012 procurement plan of the Yerevan Municipality is published in the official procurement bulletin but the information on the specific timeframe of its publication is lacking. At the same time, in the absence of internal and external audit assessments on the Yerevan Municipality procurement process it is impractical to draw conclusions on the actual timing of releasing this information to the public or the actual observance of the related legislative requirements. Subsequently, this element has not been assessed.	33,310,420	33,310,420	100%

1	2	3	4	5	6
Contract awards	Adequate information is lacking	<p>According to the requirements of the Armenian procurement legislation, announcements on contract awards are published in the Procurement E-bulletin within 7 calendar days after concluding the contracts if the procurement price is above AMD 1 million (base unit).</p> <p>The announcements on contracts awarded as a result of procurements of the Yerevan Municipality in 2012 are available in the official procurement bulletin. For some of the contracts, the timeframe for disclosure of the above information is clearly stated in the bulletin, but for a considerable number of contracts this is missing. Moreover, the review of announcements on awarded contract with available timing of their disclosure shows that they have been publicized within the legally prescribed timeframe.</p> <p>In the absence of any internal and external audit assessments of the Yerevan municipality procurement process it is practically impossible to draw any conclusions on the actual timing of disclosing this information or the actual observance of the related legislative requirements, as well as the completeness of the published information, save for the ones mentioned above.</p> <p>Having in mind the foregoing, this element has not been assessed.</p>	33,310,420*	33,310,420*	100%*
Bidding opportunities	Adequate information is lacking	<p>According to the requirements of the Armenian procurement legislation, tender invitations and announcements are disclosed in the Procurement E-bulletin within 5 working days after their approval.</p> <p>Inadequate information was available on the adherence to this requirements. Having in mind the foregoing, this element has not been assessed.</p>	26,683,992	26,683,992	100%

1	2	3	4	5	6
Data on resolution of procurement complaints	Yes	A decision taken by the procurement appeal council is disclosed in the Procurement E-bulletin within 5 calendar days after its adoption and it is sent to the client, the authorized body and the parties involved in the appeal procedure. During 2012 two complaints were filed with regard to the Yerevan Municipality procurement process, and the council decisions concerning these cases were timely submitted to all interested parties and publicized in the Procurement E-bulletin.	26,009	26,009	100%

* The calculations also include the contracts (below AMD 1 million) for which no disclosure of awarded contracts is envisioned under the Armenian legislation.
(Sources of information: Yerevan Municipality)

Dimension (iv) Existence of an independent administrative procurement complaints system

Complaints concerning the procurement processes of the Yerevan Municipality are reviewed by an Independent Appeal Council, established under the RA Procurement Law. The decisions of the Council may be contested in Court by the Yerevan Municipality, the authorized body (MOF) and entities filing complaints.

During 2012 two complaints were filed in connection to the Yerevan Municipality procurement process. One of these complaints was settled in favor of the appealing party (the complaint was satisfied, the procedure was cancelled) and the second one was not investigated (the procurement procedure was cancelled by the evaluation commission before the issuance of a decision by the Appeal Council). 20 calendar days were spent at the maximum on the review and resolution of the above complaints; consistent with the requirements of the Armenian procurement legislation. Complaints associated with the Municipality procurement process and the decisions taken thereon were publicized in the Procurement E-bulletin (www.gnumner.am) and they are accessible to the public.

Elements/Information	Answers to the questions *	Comments/Explanatory Notes on the detail of information
Are complaints reviewed by a body which		
1. 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	Persons qualified by the RA Ministry of Finance with adequate knowledge of the Armenian procurement legislation are included in the list of members of the Procurement Appeal Council (42 members). The Council comprises one representative from each of the below entities: <ul style="list-style-type: none"> • Government agencies as envisioned by the RA Constitution and RA laws, • RA urban communities, • RA Central Bank, • Non-governmental organizations (unions) registered in the RA which filed a written request with the authorized body. It should be noted that only 2 out of the 42 members come from private sector or NGOs which may affect the independence of this body.

Elements/Information	Answers to the questions *	Comments/Explanatory Notes on the detail of information
2. is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Yes	<p>In order to review each complaint, a committee is set up comprising three members from the Council. In each particular case the committee composition is determined on a rotational basis through a random selection. In addition, representatives of the client whose actions are appealed may not be members of the committee.</p> <p>Members of the council who have a conflict of interests with regard to an individual procedure must voluntarily terminate their participation in the concerned procedure. Otherwise, their participation is terminated by the commission chair. If the commission chair has a conflict of interests with regard to an individual procedure, he excludes his participation in the concerned procedure where he is substituted by a council member. The committee members sign a pledge on the absence of conflict of interests.</p>
3. does not charge fees that prohibit access by concerned parties	Yes	<p>The fee level which equals to AMD 30 000 is set by the legislation. Part of the fee (up to 60 percent) is used for paying compensation to the appeal committee members, and its other portion represents incomes of the Procurement Support Center. The mentioned Center performs the functions of the secretariat of the appeal council, and within this mandate, it organizes the activities of the council, assesses the completeness of received complaints (applications) and provides its conclusion on each complaint and publicizes the decisions of the council.</p> <p>It appears from the discussions with officers of the Procurement Support Center, the Yerevan Municipality and the MOF that the fee level is such that in practice it does not pose impairment to the complaint filing process (as stated by the MOF and PSC, to date no problems associated with the fee level have been raised by procurement participants). On the other hand, it is sufficiently high to exclude undue suspensions and impediments to procurement procedures resulting from unfair actions by the parties involved.</p>
4. follows processes for submission and resolution of complaints that are clearly defined and publicly available	Yes	<p>The procurement appeal procedures and timeframe, as well as the powers and principles of operation of the appeal committee are clearly defined in the RA procurement legislation which is published in the official bulletins for RA legal acts, the Procurement E-bulletin as envisioned in the RA Procurement Law (www.procurement.am, www.gnumner.am) and other official websites (www.laws.am) and is publicly available.</p> <p>The commission takes decisions on complaints through such a procedure which allows the filer of a complaint, the client and all parties involved to attend the Council sessions and present their position. The documented decision on a complaint - which also includes the justification of such a decision - is taken and publicized no later than within 20 calendar days after receiving the complaint.</p>

Elements/Information	Answers to the questions *	Comments/Explanatory Notes on the detail of information
		<p>The RA procurement legislation envisions that the decisions or actions taken by the Procurement Appeal Council may be contested in the court. According to the information provided by the PSC, overall 88 complaints were received during 2011-2013, and only in two of these cases the decisions of the Council were appealed in the court. Furthermore, with regard to one of these cases, the court acknowledged the decision of the Council decision valid, and the examination of the second case was still in progress as at the date of this assessment. It appears from the above-mentioned, the review of the documentation related to the complaints filed in 2012 in connection with the procurements undertaken for the needs of the Yerevan Municipality, as well as the results of discussions with officers of the Yerevan Municipality, the MOF, etc. that, in general, the procurement appeal committee adheres to the legal procedures for filing and investigating complaints related to procurements.</p>
5. exercises the authority to suspend the procurement process	Yes	<p>According to Article 49 of the RA Procurement Law, filing of a complaint does not automatically lead to a suspension of the procedure for awarding the contract but the client may not award the contract until the Council resolves the complaint.</p> <p>Besides, Article 48 of the same law prescribes that by its decision the Council may suspend the procurement procedure or the execution of a decision made by the client, the evaluation commission, terminate individual decisions taken by the client or the evaluation commission in the course of the procurement procedure, including the decision on awarding a contract during the inactivity term, revoke an awarded contract, impose a limit on the execution of a contract through setting a shorter term for its execution, impose fines on clients at the maximum of 10 percent of the contract price, proclaim the client's procurement procedure legitimate or illegitimate, make announcements on the inclusion of a participant in the list of persons not eligible for participation in the procurement process, etc.</p>
6. issues decisions within the timeframe specified in the rules/regulations	Yes	<p>The Appeal Council passes its decision on a complaint within 20 days after receiving the complaint. In practice, the mentioned timeframe has been observed during the examination of complaints related to procurement for the needs of the Yerevan Municipality.</p>
7. issues decisions that are binding on all parties (without precluding (subsequent access to an external higher authority).	Yes	<p>The decisions of the Appeal Council have a binding legal force (RA Procurement Law, Article 48). The decisions of the Appeal Council may be contested in the court (RA Procurement Law, Article 45)</p>

Dimension	Justification	Assessment
Overall scoring for PI-19 indicator		B
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	The legal system regulating the process of procurements for the needs of the Yerevan community ensures the adherence to all the 6 criteria.	A
(ii) Use of competitive procurement methods	There is no reliable information on the procurement method justification for procurements undertaken for the needs of Yerevan community by applying non-competitive methods.	D
(iii) Public access to complete, reliable and timely procurement information.	While the Yerevan Municipality procurement plans, bidding opportunities and announcements on awarded contracts are publicized in the Procurement E-bulletin, comprehensive and reliable information on the actual timeframe and completeness of their disclosure is lacking. One of the four elements of the main information pertaining to the procurement process for the needs of the Yerevan Municipality are comprehensive and reliable, and they are accessible to the public through the appropriate means.	D
(iv) Existence of an independent administrative procurement complaints system	The system of complaints for procurements for the needs of the Yerevan Municipality meets all the 7 criteria.	A

3.5.8 PI-20 Effectiveness of internal controls for non-salary expenditure

Purpose - This indicator assesses the internal control system for non-salary expenditures as at the time of assessment. It covers the control of expenditure commitments and payment for goods and services, casual labour wages and discretionary staff allowances. Debt management, payroll management and management of advance is covered by other indicators.

Dimension (i): Effectiveness of expenditure commitment controls

A system of thorough control of expenditure commitments applies for all types of expenditures financed from the Yerevan budget. Ex-ante treasury controls are exercised through the LSFinance treasury software system maintained in the Yerevan Municipality, in line with the ex-ante treasury control rules. These automated controls effectively limit commitments to the amounts approved under the budget, and payments from can be effected only against authorized commitments. The practical implementation of the controls is also evidenced by the lack of accumulated expenditure arrears in recent years.

Dimension (ii): Comprehensiveness, relevance and understanding of other internal control rules/procedures and **Dimension (iii):** Degree of compliance with rules for processing and recording transactions.

In the Yerevan community the internal control systems in the public finance management area (including the systems of treasury control of expenditure commitments and payments, organization of the procurement process, management of public assets and other important control systems) are defined by RA laws, government decrees, resolutions of state authorized bodies, as well as resolutions of the Yerevan Council and the Mayor implementing these systems and processes at the Yerevan community level. Basically, the mentioned processes are well-regulated. They cover effective distributions of powers and requirements for supporting documentation. All processes are supported by methodological guidance, and regular courses are provided to improve the skills and knowledge of YM staff. Based on the results of meetings with Municipality staff, it appears that they are knowledgeable with financial management rules and procedures.

Despite this, the overall review of the internal control systems in the Yerevan Municipality shows that there are important control processes which are implemented but lack adequate documentation or uniform application. e.g. the maintenance of Excel files on expenditure commitments lack clearly documented procedures or uniform application by Finance Department staff.

In the Yerevan Municipality the internal audit unit is responsible for assessing the adequacy and efficiency of the internal control systems. Over the past two years the functions performed by the YM, including other procurement and internal control systems have not been reviewed by the internal audit unit of the Municipality. Therefore, valid assessments on the adequacy, proper application and efficiency of these controls are lacking which in turn increases the level of risk across the financial management system.

In addition the recent report of the Chamber of Control on the results of its audit of the process of using budget funds and managing community-owned property by the Yerevan community (approved per CoC Council Resolution 5/4 of March 22, 2013 (www.coc.am)) identifies numerous irregularities and deficiencies in internal control processes. These include inadequate authorizations for decision-making, infringements of technical and other control rules, defined processes and norms in the asset management area which, in turn, testifies to cases of the improper or inadequate application or non-application of controls.

Dimension	Justification	Assessment
Overall assessment of PI-20 indicator		C+
(i) Effectiveness of expenditure commitment controls	A system of thorough control of expenditure commitments applies for all types of expenditures financed from the Yerevan budget. Ex-ante treasury controls are exercised through the LSFinance treasury software system maintained in the Yerevan Municipality, in line with the ex-ante treasury control rules. These automated controls effectively limit commitments to the amounts approved under the budget, and payments from can be effected only against authorized commitments.	A
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	Basic internal control policies and procedures appear to be well documented, provide for a clear segregation of duties and are well understood by YM personnel. Despite this, the assessment noted some cases where key processes are implemented but lack adequate documentation.	C
(iii) Degree of compliance with rules for processing and recording transactions.	For most transactions, the rules appear to have been observed, however COC Report raises concerns regarding some irregularities and deficiencies in the internal control system.	C

3.5.9 PI-21 Effectiveness of internal audit

Purpose: To assess the quality and regularity of internal audit performance, including action by management on internal audit findings.

Background:

In YM the internal audit function has been operational since 2002. Until 2012 many of the provisions of the overarching internal audit legal framework were inconsistent with the international internal audit standards. Amongst other issues, the legal framework primarily focused on conducting financial audits and prescribed the accountability of the chief internal auditor to the entity's chief financial officer; a significant impediment to auditor independence.

In 2012 significant changes were made to the internal audit legislative and regulatory framework with the adoption of the RA Internal Audit Law and supporting regulations. These changes were targeted towards aligning the internal audit to the accepted international standards in organizational and functional terms. In particular,

the legislative bases for the system were established, the audit standards, their implementation instructions and code of ethics were approved thereby ensuring the independence of the internal audit (by establishing the direct subordination and accountability of the internal audit to the entity's head), as well as the adequate audit coverage (which encompasses all functions involving the financial management, control of the entity), the assurance and advisory nature of audits and other relevant issues covered by the international internal audit standards. A revised internal audit methodology was piloted in the selected central and local government bodies, which included YM.

From 2012 the internal audit function is directly accountable to the Mayor and has a status of a separate structural unit (Yerevan Council Resolution 381-A of 20.01.2012). It directly reports to the Mayor and an Internal Audit Committee. Organizationally and functionally it is independent from other functional units of the organization (including its financial and accounting services). The function currently has three staff (including the division head).

Dimension (i) Coverage and quality of the internal audit function

The internal audit environment of the Yerevan Municipality covers 649 entities, including the structural units of the Municipality staff (28) and the units of 12 administrative districts of Yerevan (132), 256 CNCOs, 161 SNCOs and 73 joint stock companies under Municipality control. The scope and coverage of the internal audit functions for each year are defined in the three-year audit strategic plans and the annual plans which are adopted based on the above strategic plans. Audit plans and their priorities are risk based and approved by the Yerevan Mayor.

The review of the Yerevan Municipality 2010, 2011 and 2012 internal audit annual plans shows that the internal audit functions have achieved the following coverage: in 2010 11.4% (by number) of the entities audited; in 2011 and 2012 this indicator was 12.5% and 9.7% respectively i.e. 33.6% of all entities were audited in the last three years. These audited entities were mainly SNCOs and CNCOs under YM control. Other important YM entities, like procurement and other departments and administrative districts were not subject to annual internal audit. Approximately 5-6% of the total budget in 2011 and 2012 was subject to internal audit (no figures were available for 2010). The relatively low level of coverage is a result of the small number of staff relative to the number of entities in the Municipality.

Until the introduction of new regulations and capacity building the internal audit function primarily focused on financial compliance issues and no assessments of the internal control systems were conducted. Starting in 2011 internal audit functions have been placing greater emphasis on systemic issues. In 2012 the function focused around 40 percent of the total work program on systems work.

Despite the foregoing, the new internal audit system is still in evolving and the requirements of many of the internal audit standards have still to be met. For example a system of the internal audit quality assurance and improvement programs was recently introduced and is not yet fully operational, neither is the Internal Audit Committee¹³ yet functioning in the Municipality.

¹³ The members of the Internal Audit Committee are the Mayor, 3 Deputy Mayors and 3 Department Heads (finance, health and education. The IAC has never formally met although IA reports are circulated to its members.

Dimension (ii) Frequency and distribution of reports

An audit report has been prepared upon the completion of each audit. Before the finalization and approval of these reports, the audit results are discussed with the heads of the audited entities and draft reports are provided to the management for feedback. Final reports are approved by the head of the audit unit and submitted to the Mayor, members of the Internal Audit Committee and the head of the audited entity. Reports are not provided to the Chamber of Control unless they are requested. As the new internal audit standards were promulgated in 2012, the mandatory requirement for filing individual audit reports with the MOF was lifted. Instead, it is stipulated that annual consolidated reports should be submitted to the MOF. Overall, during 2010-2012 50, 50 and 54 audit reports were produced respectively.

In addition to individual audit reports in 2011 and 2012 an annual internal audit performance report was produced at each year-end. This addresses the following issues:

- Execution of the strategic and annual plans;
- Audit constraints, limitations of the audit scope during its implementation and causes of failure in executing the plan;
- Main conclusions concerning the operations of the entity's financial management and control systems and recommendations on improving the entity's performance;
- Measures taken towards implementing the recommendation;
- Violations of the requirements of legal acts and indications of fraud;
- Proposals on the enhancement of internal audit in the entity.

The 2012 report was presented by to the Mayor, the Internal Audit Committee and the MOF by March 31 2013. Along with this report, a more consolidated annual internal audit report was also presented to the MOF.

Dimension (iii) Extent of management response to internal audit findings

During 2012 financial irregularities at the total value of AMD 927.4 thousand were detected as a result of internal audits conducted in the Yerevan Municipality during 2012. These cases of non-compliance mostly involved cases when dividends were under-stated and non-paid to the Yerevan budget, profit tax and VAT liabilities under-stated and not paid to the RA State budget, as well as under-stated and unpaid temporary incapacity benefits. Irregularities identified, together with the appropriate recommendations were documented and provided to the management of the audited entities, the Mayor and the Internal Audit Committee.

In each specific case Municipality management has taken measures in response to the presented recommendations in order to address the identified problems, and this is supported by the appropriate statements presented in the annual internal audit reports. Overall, the problems associated with financial irregularities were addressed at the maximum within 3 months after the lodgment of the audit reports. Thus, timely and comprehensive measures at all local self-government levels are taken by the Municipality management towards addressing the problems identified by the internal audit.

Dimension	Justification	Assessment
Overall assessment of PI-21 indicator		D+
(i) Coverage and quality of the internal audit function	<p>In 2011 and 2012 around 5-6% of the total Yerevan budget expenditures were audited annually. These audited entities were mainly SNCOs and CNCOs under YM control. Other important YM entities, like procurement and other departments and administrative districts were not subject to annual internal audit. The low coverage results from the large number of entities and the relatively small number of employees in the Yerevan Municipality Internal Audit Division (3 auditors, including the Division head).</p> <p>In 2012 around 40% of the actual time spent on internal audits focused on systemic issues. In the municipality the new internal audit system is still in its implementation phase and individual requirements of the internal audit standards have not been fully met yet although institutional issues are in place to better ensure the independence of the internal audit function. The system of the internal audit quality assurance and improvement programs has only just been introduced is not yet fully operational, nor is the Internal Audit Committee fully functional.</p>	D
(ii) Frequency and distribution of reports	Internal audit reports have been consistently prepared for all audited units which have been duly provided to the audited units, the Yerevan Mayor and members of the Internal Audit Committee in a timely fashion. Reports are not routinely provided to the Chamber of Control except on request.	C
(iii) Extent of management response to internal audit findings.	Timely and comprehensive measures at all levels are taken by the management towards addressing the problems identified by the internal audit.	A

3.6 Accounting, recording and reporting

3.6.1 PI-22 Timeliness and regularity of accounts reconciliation

Purpose: This indicator assesses the overall reconciliation and clearance process of local government bank accounts and other accounting information related to suspense accounts and advances (travel advances, construction advances, operational imprests, other). This indicator assesses the situation as at the time of the assessment.

Dimension (i) Regularity of bank reconciliations

Budgets in the RA (including Yerevan budget) are executed through the Treasury system on unified cash basis; this involves the flow of cash funds of the budgets through the Treasury Single Account (TSA) of the MOF. The TSA is held in the Central Bank of Armenia. All cash funds assigned to Yerevan community are credited to that account and all expenditure of the latter are made from that account.

For purposes of recording budget revenue and expenditure, detailed TSA revenue and expenditure sub-accounts have been opened for all types of revenue and expenditure; receipts of the Municipality from respective types of revenue are credited to those sub-accounts and relevant expenditure are recorded through them. Yerevan Municipality independently manages the Treasury accounts opened in its name using the LSFinance treasury software in Yerevan Municipality.

Reconciliation of the TSA in the CBA with the corresponding treasury sub-accounts maintained at Yerevan Municipality takes place at aggregate and detailed levels on a daily basis. To this end, the Central Bank issues an appropriate detailed statement on the revenue credited to TSA and outlays from the account as well as the balance and flows in TSA at the end of each operational day. The information available in the statements is compared to information in the treasury accounts, as well as in other systems used for revenue and expenditure recording.

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

Advances from the community budget are usually provided for business trips and procurement contracts. For advances made for business trips, the staff of the Municipality, in the manner established by RA legislation, submit a corresponding report and documents supporting the expenses to the Municipality within three days of return from the trip, which is followed by a final settlement within 5 business days and relevant payments are made (advance accounts are cleared). Information on advances is maintained at the Municipality both in the records of the treasury LSFinance software, as well as MSExcel worksheets used for recording business trips.

For procurement needs of Yerevan, advances are provided against bank guarantees and repaid in the manner and within the dates specified in the procurement contract. A full reconciliation and clearance of these accounts is not done on a quarterly basis but annually at the year end. All advances provided for procurement for the needs of Yerevan during 2012 were fully repaid before the start of the following fiscal year.

(a) Listen

Read phonetically

Dictionary - [View detailed dictionary](#)

Dimension	Justification	Rating
PI-22 Overall indicator rating		B+
(i) Regularity of bank reconciliations	Bank reconciliation for all SN government bank accounts take place on a daily basis.	A

(ii) Regularity of reconciliation and clearance of suspense accounts and advances	Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of year.	B
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3.6.2 *PI-23 Availability of information on resources received by service delivery units*

Purpose: This indicator assesses the extent to which the PFM systems effectively support front-line service delivery (i.e. schools and primary health care centers) through providing information on transfer of resources to the units (in cash or in kind) vis-à-vis the budget estimates. The assessment covers the last three completed FYs.

Background:

There are 160 general education schools within the jurisdiction of Yerevan Municipality, which are State Non-Commercial Organizations (SNCOs). Educational services are delivered by the latter through powers delegated by the state to Yerevan Community and funded from earmarked transfers from the State Budget to Yerevan Budget.

There are more than 30 health institutions within the jurisdiction of the Municipality (polyclinics, maternity hospitals, dispensaries, etc.) - mainly joint-stock companies. Funding for health service delivery is directly provided from the State Budget as part of the health services requested by the state. Health spending from Yerevan budget is not high and is mostly targeted to the renovation of health facilities or purchasing of medical equipment for these entities. For this reason health institutions are not considered as front line service delivery units with respect to YM.

Kindergartens are community non-commercial organizations (CNCO) – these institutions represent the highest number (161 kindergartens) among the Yerevan budget funded institutions. Services delivered by kindergartens are almost fully funded from Yerevan budget. In 2012 expenditure outturn for preschool education represented approximately 10 percent of total expenditure in Yerevan budget. Thus, for assessment of this indicator the kindergartens within the jurisdiction of Yerevan Municipality were considered as front-line service delivery.

Dimension (i) Collection and processing of information to demonstrate the resources that were actually received (in cash and in kind) by the most common front-line service delivery units (focus on schools) in relation to the overall resources made available to the sector.

Most of direct service delivery units within Yerevan Municipality’s jurisdiction are general education schools and kindergartens. These entities are SNCOs and CNCOs with allocations of resources from budget sources based on the contracts signed with YM for the delivery of school and preschool services, respectively. These institutions are legal entities with their accounts held in RA commercial banks. In addition to budget sources, they may also raise revenue from entrepreneurial activities permitted by their charter, as well as contributions provided to such organizations in form of donations.

In the period from 2010-2012 the funds transferred to general education schools within Yerevan jurisdiction from budget sources accounted for approximately 98 percent of their revenue, while in case of kindergartens it was approximately 85-90 percent. Funds are provided to these entities from Yerevan budget on the basis of contracts signed with them in the manner prescribed by RA legislation; these funds are transferred directly to their accounts opened in the names of the said institutions with RA commercial banks.

Regarding the revenue of these entities received from non-budgetary sources, the information is filed with Yerevan Municipality through reports on financial and economic activities by these entities on a quarterly and annual basis. The formats and relations with their filing are regulated by Resolution No.896-A of March 22, 2011 on Regulating the Process of Reporting by State and Community Non-Commercial Organizations on their Financial and Economic Activities, which in turn follows the reporting requirements set for the SNCOs by Government Decrees and the Orders of the Minister of Finance. Reports are filed by the 15th (the latest) of the month following each quarter, while annual reports are due by February 20th of the year following the reporting year. The reports contain detailed information on the financial and economic activities of each entity, including income and expense, cash flows, balance sheet items, etc. These reports provide a breakdown of revenue from budgetary and other sources as well as income received in-kind. In addition to the reports above, Yerevan Municipality oversees monetary and in-kind contributions to these organizations as gifts, donations and for benevolent purposes. This process follows the procedure established by Resolution No. 607-A of March 1, 2011 of Yerevan Mayor. According to this Resolution, before the receipt of the revenue, the entities are required to agree with the relevant units of Yerevan Municipality and upon the receipt of the consent must submit corresponding reports on actual funds received according to specified forms. The Resolution also establishes methodological instructions on accounting of funds received.

The quality of reports prepared by organizations depends directly on the accounting situation in the organization. RA private sector accounting rules apply to the accounting processes in general education schools and kindergartens within the jurisdiction of Yerevan. The accounting at these entities is usually performed in paper form, without the use of specialized software. Unlike schools, most kindergartens do not have computers, while those that do, use them merely for preparation of annual reports. There is no legislative requirement in RA for auditing annual statements of SNCOs and CNCOs before their submission and hence, their annual statements are usually not audited. The internal audit functions of SNCOs and CNCOs within the Municipality's jurisdiction are performed by the Internal Audit Division under Yerevan Municipality, which nearly always raises various issues on accounting in those entities and the quality of submitted reports in annual reports as well as reports on audits performed in individual entities. The internal audit function itself faces significant resource constraints, and the same institution would be audited once every three years at best (see also PI-21 ratings).

As for the availability of data on resources received by general education schools and kindergartens, quarterly and annual reports on the financial and economic activities of the latter are checked, verified and aggregated in the Municipality with a subsequent submission to the Ministry of Finance for SNCOs and to Mayor of Yerevan for CNCOs. Aggregation takes place at the level of all report items, as well as according to the

functional classification of budget expenditure. Aggregate information on SNCOs filed by the Municipality is consolidated by MOF with similar information from other government agencies and is submitted, in the manner prescribed, to the Cabinet and Parliament (National Assembly) in conjunction with the State Budget Execution Report. However YM does not issue summary reports on SNCOs and CNCOs. Also, information on resources received by individual schools and kindergartens is not published and not accessible to the public.

Dimension	Justification	Rating
PI-23 Overall Indicator Rating		C
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and in kind) by the most common front-line service delivery units (focus on schools) in relation to the overall resources made available to the sector.	Annual reports show the level of resources received in the general schools and kindergartens however there are questions regarding reliability of the underlying accounting records of these entities.	C

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

Purpose: To assess the quality and timeliness of budget reports that are produced during the year, for the purposes of municipal management, submission to Council of Aldermen, and official reporting to central government entities.

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

During the year Yerevan budget execution reports are prepared on a daily, quarterly basis and ad-hoc basis. These reports are mainly prepared by the YM Finance Department and Revenue Recording and Collections Department. They are submitted to the Deputy Mayor of Yerevan responsible for financial affairs, who, in turn, submits them to the Mayor of Yerevan. In addition the quarterly reports are also submitted to the Yerevan Council of Aldermen.

Daily reporting is done on an ad-hoc basis and includes several reporting forms which contains information on budget receipts, expenditure commitments, resources available, budget expenditures, arrears and the balances on treasury accounts. Information in these reports is presented according to all budget classifications of revenue and expenditure, both at detailed item and aggregated levels. These reports provide a breakdown of information for Yerevan City and the administrative districts, as well as aggregated figures for actual receipts and expenditures, (including cumulative from the beginning of the year) which are compared to planned targets and performance is evaluated against targets. There is no formal structure to these reports which are not covered by a formal reporting procedure.

Quarterly budget execution reports are produced by YM Finance Department, and upon receipt of the approval of the Deputy Mayor responsible for financial affairs, are submitted to relevant government agencies (Ministry of Territorial Administration and Ministry of Finance). Two types of quarterly budget execution reports are prepared:

(a) *The Yerevan Community budget execution report*; it is prepared according to the sample report form on community budget execution defined by MOF. It contains detailed information on outturn of planned numbers, including planned and adjusted numbers of annual expenditure and deficit, their actual level for the reporting quarter, and their execution, all on a cash basis. Information in the report is presented in all classification of budget revenue and expenditure, both at detailed and aggregated data levels. This report is filed with the MOF, where it is compared to relevant information available at the Treasury and the stamped version is returned to YM. MOF uses this report for preparing aggregate quarterly reports on community budget execution. After returning the stamped version to the Municipality it is distributed to the Council of Alderman of the City of Yerevan for their information.

There are issues with the completeness of information presented in Yerevan budget quarterly execution reports. The 2012 annual budget was approved with 13 annexes, while quarterly budget execution reports contained only 5 annexes without filing reports on individual administrative districts against approved expenditure. Moreover, the annexes that are not covered in the reports are those annexes where budget expenditure is disaggregated at the level of individual budget programs. Their exclusion from the report significantly reduces the usefulness and appropriateness for the level of detail in data approved by the budget. Also unlike daily reports on expenditure, where information on expenditure commitments, financing and disbursements is contained; quarterly reports on budget execution present only data on cash basis expenditure.

(b) *Expenditure funded from earmarked transfers to Yerevan budget from the State Budget* The second type of quarterly reports covers the expenditure funded from earmarked transfers to Yerevan budget from the State Budget (delegated authorities and subventions) prepared as per the forms established by MOF. These reports are prepared and filed as part of the budget execution processes and contain detailed information on funds planned under relevant budget programs, actual and cash expenditure for them, arrears, and accounts receivable and payable. These reports are a part of the State Budget execution report and are filed with the Ministries of Finance and Territorial Administration¹⁴.

(c) *Reports of SNCOs and CNCOs* In parallel to the above, all SCNO and CNCOs submit their quarterly reports on their financial and economic activities as per established forms; these reports are aggregated by the relevant units and administrative districts of Yerevan Municipality and filed with the Finance Department under the Municipality. Upon aggregation of the reports by the Finance Department, they are submitted to the Mayor of Yerevan. Although these reports are not direct reports on Yerevan budget execution, they should provide important insights on budget performance of core service delivery units. In this respect, the reports, *inter alia*, cover information on funds received from budget sources, spending and comparisons against planned/estimated numbers.

Dimension (ii) Timeliness of the issue of reports

Progress reports on Yerevan budget execution are produced on a daily and quarterly basis. Quarterly reports are produced and submitted no later than by the end of the month following the reporting quarter.

¹⁴ The MOTA is the key responsible agency for the funds allocated to Yerevan Municipality from the State Budget

Dimension (iii). Quality of Information

Information available in LS Finance software serves as a basis for progress reports on budget execution produced and supported by the documents submitted and approved in the manner prescribed in the legislation (approved budgets, estimates, excerpts from contracts, documents supporting expenditure, etc.); Treasury comparisons and control systems for budget execution generally contribute to ensuring the accuracy of information presented in budget execution reports..

There are some concerns about the accuracy of information produced outside the treasury system (information contained in reports submitted by SNCOs and CNCOs (see the ratings of PI-21 and PI-9), however, in general they do not have a significant impact on the trustworthiness of the budget execution report.

No significant issues related to the reliability and accuracy of Yerevan budget execution reports were raised annual external audit reports on Yerevan budget execution during the last three years.

Dimension	Justification	Score
PI-24 overall indicator rating		D+
(i) Scope of reports in terms of coverage and compatibility with budget estimates	There are issues with the completeness of information presented in quarterly Yerevan budget quarterly execution reports. The 2012 annual budget was approved with 13 annexes, while quarterly budget execution reports contained only 5 annexes without filing reports on individual administrative districts against approved expenditure. Moreover, the annexes that are not covered in the reports are those annexes where budget expenditure is disaggregated at the level of individual budget programs. Their exclusion from the report significantly reduces the usefulness as it provides less detailed information than the data approved by the budget. Also unlike daily reports on expenditure, where information on expenditure commitments, financing and disbursements is contained; quarterly reports on budget execution present only data on cash basis expenditure.	D
(ii) Timeliness of the issue of reports	Progress reports on Yerevan budget execution are produced on a daily and quarterly bases. Quarterly reports are produced and submitted no later than by the end of the month following the reporting quarter.	A

Dimension	Justification	Score
(iii) Quality of information	<p>Information available in LS Finance software serves as a basis for progress reports on budget execution produced and supported by the documents submitted and approved in the manner prescribed in the legislation (approved budgets, estimates, excerpts from contracts, documents; treasury comparisons and control systems for budget execution generally contribute to ensuring the accuracy of information presented in budget execution reports.</p> <p>There are some concerns about the accuracy of information produced outside the treasury system (information contained in reports submitted by SNCOs and CNCOs, however, in general they do not have a significant impact on the trustworthiness of the budget execution report.</p>	C

3.6.4 PI-25 Quality and timeliness of annual financial statements

Purpose: To assess the quality and timeliness of the annual financial statements and accounting standards used

Dimension (i) Completeness of the financial statements

The annual financial statement of the Yerevan Municipality presents an annual audited report on execution of the Yerevan budget. It is prepared on a cash basis and contains detailed information on the planned, adjusted and actual budget revenues, expenditures and deficit (sources of its financing) together with variances. The information reflected in the annual financial statements represents a consolidated report for the entire budget sector of the Yerevan Community.

The annual report (as approved by the Council) does not contain information on accounts receivable and payable as of the year-end (although this information is available at the Municipality). There are also problems associated with the level of detail of information presented in these reports. In particular, the annual budget execution reports does not provide information on the execution of all line items of the budget approved by the Council (e.g. expenditures approved for individual administrative districts, as well as actual budget performance at the level of individual budget programs). The statement presented together with the annual report to Council contains a partial but incomplete analysis of the budget performance at the level of expenditure programs but this analysis applies only to a part of the expenditure programs approved¹⁵. This reduces the usefulness of the information and its consistency with the detailed indicators approved under the budget.

Dimension (ii) Timeliness of submission of the financial statements

The 2012 annual report for YM was presented to external audit in January, 2013, i.e., within one month after the completion of the reporting financial year.

¹⁵ Yerevan Council Resolutions 186-N (of March 15, 2011), 402-N (of March 16, 2012) and 606-N (of March 19, 2013) on Approving the Yerevan City 2010-2012 Budget Execution Reports

Dimension (iii) Accounting standards used

The annual Yerevan budget execution reports for the last three years were prepared and presented in a standard format defined per Minister of Finance Order 80-N of 04.02.2008. In the YM accounting is performed based on the instructions which date back to the Soviet period and have not been not officially ratified by the Government of Armenia. These are presented consistently over time however there is no disclosure of accounting standards which have not been introduced in the public sector in Armenia. The applicable instructions do not comply either with the International Public Sector Accounting Standards (IPSAS) or the private sector accounting standards which have been adopted in Armenia.

Dimension	Justification	Score
Overall assessment of PI-25 indicator		D+
(i) Completeness of financial statements	The annual report is prepared on a cash basis with no information on financial assets and liabilities.	C
(ii) Timeliness of submission of financial statements	The report is presented for external audit within one month of the year end.	A
(iii) Accounting standards used	Annual Reports are prepared in a standard format but they do not disclose the instructions. Public sector accounting standards have not yet been introduced in Armenia.	D

3.7 External scrutiny and audit

3.7.1 PI-26 Scope, nature and follow-up of external audit

Purpose: To assess the extent of transparency in the use of public funds provided through an effective external audit. These are assessed on the basis of scope of audit, timeliness and follow up of recommendations that are made

Dimension (i): Scope/nature of audit performed including adherence to auditing standards

Audit of the Budget Execution Report: The last external audit of the Yerevan budget execution report was conducted during January-February, 2013 and it was focused on the 2012 Yerevan budget report. The audit was conducted by a licensed local audit firm. According to the terms of reference, the audit should be conducted in conformity with the requirements of the Armenian legislation.

International Standards of Auditing (ISA) have been applicable in Armenia since 2012, and they were published in Armenia per Government Decree 1931-N of December 29, 2011. These standards were translated and published in agreement with the International Federation of Accountants (IFAC) and they are consistent with the international standards issued by the IFAC International Audit and Assurance Standards Board.

The audit was conducted in the Yerevan Municipality (including its administrative districts) and covered all expenditures presented in the Yerevan budget execution report. The audit activities were carried out and the audit opinion was provided to the Yerevan Municipality within the timeframe specified in the contract. In general, it appears from the review of the above documents and the audit report provided by the audit firm, as well as interviews with officers of the audit firm and the Yerevan Municipality that the financial audit of the 2012 Yerevan budget reports was conducted by the audit firm in line with the requirements of the above standards. In particular, the audit firm was a licensed private company selected pursuant to the procedure as laid down in the procurement legislation, the operational and organizational independence of the audit firm was ensured, the audit scope was sufficiently comprehensive, the audit firm had sufficient time and comprehensive information for conducting financial audit. In addition the audit firm provided an unqualified audit opinion on the accuracy of the reports consistent with the established format and content.

Notwithstanding the above the review noted a significant deficiency in the audit approach - the audit firm did not provide a management letter which would have provided YM management with comments on improving the internal control environment or other areas arising from the firm's audit work.

Audits Conducted by the Chamber of Control (CoC): During the period of 2010-2012 the CoC audited the Yerevan City only in the last quarter of 2012. The audit was conducted in conformity with the CoC 2012 annual work plan and the actual audit covered issues related to the legitimate and efficient use of budget resources and the use of assets by the Yerevan community. The audit term covered around 3 years (2010, 2011, as well as first 10 months of 2012).

The audit primarily focused on 10 classes of functional classification and covered analytical comparisons of planned, adjusted and actual budget indicators, analyses of changes of their weights in the overall budget, and for individual indicators, also comparisons by years. While the report refers to major variances related to budget expenditures, there is no mention of their actual causes and their impact on the overall budget performance. A generic conclusion on the inadequacy of the budget planning system was drawn based on the audit results and it was recommended that the efficiency of each phase of budget planning should be increased.

A major weakness of the CoC's approach to auditing the Municipality is the lack of regular and timely compliance and performance audit work. This results in part from the fact that the annual work program is approved by the National Assembly (NA) - in practical terms the NA has a significant influence over the targets of CoC audits and audit plans. The fact that the results of audit are not presented to the Council further undermines the impact of audit work carried out (see PI-28).

Dimension (ii): Timeliness of submission of audit reports to legislature

The RA Law on Local Self-governance in Yerevan prescribes that the Yerevan Mayor shall present the annual Yerevan budget execution report to the Yerevan Council for review by March 1 of the next budget year. Furthermore, the report is discussed and approved at the Council session in the presence of the audit opinion provided by a specialized audit firm. This means that March 1 is the set deadline for presenting the

independent audit opinion on the Yerevan budget execution report to the Yerevan Council for review.

During the last 2 years the above legislative requirements were strictly observed. The contract for the external audit of the 2012 Yerevan budget execution report was signed on January 9, 2012 and together with the contract, the audit firm was issued the reports subject to audit. The audit firm provided its final opinion to the Yerevan Mayor on February 26, 2013. In turn, within 1 day the Yerevan Mayor presented it to the Yerevan Council for review together with the 2012 Yerevan budget execution report. Thus, it follows that the audit opinion on the 2012 Yerevan budget execution reports was presented to the Yerevan Council for review within 2 months at the maximum after the completion of the budget year and the receipt of these reports by the audit firm.

As to the presentation of audit results by the Chamber of Control, the Law on Chamber of Control defines that a current report is drawn based on the audit issue included in its annual work plan, and the mentioned report is presented to the National Assembly within 10 days after its approval by the CoC Council along with sending a notice to the RA President and the RA Government, as well as posted within 30 days in the website of the Chamber of Control. The Law also stipulates that the CoC annual report covers the current reports on all issues included in the annual work plan and it is submitted to the National Assembly no later than within 3 months after the completion of the budget year. In other words, according to the above legislative requirements, the current reports on audits conducted each year are made available to the public and auditees at the maximum within 4 months after the year end.

At the same time, the law prescribes that an audit may last up to 24 working days, and the audit duration may be extended for no more than 12 working days based on the decision of the CoC Council.

The audit of the 2012 budget expenditure performance in the Yerevan community was conducted by the CoC from September 13 through November 2, 2012 and covered the period from January, 2010 till November, 2012 (2 years and 10 months). The current report on the mentioned audit was approved per CoC Council Resolution 5/4 of March 22, 2013 and it was officially published in the CoC website (www.coc.am) on April 20, 2013. This means that the above report was actually officially release and made available to the Yerevan Council at least 6-7 months after the reporting period.

Dimension (iii): Evidence of follow up on audit recommendations

The auditor of the 2012 Yerevan budget execution report issued an unqualified opinion without any comments or recommendations which required corrective action.

With regard to the COC irregularities and deficiencies identified through their work were addressed within one month (with written follow up by the Mayor to the COC), in accordance with the Law on Chamber of Control.

Dimension	Justification	Score
Overall assessment of PI-26 indicator		D+
(i) Scope/nature of audit performed (incl. adherence to auditing standards).	Annual financial audit covers all expenditures however does not highlight significant issues. There is a lack of regular and timely compliance and systems audit work carried out by the CoC.	D
(ii) Timeliness of submissions of audit reports to legislature	Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.	A
(iii) Evidence of follow up on audit recommendations	The auditor of the 2012 Yerevan budget execution report issued an unqualified opinion without any comments or recommendations which required corrective action. With regard to the COC irregularities and deficiencies identified through their work were addressed within one month (with written follow up by the Mayor to the COC), in accordance with the Law on Chamber of Control.	A

3.7.2 PI-27 Legislative scrutiny of the annual budget law

Purpose: To assess the work of the legislature in approving the annual budget. It examines the thoroughness and rigor with which the legislature exercises its mandate to authorize government spending through passage of the budget law. The indicator assesses the scope of the Legislature's scrutiny, the internal legislative procedures, and the time allowed for that process. It also examines rules for in-year budget amendments and the level of adherence to them

Dimension (i): Scope of legislature's scrutiny

The Yerevan draft budget submitted to the Yerevan Council for review comprises the budget message of the Yerevan Mayor and the draft resolution of the Yerevan Council on the Yerevan budget. The budget documentation submitted to the Council for review include the revenues and expenditures of the annual budget for Yerevan presented both as aggregated line items and detailed breakdown by budget classifications (including the functional and economic classifications, as well as the detailed expenditure breakdowns by individual programs and administrative districts), the community budget deficit or surplus and (if applicable) the sources of deficit financing. The message contains the main development priorities and assumptions underlying the budget. The budget covers only a one-year horizon and does not include a medium-term fiscal frameworks and priorities.

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

Rules pertaining to the presentation, discussion and approval of the Yerevan budget are regulated by the RA Budget System Law, the Law on Local Self-Governance in Yerevan City, the Rules of Procedure for the Yerevan Council and the rules of procedure for the Yerevan Council committees. These acts define the budget process, the time-table, roles and responsibilities as well as organizational issues that are mandatory for the Yerevan Council members and the Yerevan Mayor. The budget is presented to the Council for review by the Yerevan Mayor within two months after the initial figures for equalization funds to be provided to communities are published by the RA Government. In addition, the draft budget is sent to the Council members at least 20 days prior to its discussion. The mentioned requirement has been strictly observed over the recent years.

After receiving the draft budget and its accompanying documentation, the Yerevan Council members, factions and standing committees conduct initial discussions and within ten days they provide their comments and proposals in writing to the Yerevan Mayor. Four standing committees are established by the Council: (a) Finance Economic Issues, (b) Culture, Education and Social Issues, (c) Urban Development and Land Use Issues, and (d) Legal Issues. All committees comprise 13-14 members and discuss budget issues under their domain. Committee sessions are documented in minutes.

No later than within four days after reviewing the objections and proposals presented by the Council members, factions and standing committees, the Yerevan Mayor presents an amended draft budget, and the standing committees of the Council provide their conclusions on the amended draft budget within three days thereafter. Together with attached documentation, a final draft of the Yerevan budget is presented to all Council members at least a week before the Council session. When presenting the final draft budget at the Council session, the Yerevan Mayor also attaches a statement/synopsis where the Mayor presents his justifications for accepting or rejecting the objections and/or comments on the draft budget.

The Yerevan Mayor or his representative is the main speaker at the session of the Yerevan Council (around 40 minutes), followed by a presentation delivered by a representatives of the Committee for Finance and Economic Issues (around 20 minutes), and other standing committees (around 10 minutes each). After the presentations questions are raised and addressed. After that the Mayor puts the draft budget to vote. The Yerevan budget is adopted by the majority of total votes of the attending, but no less than one-fourth of the members of the Yerevan Council.

Dimension (iii): Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)

Overall, the Yerevan council had 48 days to review the draft 2012 Yerevan budget and draft fiscal policy documentation for the same period (see the table below).

Name of document	Timing for presentation to Council for review	Maximum timeframe for presentation of conclusions of Council members, committees and factions	Timing for document acceptance by the Council	Maximum timeframe for consideration of document by the Council	Adherence to the timelines set by legislation and the rules of procedure of the Council
Yerevan Council draft resolution on the 2012 Yerevan budget	02.12.2011	21.12.2011	23.12.2011	20 days	Yes
Yerevan Council draft resolution on approving the 2012 Yerevan City development plan	25.11.2011	06.12.2011	09.12.2011	14 days	Yes
Yerevan Council draft resolution on setting the rates of local duties and fees in Yerevan City for 2012	09.11.2011	21.11.2011	23.11.2011	14 days	Yes
Total 48 days					

**(Source of information: Yerevan Municipality, minutes of sessions of the Yerevan Council and the Committee for Financial-Credit and Economic Issues)*

Given that around 70 percent of the Yerevan budget receipts comprise State budget allocations, in practice it is feasible to prepare a realistic annual budget only when the State budget allocations to the Yerevan budget are available. The initial draft of the 2012 State budget was disclosed and presented to public consultations in October, 2011, and within two months the 2012 Yerevan draft budget was prepared and presented to the Council for consideration.

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

Changes can be made to the Yerevan budget without prior coordination with the Council only based on the resolutions of the Yerevan Mayor, and the legislation clearly defines the cases and annual ceilings for these changes. During a budget year the Yerevan Mayor may reallocate the approved appropriations between the expenditure programs within the limit of 5 percent of the total amount of appropriations, unless otherwise provided by the Council resolution. The Mayor may also make internal reallocations between the economic classification items not exceeding 17 percent of the total amount of appropriations for each program unless otherwise provided by the Council resolution.

Apart from the foregoing, the legislation prescribes other restrictions with regard to changes to the Yerevan budget. In particular, decisions leading to an increase or decrease in the level of the Yerevan budget revenues and expenditures, as well as

spending from the reserve funds are passed exclusively by the Yerevan Council. There are also restrictions on performing reallocations between fund and administrative budgets. The budget clearly defines the direction of spending for funds received in the form of targeted allocations from the RA State budget, and changes thereto are made in coordination with the RA Government.

Reallocations in the Yerevan budget can be initiated both by the administrative districts and units responsible for the implementation of individual program, and the draft resolutions are prepared and presented to the Mayor for review by the units managed by deputy mayor responsible for financial matters.

During 2012, 23 Yerevan Mayor resolutions were passed on amending the Yerevan budget which related to reallocations between programs, as well as other budget classification items All budget amendments were made within the legally prescribed powers of the Yerevan Mayor.

Dimension	Justification	Score
Overall assessment of PI-27 indicator		B+
(i) Scope of the legislature's scrutiny	The Yerevan draft budget submitted to the Yerevan Council for review comprises the budget message of the Yerevan Mayor and the draft resolution of the Yerevan Council on the Yerevan budget. The budget documentation submitted to the Council for review include the revenues and expenditures of the annual budget for Yerevan presented both as aggregated line items and detailed breakdown by budget classifications (including the functional and economic classifications, as well as the detailed expenditure breakdowns by individual programs and administrative districts), the community budget deficit or surplus and (if applicable) the sources of deficit financing. The message contains the main development priorities and assumptions underlying the budget. The budget covers only a one-year horizon and does not include a medium-term fiscal frameworks and priorities.	B
(ii) Extent to which the legislature's procedures are well established and respected	The stipulated procedures for the budget review by the legislature are in place and they are observed. They include organizational mechanisms, for example, specialized review committees and negotiation procedures.	A

Dimension	Justification	Score
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	The legislature has at least one month at its disposal for reviewing draft budgets.	B
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	There are clear rules in place for in-year budget amendments, strictly defined restrictions on the level and nature of changes and they are consistently observed.	A

3.7.3 PI-28 Legislative scrutiny of external audit reports

Purpose: To assess timeliness of examination of audit reports by the legislature (for reports received within the last three years; Extent of hearing on key findings undertaken by the legislature; Issuance of recommended actions by the legislature and implementation by the executive)

Dimension (i): Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

The external audit of the Yerevan budget execution reports are regulated by the RA Budget System Law, the Law on Local Self-governance in Yerevan, and the Rules of Procedure for the Yerevan Council. Pursuant to these regulations the Mayor should submit the Yerevan budget execution report to the Yerevan Council for review by March 1 of the next budget year. By March 20 of the current year the audited report should be discussed and approved at the Council session.

The selection of an independent audit firm is performed in line with the RA procurement legislation with payment made from the Yerevan budget.

The Yerevan budget execution report (together with the audit opinion) is sent to Council members, factions and committees at least 20 days prior to its discussion at the Council session. The Council members, factions and committees hold discussions and present their comments and proposals concerning report, based on which the draft budget execution report is adjusted and submitted to the consideration of the Council. The report is discussed and approved at the Council session; a representative of the audit firm can be invited to the session for providing appropriate clarifications.

The below table shows the dates for submission and review of audit reports on the Yerevan budget execution reports for the last 3 years.

	2010	2011	2012
Date of the Council resolution on appointment of the independent audit firm	26.11.2010	09.12.2011	28.11.2012
Date of receiving the audit report by the Council	02.03.2011	24.02.2012	27.02.2013
Date of annual report approval	15.03.2011	16.03.2012	19.03.2013
Total duration of report review by the Council	13 days	20 days	20 days

In each of the above three years the audit reports were reviewed by the Council within 20 days at the maximum.

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

Over the last 12 months one audit report/opinion, i.e., the independent external audit opinion on the 2012 Yerevan budget execution report was presented to the Yerevan Council for review. It was provided to the Council for discussion together with the 2012 Yerevan budget execution report in line with the legally prescribed procedure and timeframe. Consistent with the Armenian legislation and the rules of procedure of the Yerevan Council, the mentioned documents were discussed by the Council.

The committee discussions and the Council session for approving the report were not attended by the audit firm representative. Therefore, the Council members did not have an opportunity to address their questions to the latter and to request clarifications. The assessment team understands that the principle reason the auditor was not questioned was that the firm issued an unqualified positive opinion and no management letter was issued. This cannot be regarded as a substantive or in-depth review the appropriate score for this sub-indicator is a D.

As to discussions around reports on audits conducted by the Chamber of Control in the Yerevan Municipality, the Armenian legislation does not set binding timelines for discussion of these reports at Yerevan Council level. Over the last 3 years no such discussions were held by the Yerevan Council.

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

Over the last 12 months no recommendations or assignments were presented to the Yerevan Mayor by the Yerevan Council as a result of discussing the external audit reports or opinions. This is also explained by the fact that a unqualified audit opinion on the Yerevan budget execution report was provided by the audit firm, nor did the firm issue a management letter. As a result the audit firm did not present any comments or recommendations based on its work which could have been act based on which the management of the Yerevan Council would have taken the appropriate corrective actions within its powers, including the submission of corrective recommendations to the Mayor. The recent CoC report on the results of control in Yerevan Community was not discussed/deliberated by Yerevan Council.

Dimension	Justification	Assessment
Overall assessment of PI-28 indicator		D+
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	The Council review of audit reports is performed within 20 days of receipt of the report in each of the three years.	A
(ii) Extent of hearings on the key findings undertaken by the legislature	Over the last 12 months one audit report/opinion was presented to the Yerevan Council for review. The committee discussions and the Council session for approving the report were not attended by the audit firm representative and there were no in-depth hearings conducted by the Council.	D
(iii) Issuance of recommended actions by the legislature and implementation by the executive	Over the last 12 months no recommendations were presented to the Mayor by the Yerevan Council.	D

4 Government Reform Process

4.1 Current approach to PFM reforms

PFM reforms in YM are directly linked to and dependent to reform initiatives implemented by the Government of Armenia. The main instruction on these reforms is the Public Finance Management Reform Strategy which was approved by the Government on October 28, 2010 (Government Protocol Decree 42). Reforms in PFM elements areas are built on this broad Strategy and should be consistent with the objectives and vision.

The PFM Strategy establishes the scope of reforms to be implemented in the PFM area during 2011-2020, along with priorities, timelines for reforms, the action plan and performance assessment indicators. The Strategy also identifies the reform coordination and monitoring arrangements within the Ministry of Finance and across Government. The Strategy addresses revenue policy, strategic planning, state budget preparation, treasury system, public sector accounting, public procurements and internal public financial control. The Strategy defines three successive phases for reforms; Phase I covers the period of 2010-2014 and is designed to finalize the implementation of the PFM base systems and control mechanisms. The overriding objective of Phase I is to create a foundation for the gradual transition from a centralized administration to more decentralized governance arrangements which will strengthening the framework for managing performance-based programs.

4.2 Recent and ongoing reforms

The reforms directly related to the Yerevan Community PFM systems either through the GOA or directly by YM are discussed below:

Budget Planning

The purpose of the main government reforms is to implement the program or performance-based budgeting system. These reforms were launched as early as in 2005 with a plan to roll out across the entire public sector. Despite the broad coverage and extensive work (carried out with the support of DFID and GIZ) the migration to performance based budgeting has yet to be completed; traditional line item budget continues to remain the main tool for the State budget execution and reporting. An important development on the reform path is the revision of the Budget System Law which, was developed by the Government and passed by the National Assembly in 2013.

YM is exposed to the reform process given its significant involvement in the preparation of the State budget, the MTEF, State budget execution as well as reporting processes. To automate the budget process YM implemented the LS Budget system - also used by the MoF for State budget preparation purposes. The software was fully customized and has an interface established with Treasury LSFinance (discussed below). Management of YM note that the system have improved the efficiency and effectiveness of budget processes; saving time and human resources while reducing clerical errors in transaction processing and reporting.

Procurement

The ongoing government procurement reforms are underpinned by the Procurement System

Reform Strategy, approved by the Government in 2009 (Government Protocol Decree 17). The enactment of Procurement Law (January 1, 2011) and its implementing legislation provides for a de-centralized procurement system which provides significant independence to procuring agencies. From 2011 an independent Procurement Appeal Council was created with the aim of ensuring the independent and fair examination of procurement-related appeals. The functions of the council secretariat are assigned to the Procurement Support Center, an SNCO which, among other functions is responsible for recording procurement-related complaints.

The e-procurement system was developed, piloted and implemented in 2012. Presently the procurement processes through open procedures are carried out through the above system only by the public administration bodies of Armenia; the system is yet to be used by communities.

For the purpose of evaluating the qualifications of procurement coordinators, in 2012 exams were held for procurement coordinators across the public sector. Coordinators who successfully passed these exams were included in the list of qualified procurement specialists released by the MoF.

By the end of 2012 a new procurement project was launched (supported by GIZ) which aims to improve the quality of procurement data by standardizing information flows and creating an electronic database.

Treasury

With the WB assistance, in 2010 the “Client-Treasury” on-line treasury management system was piloted and later fully implemented in the Yerevan Community, and the LSFinance ex-ante treasury control system was introduced. Concurrently, the functions of two of the four LTBs servicing Yerevan were handed over to YM. Now the Yerevan treasury accounts, budget execution and ex-ante treasury controls are carried out by YM staff through the use of these automated systems.

In 2012, the electronic government payment system was introduced for the on-line payment of stamp duties, local duties or service fees or administrative fines charged by central and local government.

To support the development of Armenian public sector accounting reforms, the Government (with the support of the WB) assessed the differences between existing practices and International Public Sector Accounting Standards (IPSAS). Subsequently detailed chart of accounts based on IPSAS has been developed and are presently being piloted in selected central and one local government body. It is anticipated that based on the results of the pilot project a strategy for the implementation IPSAS (including legislative amendments) will be developed. Within the framework of the reforms the Government plans to develop an automated accounting system for individual spending agencies.

Internal Audit

In 2010 the RA Internal Audit Law was promulgated which established the legal basis for the introduction of public sector internal audit in Armenia. A number of legal acts underpinning the legislation were also introduced including professional standards and a code of conduct which are consistent the internationally accepted internal audit standards. Apart from the legal acts methodological instructions for the application of the internal audit professional standards and guidelines for developing internal audit manuals and regulation were also developed.

With the adoption of the mentioned legal acts significant changes have been made to the public sector internal audit arrangements - in particular the legislative bases for the system were defined, the audit standards, the instructions on their application and the code of

conduct were approved thereby ensuring the independence of internal audit (by stipulating the functions accountability and reporting to the organization head).

Within the scope of the WB-supported internal audit system reform project, the internal audit methodology was piloted in the selected central and local government bodies, including the Yerevan Community. As part of the project, an electronic internal audit management system was piloted and implemented, which automates the internal audit function and controls the quality of work at all phases of the internal audit cycle (planning, field work, reporting and follow-up). During 2012 'Public Sector Internal Audit' and 'Internal Audit Integrated Information Management System' training courses were organized by the MoF which were attended by employees of the internal audit units of public administration bodies, the YM, as well as other urban communities.

In 2012 internal audit systems were introduced in 52 public administration bodies and the YM. It is anticipated that in 2013 the internal audit system will be established in the remaining urban communities.

Revenues Area

The main ongoing government state revenue reforms are established in the 2011-2013 Reform Program of the SRC Tax and Customs Systems (RA President Directive NK-92-N of May 18, 2011) and the 2012-2014 SRC Tax Administration Strategy (Government Decree 195-N of February 23, 2012). These reforms aim to improve the control exercised by the tax authorities, to broaden the quality and coverage of taxpayer services, implement improvements to IT systems, to introduce and develop a training system for tax officers and improve to the tax appeals system. The key achievements of implemented reforms to date include the development and launch of an automated risk-based taxpayer selection system, the publication of the annual list of taxpayers subject to audit, the development and operation of an automated tax credit refund system, the introduction of an e-filing system and the opening of taxpayer service centers.

The recent reforms in revenue policy directly related to YM focuses on the introduction of new types of revenues, such as the waste removal fee (from 2012), car parking duty (from 2013) as well as several other duties and fees. In addition legislation simplifying land and property tax payments were introduced.

Other measures aimed to increase revenues were also initiated and implemented by the YM. In particular, in 2012 a pilot project on collection of waste removal fees was carried out in the Nor Nork and Arabkir administrative districts of Yerevan: procurement processes were organized in conformity with the procurement legislation for purchasing services for collecting and tracking waste removal fees.

4.3 Forward looking perspective on institutional factors supporting PFM reforms

The commitment to continuing improvements in PFM in Yerevan has political support at a high level through the Mayor and Deputy Mayor with responsibility for Finance. This Assessment contributes to the reform agenda by providing an overview of PFM performance and a baseline for measuring the impact of PFM reforms. The next step for YM management and other stakeholders will be to analysis the results and establish and explain the level of improvement expected in the performance of the PFM system. Later in 2013 this will be articulated as part of a YM PFM reform strategy in line with the broader Government ongoing PFM reform program. This will address, *inter alia* PFM reform prioritisation and sequencing, the establishment of an institutional framework for deciding reform sequencing as well as subsequent coordination of PFM reform implementation, financing and monitoring.

Annexes

Annex 1: Sub-national government in Armenia

Overall Sub-National Government Structure in Yerevan City

Yerevan is the capital of the Republic of Armenia. Local self-government is exercised through the Constitution of the Republic of Armenia (RA) and RA laws on Local Self-Government and on Local Self-Government in the City of Yerevan.

Yerevan city was established as a community after the enactment of the RA Law on Self-Government in the City of Yerevan at the end of 2008.

The sub-national government in Yerevan City consists of the Council of Aldermen and the Mayor of Yerevan; first established after the elections of the Council of Aldermen in 2009. The City is divided into 12 administrative districts which are dedicated units of the Municipality. The position of the head of an administrative district is a discretionary position, and the head is appointed to and dismissed from office by the Mayor. The Law requires the expenditure of each administrative district to be shown separately in the budget of Yerevan City.

In addition to administrative districts, Yerevan community has community non-commercial organizations (256), state non-commercial organizations (150) and commercial organizations (73) within its jurisdiction. These are all autonomous legal entities with a certain degree of financial and managerial independence.

Yerevan is the largest community in the RA and nearly half of Armenia's population – 1.1 million people – reside there. Relevant data on the number of population and average density in Yerevan and RA marzes are provided in the table below:

Table A

N	RA marzes	Population density, person/km ²	Population /thousand people/
1	Yerevan City	5 055	1 127.3
2	Aragatsotn	52	142.9
3	Ararat	135	281.7
4	Armavir	231	287.4
5	Gegharkunik	45	243.1
6	Lori	74	282.2
7	Kotayk	136	283.5
8	Shirak	105	282.3
9	Syunik	34	153
10	Vayots Dzor	24	56.1
11	Tavush	50	134.8

The table below provides some comparative data on national and sub-national government systems in the RA:

Table B

Government Level	Autonomously managed entity?	Own political leadership?	Approves own budget?	Number of jurisdictions	Average population (million)	Percentage public expenditures (%)	Percentage public revenues (%)	Percentage funded by intergovernmental transfers (%)
RA Government	Yes	Yes	Yes	1	3.0	90	90	0
SNGs excluding Yerevan City	Yes	Yes	Yes	914	1.9	4	4	60-70
Yerevan City	Yes	Yes	Yes	1	1.1	6	6	70-80

Main Functional Responsibilities of Yerevan Sub-National Government

The highest sub-national government body (legislature) in Yerevan is the City Council of Alderman, while the Mayor of Yerevan is the executive body elected by the Council of Alderman from amongst the Council.

Powers exercised by Yerevan Municipality are classified into mandatory, delegated and voluntary powers, and their scope is clearly defined in the RA Law on Local Self-Government in the City of Yerevan. The Municipality enjoys such powers in nearly all sectors (urban development, nature protection, road construction, transport, education, social security, culture, and health). Key spending directions anticipated in the Yerevan City budget represent the appropriations for exercising mandatory powers. In pure numerical (number of powers) terms, mandatory, delegated and voluntary powers of Yerevan City account for 70%, 20% and 10 % of overall powers, respectively.

Pursuant to the requirements of the RA Budget System Law, expenditure from community budgets for the exercise of delegated powers (by the national government) are funded from appropriations made available from the state budget for that purpose, in accordance with the procedures established by RA Government.

Budgetary System of Yerevan City

Yerevan City has its own budget approved each year by the Community Council of Aldermen in the manner prescribed by the budgetary legislation and bylaws of the Council of Aldermen.

The budget process in Yerevan Community is regulated by the RA Laws on the Budget System, Local Self-Government, Local Self-Government in the City of Yerevan and the Treasury System and RA Government Decrees and Orders implied by these laws issued by the Ministries of Finance and Territorial Administration. These regulations specify the composition and relationships between participants of the national and sub-national government budgetary process as well as the timescale for the budget process.

The principle of uniform methodology for the budgetary process is applied in the RA and as a result, the process related methodology is developed at the central government level and subsequently provided to communities for implementation. The Ministry of Finance plays a significant role, which involves the development of

methodological guidance, preparation of reporting guidelines and other forms and regulations in the area of finance.

The budgetary process in Yerevan community starts off with a relevant decree issued by the RA Prime Minister and ends upon approval of the budget execution report. The budgetary process in Yerevan City has the following characteristics:

- The budget should be based on the community development plan adopted by the Council of Alderman;
- The budget should have a reserve fund as a key guarantee for the source of outlays not anticipated in the community budget;
- The budget consists of two parts: the administrative part of the community budget (covering recurrent revenue and expenditure) and the capital part (covering capital revenue and expenditure);

Revenue and expenditure accounts are opened in the Central Treasury in the name of Yerevan Municipality, but they are directly managed by the Municipality through automated systems. The Municipality does not have accounts with commercial banks, and the budget is executed on unified cash basis involving the processing of all cash receipts and outlays through the Treasury Single Account.

The automated treasury system enables the ex-ante control over execution of Yerevan budget by assuring compliance of a financial transaction with legislation prior to withdrawal of funds from the Yerevan treasury account.

The accounts of state and community non-commercial organizations (SNCOs and CNCOs) within the jurisdiction of Yerevan Municipality are held in commercial banks. Allocations from Yerevan Budget are made based on appropriate contracts between YM (for CNCOs) or the State (for SNCOs), and the NCO.

Procurement processes for services, goods and works for the needs of Yerevan Municipality follow the RA Law on Procurement. These activities in the Municipality are organized by the Procurement Department of the staff of Yerevan Municipality performing a coordinator's function for procurement in the manner prescribed by legislation. The procurement is undertaken within the approved procurement plan through open tendering, competitive dialogue, restricted and negotiated procedures without a need for a separate approval by RA MOF.

The overall structure of actual 2012 expenditure of Yerevan City by economic classification is presented in Table C (below).

Fiscal Systems of Yerevan City

In addition to the legal acts noted above, relationships with respect to the revenue side of Yerevan Budget are also regulated by the laws on axes, land tax, property tax, stamp duty, local stamp-duties and fees, financial equalization, the State Budget for each year, and other laws and legal acts that secure implementation thereof.

Overall structure of actual 2012 revenue of Yerevan City is shown in Table C.

Main own revenue sources of Yerevan City budget are receipts from the land tax, property tax, local stamp duties, including for advertisement permission and fees collected for parking lots (fees for parking lots have been applied since January 1, 2013), waste disposal fees (first applied on January 1, 2012) and fees for letting out property owned by the community. Tax revenue generated from the property tax on vehicles and

real estate is the most important revenue, which accounted for 53.8% of own revenue in Yerevan budget in 2012.

Transfers from RA Government to Yerevan community include: financial equalization and other subsidies, earmarked transfers for recurrent and capital expenditure, i.e. subventions, as well as funding made available from the RA state budget for exercising the powers delegated to the Mayor of Yerevan (financing schools, the underground (metro), cultural and art schools). The legislation also stipulates sharing by the RA Government of revenue from income and profit tax with the communities in the territory of which these taxes were raised; its size has to be specified in the State Budget Law for each year (in practice to date such revenue sharing has not been anticipated).

The size of financial equalization subsidies provided to communities from the State Budget is decided based on the formula specified in the Law on Financial Equalization, and the basis for the estimate is the population in the community and the size of its own revenue for years preceding the given year. Communities independently decide on the spending directions of these and other subsidies made available to communities by the RA Government, and the Government cannot impose any limitations on them.

Norms and mechanisms for funding the exercise of powers delegated to Yerevan Mayor by the state are specified in RA Government decrees. These funds may be spent in the manner and in directions specified in RA Government decrees. Unused resources must be returned to the state budget. Subventions (capital or recurrent) are provided to communities for targeted programmes based on standards for a particular spending direction.

The RA Law on Budget System and other legal acts regulate the procedures for providing credits to communities from the RA State Budget and loans from the State Budget and Community budgets to other community budgets and issuing of RA State Budget guarantees.

The RA law on the Budget System provides that, for timely execution of expenditure planned in the administrative budget, the head of a community, based on a decision of the Council of Aldermen and with the approval of a respective authorized government body may receive budget loans (in order to receive a loan from the budget of another community it is also required to have the consent of the Council of Alderman of the community providing the loan). The community may receive a new loan after making a full repayment on the loan received earlier.

The head of the community, based on the decision of the Council of Aldermen, with the consent of the respective authorized government body may enter into a loan agreement or issue securities for developing the social infrastructure in the community, provided that the annual amount in the loan repayment or securities redemption schedule for each budget year (fiscal year), i.e. the sum of principal and interest payments, does not exceed 20 percent of the revenues in the capital part of the community budget in the year in question. The community may take a new loan after the full repayment of the previous outstanding loan. These loan proceeds (including the funds received from the issuance of securities) must be directed to the capital part of the community budget. Only the revenue of the community budget and the guarantees issued by the RA Government may serve as collateral for loan agreements.

The law also stipulates that credits and loans may not be provided from the funds of the community budget (except for the loans provided for a tenure of no more than 6

months and provided that they are due for repayment in the same budget year) and securities are not purchased (except for the cases of purchasing the shares of joint stock companies being created or created by the community).

It is noteworthy that despite the powers described above, in practice, to date Yerevan Council of Aldermen has not made any decisions on receiving and issuing loans and credits.

Table C. Yerevan 2012 Budget Overview (annual, actual)

Expenditure/Revenue Item	Annual Amount (in thousands of AMD)	Per capita of Yerevan population (in thousands of AMD)	As % of total
Recurrent expenditure, including	51,674,429.4	45.84	87.5%
Wage expenditures	4,598,786.2	4.1	7.8%
Non-wage recurrent administration	47,075,643.3	41.8	79.7%
Non-financial asset expenditure *	7,411,273.1	6.6	12.5%
TOTAL EXPENDITURE	59,085,702.5	52.4	
Own source revenues	16,084,459.5	14.3	28.1%
Intergovernmental fiscal transfers (from RA Government)	41,163,236.8	36.5	71.9%
Other revenue sources (as appropriate)	-	-	0%
TOTAL REVENUE	57,247,696.3	50.8	
Borrowing	-	-	0%

* Less receipts from the sale of non-financial assets (AMD 9121302.97 thousand)

Institutional (Political and Administrative) Structure of Yerevan City

The highest SNG body in Yerevan is the Council of Alderman with election mechanisms differing from those of election of councils of other communities. In all communities, except for Yerevan, the Council of Aldermen is directly elected by the population based on the principle of self-nomination of candidates, while in Yerevan proportional representation mechanism of elections is applied with candidates for members of the Council of Aldermen nominated by political parties rather than individuals.

Mayoral election mechanism is also distinct, and the Mayor elected by the Council of Aldermen from amongst the council members, rather than by residents of the community as in case of other communities.

Yerevan Council of Aldermen enjoys the following main powers prescribed by Law:

- It approves the one-year, four-year, longer term and special programs for Yerevan, as well as the annual budget for Yerevan and revisions to it;

- It introduces local taxes and duties, fees for services provided by the community and makes decisions on attracting credits, loans and other borrowings in the manner prescribed by law.
- It oversees budget execution; it has authority to establish the details of use of budget funds for specific purpose that they were intended for, repealing decisions of the Mayor on disposal of budget funds, discussing and taking a decision on the annual budget execution report by the Mayor;
- It makes decisions on creating, restructuring or liquidating entities within Yerevan jurisdiction as well as on the charter, structure, number of staff, staff list and rates for positions of those entities.
- It makes decisions on the position rates of the Mayor, his deputies, staff of the Mayor's Office, heads of administrative districts, deputy heads, and staff of offices of heads of administrative districts.

The Mayor of Yerevan exercises the following main powers:

- Organizes the activities of the Council of Aldermen and the Municipality;
- Appoints and dismisses the secretary to the staff of the Municipality, heads of structural units, administrative districts and municipal organizations;
- Prepares the Yerevan budget proposal and submits to the Council of Aldermen for approval;
- Manages the funds of Yerevan Budget securing their purposeful use
- Organizes collection of property and land taxes, as well as other local taxes and duties and the fees for services provided by them, collection and control of receipts from letting out and alienation of property owned by Yerevan;
- Applies appropriate measures to persons failing to pay taxes and other receipts specified by law to Yerevan budget in the manner prescribed by law;
- Reports annually to the Council of Aldermen on budget execution;
- Ensures that there is an internal audit system in place in the Municipality as provided by legislation.

Municipal service is implemented in the Office of the Municipality and is regulated by the RA Law on Municipal Service. The Secretary to the Municipality Staff organizes and manages the activities of the Municipality staff.

RA Ministry of Territorial Administration exercises legal control over the powers of the Yerevan Council of Aldermen and the Mayor, while legal control over the normative legal acts of these bodies is exercised by the RA Ministry of Justice.

Professional control over each power delegated to the Mayor is exercised by the Government Body within competences of which is the particular power delegated by the State. Where the power is not within the competencies of any Government Body, the professional control over that power is exercised by the Ministry of Territorial Administration. In Yerevan, professional control may be exercised in exclusive cases, only after receiving the consent of the RA Ministry of Territorial Administration.

Financial Control over budgetary or financial and economic activities of Yerevan Council of Aldermen and Mayor is exercised by the Ministry of Finance in cases and in manner specified by RA Budget System Law. Oversight of Yerevan budget execution is exercised by the RA Government and Chamber of Control as part of the powers entrusted to them by law.

Annex 2: PFM Performance Measurement Framework Indicators Summary

No.	Indicator	Score	Justification for Score
HLG-1	Predictability of Transfers from a Higher Level of Government	D+	
(i)	Actual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	A	For each of the last three years transfers have over-performed the estimates in the budget.
(ii)	Annual variance between actual and estimated transfers of earmarked grants	D	For 2010-2012 allocations in the form of targeted government transfers to the Yerevan budget, the difference from the total variance for transfers is 2.1%, 12.6% and 17.3% accordingly..
(iii)	In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution agreed within a month of the start of the fiscal year.	A	The time-schedule of disbursements of State budget transfers (targeted and non-targeted) to the Yerevan budget is approved at the start of the budget year in accordance with the State budget and Yerevan budget quarterly breakdowns, and during the last three years no delays in actual disbursements were observed or they were insignificant.
A.			
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	Expenditure out-turn in Yerevan budget for 2010-2012 from the originally approved budget excluding interest on community debt and donor-funded earmarked projects, including budget support, i.e. expenditure from non-earmarked loans and grants accounted for -9.4%, -9.9% and -7.3 %, respectively.
PI-2	Composition of expenditure out-turn compared to original approved budget	D+	
(i)	Extent of variance in expenditure composition during the last three years, excluding contingency items.	D	Variance in the composition of primary expenditure out-turn in Yerevan budget for 2010 -2012 excluding contingencies exceeded the overall deviation in primary expenditure by 24.0%, 21.7% and 16.5%, respectively or the variance in composition of expenditure out-turn in Yerevan budget for those years exceeded the deviation in primary expenditure by more than 15 percentage points for all three years.

No.	Indicator	Score	Justification for Score
(ii)	The average amount of expenditure actually charged to the contingency vote over the last three years.	A	Actual amount charged to contingencies in Yerevan Budget for 2010-2012 amounted to 1.4%, 3.5% and 2.8% of such expenditure provided for in the Yerevan City Budget approved by the Council or was 2.6 % on average.
PI-3	Aggregate revenue out-turn compared to original approved budget	C	Domestic revenue out-turn in Yerevan budget over 2010-2012 was 96.6%, 93.5% and 81.0% respectively of the domestic budget revenue approved by the Council.
PI-4	Stock and monitoring of expenditure payment arrears	B+	
(i)	<p>Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock.</p> <p style="text-align: center;">A</p> <p>At the end of the last two fiscal years Yerevan Municipality did not have any expenditure arrears as indicated in the independent audit findings on the annual Yerevan budget execution reports. Strict treasury controls over commitments and executions contributed significantly to the absence of arrears.</p>		
(ii)	Availability of data for monitoring stock of expenditure payment arrears.	B	There are some weaknesses in the arrears recording system reliable and complete data on the stock of arrears is generated through year end control procedures.
B.			
PI-5	The classification system used for formulation, execution and reporting of the local government's budget.	C	<p>Yerevan budget is prepared, executed, recorded and reported using functional (including also sub-functional), economic and administrative classifications.</p> <p>Although budget classifications are in general compliant with GFS2001 standards, there is an exception from those standards regarding the functional classification. The reserve funds are presented as separate head of functional classification named "Reserve funds not classified in main categories.</p> <p>Other classifications are compliant with GFS2001 standards.</p>
PI-6	Comprehensiveness of information included in budget documentation	B	Out of nine indicators, eight are applicable to Yerevan Community against which the indicator was assessed. Four of the eight indicators were fully met based on benchmarks set out in the PI.
PI-7	Extent of unreported government operations	A	

No.	Indicator	Score	Justification for Score
(i)	The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in budget reports	A	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).
(ii)	Income and expenditure information on donor-funded projects which is included in fiscal reports	A	Donor-funded project expenditure is insignificant (below 1 percent of total expenditure)
PI-8	Transparency of inter-governmental fiscal relations	n/a	There are no lower level governments in Yerevan community's jurisdiction.
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C	
(i)	Extent of local government monitoring of AGAs/PEs	C	All SNCOs, CNCOs and JSCs submit fiscal reports to Mayor or MOF (as applicable); however these are not fully consolidated to provide an overview of fiscal risk.
(ii)	Extent of central government monitoring of SN governments' fiscal position	n/a	No SNG below Yerevan Municipality.
C.			
C(i)			
PI-10	Public access to key fiscal information	B	Out of the eight elements of information, five are published by the government
PI-11	Orderliness and participation in the annual budget process	C+	
(i)	Existence of and adherence to a fixed budget calendar	C	<p>According to the 2013 budget calendar, more than 8 weeks (from July 9 to September 10, 2012) were allotted to the Yerevan budget spending entities (separated and structural units, etc.) for submitting their budget requests which covered the process of preparing the requests and conducting consultations with various units on preparation of requests before their official submission. Notwithstanding the timetable set out in the calendar was observed by municipality units at all phases of the budget process.</p> <p>The default score of C arises because YM lacks a single comprehensive annual budget calendar; the important part of the budget procedures relating to planning the revenues from state budget are excluded in the YM budget calendar.</p>

No.	Indicator	Score	Justification for Score
(ii)	Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	D	The guidelines issued by the Yerevan Municipality for the purpose of preparation of the 2013 budget requests and provided to the appropriate entities are not comprehensive and they do not contain the relevant information necessary for the preparation of budget requests (sectoral priorities, expenditure ceilings, expenditure factors, etc.).
(iii)	Timely budget approval by the legislature or similarly mandated body (within the last three years).	A	Over the last three years the Yerevan budget was passed by the council before the start of the appropriate budget year.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	
(i)	Preparation of multi-year fiscal forecasts and functional allocations	D	<p>Yerevan budget for each year is based on four-year and annual development plans of the City of Yerevan, which do not contain information on fiscal aggregates. The process for preparation of four-year development plans is not on a rolling annual basis.</p> <p>The Yerevan budget is approved for one year, with aggregate fiscal forecasts (on the basis of main categories of economic and functional classification) provided only for the planned year. During Yerevan budget planning, no forecasts are prepared for the coming 2-3 years.</p>
(ii)	Scope and frequency of debt sustainability Analysis	n/a	During the last 3 years Yerevan Community did not have debt, and therefore no debt sustainability analysis was carried out for Yerevan Community.
(iii)	Existence of sector strategies with multi-year costing of recurrent and investment expenditure	B	The development plans covers all areas relevant for powers of local governments in Yerevan; however they did not provide detailed costings for all programs. Cost estimates were provided mainly for those programs and activities, which were deemed a priority or problematic, with estimates pertaining to both capital expenditure and recurrent expenditure. In general, cost estimates included in the development programs for the last 3 years on average amounted to approximately 50 percent of annual expenditure in Yerevan budget. The costed strategies in annual development plans are in line with aggregate annual fiscal forecasts.

No.	Indicator	Score	Justification for Score
(iv)	Linkages between investment budgets and forward expenditure estimates	D	The impact of investment projects on recurrent expenditure in Yerevan budget for future years is not taken into account during the preparation of the annual budget proposal for Yerevan. This is due to (i) Yerevan budget planning being done on an annual basis without a comprehensive medium-term expenditure planning process, and (ii) the investment approval process failing to address forward estimates of the impact on recurrent expenditure of investment decisions.
C(ii)			
PI-13	Transparency of taxpayer obligations and liabilities	B	
(i)	Clarity and comprehensiveness of tax liabilities	B	Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	Taxpayers can easily access user-friendly and up-to-date information on tax liabilities and administrative procedures for certain main types of taxes. No specific training programs and seminar were organized for payers of property tax and land tax.
(iii)	Existence and functioning of a tax appeals mechanism	n/a	Given the nature of the taxes collected by YM the absence of an independent and transparent appeal system is not applicable.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	
(i)	Controls in taxpayer registration system	C	Taxpayers are registered in a database system which is linked to a certain extent to the systems of other state registration bodies although controls over the integrity of data are inadequate (and sometimes excessive) for the efficient implementation of the tax tracking.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	A	Penalties for all areas of non-compliance are sufficiently high to serve as a preventive measure, and they are consistently applied.
(iii)	Planning and monitoring of tax audit and fraud investigation programs	n/a	YM has no mandate to conduct tax audits of taxpayers as their budget tax revenues derive exclusively from payments of property tax and land tax which are direct taxes and do not depend on the results of taxpayers' economic activities.
PI-15	Effectiveness in collection of tax payments	D+	

No.	Indicator	Score	Justification for Score
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	D	The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	The tax revenue of Yerevan Municipality is collected in two ways: through (1) direct payments made by taxpayers via the banking system and (2) by collection and transfers of revenue by collection and recording division staff of administrative regions. In each case payments are made directly into YM controlled bank accounts on a daily basis.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	Data entry on tax payments to Yerevan budget into the computer database in administrative regions of Yerevan Municipality takes place every day (full data entry takes 2-3 days at maximum). Reconciliation of tax assessment, collections and transfers to the Treasury are handled through the software on a daily basis. The system generates reports by individual taxpayers, as well as aggregate reports on calculated taxes, accumulated arrears, accrued fines, payments made and tax credits as well as amounts in claims filed with the court.
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	
(i)	Extent to which cash flows are forecast and monitored	D	The present system of cash flow planning relies on daily decision making based on expenditure priorities and daily receipts of the Yerevan budget. It lacks a comprehensive cash flow and monitoring system.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	A	MDAs (ministry, department, agency) are able to plan the expenditures and assume expenditure commitments at least six months in advance, consistent with the budgeted allocations.

No.	Indicator	Score	Justification for Score
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	A	All changes made to the Yerevan budget below the Yerevan Council are based solely on resolutions of the Yerevan Mayor - according to officials from the Municipality these are all based on written requests from departments of YM, and with the support of the deputy Mayor responsible for finance. During 2012, 23 resolutions were passed by the Yerevan Mayor on redistributions in the Yerevan budget, and the total amount affected by these resolutions was AMD 1 104.1 million (1.7 percent of the total spending of the 2012 initial budget). Redistributions made under individual resolutions were not significant.
PI-17	Recording and management of cash balances, debt and guarantees	A	
(i)	Quality of debt data recording and reporting	n/a	Yerevan community did not have debts in the last three years.
(ii)	Extent of consolidation of the Government's cash balances	A	All cash balances of Yerevan Municipality are calculated daily and consolidated through the treasury single account (including all accounts)
(iii)	Systems for contracting loans and issuance of guarantees	A	Legislation provides that contracting of loans should be approved by a single responsible agency (MOF) although none have been taken out over the last three years. RoA legislation does not provide for the issuance of guarantees by Yerevan community.
PI-18	Effectiveness of payroll controls	D+	
(i)	Degree of integration and reconciliation between personnel records and payroll data	B	There is no direct link between the personnel records (position list, logbooks and other personnel information) and the payrolls however the payroll is supported by full documentation of changes made to the personnel records, which is reviewed in the finance department on a monthly basis. In the Municipality salary calculations are performed in a centralized manner through specialized automated systems where the personnel information is updated on a daily basis. Salaries are paid in non-cash via transfers to the employee bank accounts.
(ii)	Timeliness of changes to personnel records and the payroll.	A	The required changes to the personnel records and reflected within the payroll within three days thereafter. Retrospective adjustments are rare.

No.	Indicator	Score	Justification for Score
(iii)	Internal controls of changes to personnel records and the payroll	B	The Municipality has in place internal control systems for making changes to personnel records and payroll which allow to avoid payment errors and to ensure the consistency of information. The powers to make changes in the personnel records and payrolls are clear and they are assigned to specific units and persons.
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	D	<p>The external control of the process of maintaining personnel records in the Yerevan Municipality is exercised by the RA Ministry of Territorial Administration (MTA), which conducts regular reviews of the Municipality personnel records including the completeness and consistency of the information.</p> <p>While pursuant to the internal audit regulations and standard, the personnel management and compensation systems must be subject to an internal audit review however this has not been complied with in YM over the last 2 years.</p>
PI-19	Competition, value for money and controls in procurement	B	
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	A	The legal system regulating the process of procurements for the needs of the Yerevan community ensures the adherence to all the 6 criteria.
(ii)	Use of competitive procurement methods	D	There is no reliable information on the procurement method justification for procurements undertaken for the needs of Yerevan community by applying non-competitive methods.
(iii)	Public access to complete, reliable and timely procurement information	D	<p>While the Yerevan Municipality procurement plans, bidding opportunities and announcements on awarded contracts are publicized in the Procurement E-bulletin, comprehensive and reliable information on the actual timeframe and completeness of their disclosure is lacking.</p> <p>One of the four elements of the main information pertaining to the procurement process for the needs of the Yerevan Municipality are comprehensive and reliable, and they are accessible to the public through the appropriate means.</p>
(iv)	Existence of an independent administrative procurement complaints system	A	The system of complaints for procurements for the needs of the Yerevan Municipality meets all the 7 criteria.
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	

No.	Indicator	Score	Justification for Score
(i)	Effectiveness of expenditure commitment controls	A	A system of thorough control of expenditure commitments applies for all types of expenditures financed from the Yerevan budget. Ex-ante treasury controls are exercised through the LSFinance treasury software system maintained in the Yerevan Municipality, in line with the ex-ante treasury control rules. These automated controls effectively limit commitments to the amounts approved under the budget, and payments from can be effected only against authorized commitments.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	Basic internal control policies and procedures appear to be well documented, provide for a clear segregation of duties and are well understood by YM personnel. Despite this, the assessment noted some cases where key processes are implemented but lack adequate documentation.
(iii)	Degree of compliance with rules for processing and recording transactions	C	For most transactions, the rules appear to have been observed, however COC Report raises concerns regarding some irregularities and deficiencies in the internal control system.
PI-21	Effectiveness of internal audit	D+	
(i)	Coverage and quality of the internal audit function	D	All entities under the control of the Yerevan municipality have in place an internal audit function however coverage is limited due to the size of the IAD and important YM entities were not audited every year. Some systemic IA reviews are conducted (around 40 percent of the audit staff time spent on these reviews) but individual requirements of the internal audit standards are not yet fully met.
(ii)	Frequency and distribution of reports	C	Internal audit reports have been consistently prepared for all audited units which have been duly provided to the audited units, the Yerevan Mayor and the Internal Audit Committee in a timely fashion. The annual audit performance reports were duly presented to the Yerevan Mayor, the Internal Audit Committee and the MOF in the timely fashion. Reports are not routinely provided to the Chamber of Control except on request.
(iii)	Extent of management response to internal audit findings	A	Timely and comprehensive measures at all levels are taken by the management towards addressing the problems identified by the internal audit.
C(iii)			
PI-22	Timeliness and regularity of accounts reconciliation	B+	
(i)	Regularity of Bank reconciliations	A	Bank reconciliation for all SN government bank accounts take place on a daily basis.

No.	Indicator	Score	Justification for Score
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	B	Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of year.
PI-23	Availability of information on resources received by service delivery units	C	Annual reports show the level of resources received in the general schools and kindergartens however there are questions regarding reliability of the underlying accounting records of these entities.
PI-24	Quality and timeliness of in-year budget reports	D+	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	D	<p>There are issues with the completeness of information presented in quarterly Yerevan budget quarterly execution reports. The 2012 annual budget was approved with 13 annexes, while quarterly budget execution reports contained only 5 annexes without filing reports on individual administrative districts against approved expenditure. Moreover, the annexes that are not covered in the reports are those annexes where budget expenditure is disaggregated at the level of individual budget programs. Their exclusion from the report significantly reduces the usefulness as it provides less detailed information than the data approved by the budget.</p> <p>Also unlike daily reports on expenditure, where information on expenditure commitments, financing and disbursements is contained; quarterly reports on budget execution present only data on cash basis expenditure.</p>
(ii)	Timeliness of the issue of reports	A	Progress reports on Yerevan budget execution are produced on a daily and quarterly bases. Quarterly reports are produced and submitted no later than by the end of the month following the reporting quarter.

No.	Indicator	Score	Justification for Score
(iii)	Quality of information	C	Information available in LS Finance software serves as a basis for progress reports on budget execution produced and supported by the documents submitted and approved in the manner prescribed in the legislation (approved budgets, estimates, excerpts from contracts, documents; treasury comparisons and control systems for budget execution generally contribute to ensuring the accuracy of information presented in budget execution reports. There are some concerns about the accuracy of information produced outside the treasury system (information contained in reports submitted by SNCOs and CNCOs, however, in general they do not have a significant impact on the trustworthiness of the budget execution report.
PI-25	Quality and timeliness of annual financial statements	D+	
(i)	Completeness of the financial statements	C	The annual report is prepared on a cash basis with no information on financial assets and liabilities.
(ii)	Timeliness of submission of the financial statements	A	The report is presented for external audit within one month of the year end.
(iii)	Accounting standards used	D	Annual Reports are prepared in a standard format but they do not disclose the instructions. Public sector accounting standards have not yet been introduced in Armenia.
C(iv)			
PI-26	Scope, nature and follow-up of external audit	D+	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	D	Annual financial audit covers all expenditures however does not highlight significant issues. There is a lack of regular and timely compliance and systems audit work carried out by the CoC.
(ii)	Timeliness of submission of audit reports to the legislature	A	Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.
(iii)	Evidence of follow-up on audit recommendations	A	The auditor of the 2012 Yerevan budget execution report issued an unqualified opinion without any comments or recommendations which required corrective action.

No.	Indicator	Score	Justification for Score
PI-27	Legislative scrutiny of the annual budget law	B+	
(i)	Scope of the legislature's scrutiny	B	The legislature review covers the fiscal policy and aggregate indicators for the next year, as well as the detailed revenue and expenditure estimate
(ii)	Extent to which the legislature's procedures are well established and respected	A	The stipulated procedures for the budget review by the legislature are apparently in place and they are observed. They include organizational mechanisms, for example, specialized review committees and negotiation procedures.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	B	The legislature has at least one month at its disposal for reviewing draft budgets.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	A	There are clear rules in place for in-year budget amendments, strictly defined restrictions on the level and nature of changes and they are consistently observed.
PI-28	Legislative scrutiny of external audit reports	D+	
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	A	The Council review of audit reports is performed within 20 days of receipt of the report in each of the three years.
(ii)	Extent of hearings on key findings undertaken by legislature	D	Over the last 12 months one audit report/opinion was presented to the Yerevan Council for review. The committee discussions and the Council session for approving the report were not attended by the audit firm representative and there were no in-depth hearings conducted by the Council.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	D	Over the last 12 months no recommendations were presented to the Mayor by the Yerevan Council.

Annex 3: Sources of information and evidence

Performance Indicators	Information sources	
	Institutions	Documents, websites
HLG-1	FD MOF MTA	<ul style="list-style-type: none"> • Yerevan City Council Resolution 56-N on the 2010 Yerevan Budget of December 23, 2009, • Yerevan City Council Resolution 169-N on the 2011 Yerevan Budget of December 23, 2010, • Yerevan City Council Resolution 356-N on the 2012 Yerevan Budget of December 23, 2011 • Yerevan City Council Resolution 186-N on Approving the 2010 Yerevan Budget Execution Report of March 15, 2011 • Yerevan City Council Resolution 402-N on Approving the 2011 Yerevan Budget Execution Report of March 16, 2012 • Yerevan City Council Resolution 606-N on Approving the 2011 Yerevan Budget Execution Report of March 19, 2012 • RA Budget System Law • RA Law on Local Self-governance • RA Law on Local Self-governance in Yerevan City • RA Law on Financial Equalization • MOF Decree 193-N on Completion of Forms for Presenting Estimated Indicators for Land Tax and Property Tax for 2011 Used in Assessment of Financial Equalization Dotations for 2013 per the RA Law on Financial Equalization and Approving the Procedure for Their Submission to the MOF, of March 2, 2012 • Government Decree 1708-N on Approving the Procedure for Provision of RA State Budget Subventions to Communities of November 16, 2006 • Government decrees on approving RA State budget Break-downs • Yerevan Mayor resolutions on approving the quarterly break-downs of the Yerevan budgets for 2010-2013 • Quarterly reports on execution of the RA State budget for 2010-2013 • Quarterly reports on execution of the Yerevan budgets for 2010-2013 • Statements from the LSFfinance automated system on the details of the actual quarterly receipts of the Yerevan budget • Reviews of financing requests presented by the Yerevan Municipality for receiving State budget transfers under individual programs, and the actually provided financing against these requests <p>Interviews with the Yerevan Municipality, MTA and MOF officials</p>

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-1	FD	<ul style="list-style-type: none"> Resolution No. N56-N of December 23, 2009 of Yerevan Council of Aldermen on the City of Yerevan Budget 2010 Resolution No.169-N of December 23, 2010 of Yerevan Council of Aldermen on the City of Yerevan Budget 2011 Resolution No. N356-N of December 23, 2011 of Yerevan Council of Aldermen on the City of Yerevan Budget 2012 Resolution No. 186-N of March 15, 2011 on Approving the Report on Execution of the City of Yerevan Budget 2010 Resolution No. 402-N of March 16, 2012 of Yerevan Council of Aldermen on Approving the Report on Execution on the City of Yerevan Budget 2012 RA Law on the Budget System RA Law on Local Self-Government RA Law on Local Self-Government in the City of Yerevan
PI-2	FD	<ul style="list-style-type: none"> Resolution No. N56-N of December 23, 2009 of Yerevan Council of Aldermen on the City of Yerevan Budget 2010 Resolution No.169-N of December 23, 2010 of Yerevan Council of Aldermen on the City of Yerevan Budget 2011 Resolution No. N356-N of December 23, 2011 of Yerevan Council of Aldermen on the City of Yerevan Budget 2012 Resolution No. 186-N of March 15, 2011 on Approving the Report on Execution of the City of Yerevan Budget 2010 Resolution No. 402-N of March 16, 2012 of Yerevan Council of Aldermen on Approving the Report on Execution of City of Yerevan Budget 2012 RoA Law on the Budget System RoA Law on Local Self-Government RoA Law on Local Self-Government in Yerevan City
PI-3	FD RD ADs	<ul style="list-style-type: none"> Resolution No. N56-N of December 23, 2009 of Yerevan Council of Aldermen on the City of Yerevan Budget 2010 Resolution No.169-N of December 23, 2010 of Yerevan Council of Aldermen on the City of Yerevan Budget 2011 Resolution No. N356-N of December 23, 2011 of Yerevan Council of Aldermen on the City of Yerevan Budget 2012 Resolution No. 186-N of March 15, 2011 of Yerevan Council of Aldermen on Approving the Report on Execution of the City of Yerevan Budget 2010 Resolution No. 402-N of March 16, 2012 of Yerevan Council of Aldermen on Approving the Report on Execution of the City of Yerevan Budget 2012 Resolution No. 606-N of March 19, 2013 of Yerevan Council of Aldermen On Approving the Report on Execution of the City of Yerevan Budget 2012 RoA Law on the Budget System RoA Law on Local Self-Government RoA Law on Local Self-Government in the City of Yerevan ROA Law on Property and Land Tax Arrears Interviews with the Staff of the Revenue Recording and Collection Department, Yerevan Municipality

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-4	FD Hayaudit LLC ADs	<ul style="list-style-type: none"> • RA Labor Code • RA Government Decree No. 48 of January 18, 2002 on Approving the Procedure for RA State and Community Budget Execution • Resolutions of the Council of Aldermen of the City of Yerevan on Approving 2010-2012 City of Yerevan Budget Execution Reports • External Audit Reports on 2010-2012 Yerevan Budget Execution Reports • RA Government Decree No. 2335-N of December 29, 2005 • RA Government Decree No. 368 of June 1, 1999 • Quarterly budget execution reports on 2011-2012 Yerevan Budget • Interviews with the staff of Hayaudit LLC audit firm having audited the 2012 Yerevan budget execution report • Reviews of commitment control and recording processes in the LSFinance system and excerpts from the system • Reviews of electronic files maintained at the Finance Department for contract recoding and excerpts from those files • Interviews and discussions with the Deputy Mayor on Financial Issues, Deputy head of the Finance Department and Heads of Administrative Districts
PI-5	FD MOF	<ul style="list-style-type: none"> • Resolution No. N56-N of December 23, 2009 of Yerevan Council of Aldermen on the City of Yerevan Budget 2010 • Resolution No.169-N of December 23, 2010 of Yerevan Council of Aldermen on the City of Yerevan Budget 2011 • Resolution No. N356-N of December 23, 2011 of Yerevan Council of Aldermen on the City of Yerevan Budget 2012 • Resolution No. 186-N of March 15, 2011 of Yerevan Council of Aldermen on Approving the Report on Execution of the City of Yerevan Budget 2010 • Resolution No. 402-N of March 16, 2012 of Yerevan Council of Aldermen on Approving the Report on Execution of the City of Yerevan Budget 2012 • RoA Law on the Budget System • RoA Law on Local Self-Government • RoA Law on Local Self-Government in the City of Yerevan • RoA MOFE Order No.5-N of January 9, 2007 on Approving RoA Budget and Public Sector Accounting Classifications and Instructions for Application Thereof
PI-6	FD	<ul style="list-style-type: none"> • Resolution No. N356-N of December 23, 2011 of Yerevan Council of Aldermen on the City of Yerevan Budget 2012 • Resolution No. 558-N of December 25, 2011 of Yerevan Council of Aldermen on the City of Yerevan Budget 2013 • RA Law on the Budget System • Yerevan Mayor's 2012 Budget Message • Yerevan Mayor's 2013 Budget Message

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-7	FD DD MOF ADB	<ul style="list-style-type: none"> Resolution No. N56-N of December 23, 2009 of Yerevan Council of Aldermen on the City of Yerevan Budget 2010 Resolution No.169-N of December 23, 2010 of Yerevan Council of Aldermen on the City of Yerevan Budget 2011 Resolution No. N356-N of December 23, 2011 of Yerevan Council of Aldermen on the City of Yerevan Budget 2012 Resolution No. 402-N of March 16, 2012 of Yerevan Council of Aldermen on Approving the Report on Execution of the City of Yerevan Budget 2011 RoA Law on the Budget System RoA Law on Local Self-Government RoA Law on Local Self-Government in the City of Yerevan Resolution No. 258-A of June 24, 2011 of Yerevan Council of Aldermen on Participation in the Beautiful Yerevan Project of UNDP Yerevan Office
PI-8		<ul style="list-style-type: none"> RoA Constitution RoA Law on Local Self-Government RoA Law on Local Self-Government in the City of Yerevan
PI-9	FD ADs SNCOs (3 Schools) CNCOs (3 Kindergartens) MOF IA	<ul style="list-style-type: none"> RoA Law on State Non-Commercial Organizations RoA Law on Joint Stock Companies RoA Government Decree No. 1648-N of November 27, 2003 on Submitting Targets for Financial and Economic Activities, Preparing, Submitting and Aggregating Reports on these Activities and Restricting Credit-Funded Functions of State Non-Commercial Organizations RoA Government Decree No. 604-N of May 29, 2009 on Approving the List of Necessary Property Transferred to Yerevan Municipality with Title Resolution No. 535-A of Mayor of Yerevan of February 15, 2010 on the Procedure and Dates for Filing Financial Statements and Repealing Yerevan Mayor's Resolution No. 2076-A of October 30, 2005. Resolution No. 896-A of Mayor of Yerevan of March 22, 2011 on Regulating the Process for Reporting on the Financial and Economic Activities of State and Community Non-commercial Organizations Resolution No.182-N of February 8, 2011 the Council of Aldermen of the City of Yerevan on Transferring the Jurisdiction of Organizations in the jurisdiction of Yerevan to the Heads of Administrative Districts and Delegating Authorities Order No. 955-N of December 29, 2003 of Minister of Finance and Economy on Enforcing the RoA Government Decree No. 16448-N of November 27, 2003 (effective until February 2013) Order No. 104-N of February 4, 2013 of the Minister of Finance and Economy of December 29, 2003 on Establishing the Reporting Framework for the Financial and Economic Activities of State Non-Commercial Organizations Quarterly and annual reports of individual SNCOs, SCSOs and JSCs for 2011 and 2012 Aggregate quarterly and annual reports on SNCOs, CNCOs and JSCs prepared by Yerevan Municipality Municipality's 2011 and 2012 Annual Internal Audit Activity Reports

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-10	FD RD PD ADs MOF MTA SNCOs (3 Schools) CNCOs (3 Kindergartens) Taxpayers NGO	<ul style="list-style-type: none"> • RA Budget System Law • RA Law on Local Self-governance in Yerevan • RA Law on Chamber of Control • RA Procurement Law • RA Law on Legal Acts • Government Decree 168-N on Organizing the Procurement Process of February 10, 2011 • Minister of Finance Order 1153-N on Approving the Procedure for Publicizing Information Subject to Disclosure under the RA Procurement Legislation of December 21, 2012 • Yerevan Council Resolution 356-N of December 23, 2011 • Yerevan Council Resolution 606-N of March 19, 2013 • Council session agendas • Yerevan Municipality official website (www.yerevan.am) • MTA website (www.mta.gov.am) • MOF website (www.mfe.gov.am) • Website for legal acts released in the official bulletin (www.laws.am) • Official procurement e-bulletin: www.gnumner.amorwww.procurement.am • RA official website of public notifications (www.azdarar.am) • Meetings with officers of the Yerevan Municipality, MOF, MTA, NGO representatives, reviews of information boards, TV programs and other sources of information of the Yerevan Municipality and administrative districts
PI-11	FD ADs DD MOF MTA	<ul style="list-style-type: none"> • RA Budget System Law • RA Law on Local Self-Governance in Yerevan • RA Law on Local Self-Governance • Yerevan Council Resolution 56-N on the 2010 Yerevan Budget of December 23, 2009 • Yerevan Council Resolution 169-N on the 2011 Yerevan Budget of December 23, 2010 • Yerevan Council Resolution 356-N on the 2012 Yerevan Budget of December 23, 2011 • RA Laws on 2011-2013 State Budget • The RA 2013 budget process started per Prime Minister Decree 1240-N of 21.12.2011 • MOF, Binding Methodological Instructions for Application by Local Self-Government Bodies of Yerevan in the Process of Preparation of the 2013 Draft Budget for Yerevan • MOF, Non-Binding Methodological Instructions for Application by the RA Local Self-Government Bodies in the Process of Preparation of the 2013 Draft Community Budgets • Yerevan Mayor Resolution 4790-A of 27.06.2012 • Communications of the head of the Finance Department of the Yerevan Municipality on provision of the budget request instructions and their completion forms • Internal communications on execution of measures in line with the budget calendar

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-12	FD DD ADs MOF	<ul style="list-style-type: none"> • RA Law on the RA Budget System • RA Law on Local Self-Government in the City of Yerevan • Four-year Development Plan for the City of Yerevan 2010-2013 • Annual Development Plans for the City of Yerevan for the years 2010/2011/2012/2013 • Resolutions of Yerevan Council of Aldermen on the Budget of the City of Yerevan for the years 2010/2011/2012/2013 • Medium-Term Expenditure Frameworks 2012-2014/2013-2015 • Mandatory Methodological Instructions Issued by the MOF on Preparing 2013 Budget Proposal for Yerevan Community by the local government in the City of Yerevan • Recommended Methodological Instructions Issued by the MOF for use in the 2013 Community Budget drafting process by Local Self-Governments • Resolution of Yerevan Mayor, No. 4790-A of June 27, 2012 • Resolution of Yerevan Mayor, No. 6551-A of September 27, 2012 on Organizing the Activities for Drafting Yerevan Development Plan for 2013 • Instructions on 2013 Yerevan Budget bid preparation and letters by the Head of the Financial Department of Yerevan Municipality on Issuing Forms for Completing them • Reviews of Budget bids provided for Yerevan 2013 budget preparation and activities carried out in line with the budget calendar, • Budget bids provided for investment programs in the Yerevan budget and enclosed supporting document packages (design documents and estimates, costing, etc.) • Interviews with representatives of the Finance Department and Development Plans Department
PI-13	RD FD ADs CC TS Taxpayers NGO	<ul style="list-style-type: none"> • RA Budget System Law • RA Law on Local Self-governance in Yerevan • RA Law on Taxes • RA Property Tax Law • RA Land Tax Law • RA Law and Property Tax and Land Tax Arrears • RA Law on Tax Service • RA Law on Organizing and Conducting Audits in Armenia • Government Decree 641-N on Approving the Procedure for Filing Information on Buildings and Structures Which Are Objects of Taxation, Their Appraisals, As Well As Transportation Means of May 22, 2003 • Government Decree 680-N on Setting the Procedure for Providing Information on Ongoing Recordkeeping of Buildings, Structures Which Are Property Tax Base to Regional Units of the State Committee for Real Estate State Cadastre at the Government of Armenia by RA Local Self-governance Bodies of May 29, 2003

Performance Indicators	Information sources	
	Institutions	Documents, websites
		<ul style="list-style-type: none"> • Yerevan City Council Resolution 56-N on the 2010 Yerevan Budget of December 23, 2009 • Yerevan City Council Resolution 169-N on the 2011 Yerevan Budget of December 23, 2010 • Yerevan City Council Resolution 356-N on the 2012 Yerevan Budget of December 23, 2011 • Yerevan City Council Resolution 186-N on Approving the 2010 Yerevan Budget Execution Report of March 15, 2011 • Yerevan City Council Resolution 402-N on Approving the 2011 Yerevan Budget Execution Report of March 16, 2012 • Website of the State Revenue Committee at the Government of Armenia (www.taxservice.am) • Yerevan Municipality website (www.yerevan.am) • www.laws.am • Booklets and tax guides on tax administration published by various agencies • Yerevan Council resolutions on providing property tax privileges for 2010-2012 • Interview with representatives of 'Protection of Taxpayers' NGO • Interviews with employees of the Municipality and administrative districts responsible for tax and revenue recordkeeping • Order 07-N of the Head of State Tax Service at the Government of Armenia on Establishing the Regulation for the Tax Authority Appeal Committee, the Format of Application – Complaints Filed with the Tax Authority Appeal Committee and the Format of Notice Sent to Filer of Application – Complaint on the Timing and Location of Its Hearing of June 6, 2008 • Government Decree 1361-N on Setting Up the Appeal Council and Approving the Procedure for Reviewing Decisions of Appeal Committees of Supervisory Tax and Customs Authorities of October 21, 2010 • Government Decree 192-N on Measures Ensuring Enforcement of RA Laws on Property Tax and Land Tax of February 13, 2003 • Interviews with officers of the State Revenue Committee at the Government of Armenia, the State Real Estate Cadastre Committee at the Government of Armenia

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-14	RD ADs CC TS Taxpayers NGO	<ul style="list-style-type: none"> • RA Law on Taxes • RA Law on Property Tax • RA Law on Land Tax • RA Administrative Infringements Code • RA Law on Organizing and Conducting Audit in Armenia • RA Law on State Registration of Property Titles • RA Law on Property Tax and Land Tax Arrears • Government Decree 680-N on Setting the Procedure for Providing Information on Ongoing Recordkeeping of Buildings, Structures Which Are Property Tax Base to Regional Units of the State Committee for Real Estate State Cadastre at the Government of Armenia by RA Local Self-governance Bodies of May 29, 2003 • Reviews and statements retrieved from the automated property tax and land tax software system (Vector Plus) • Reports and statements prepared by the Tax Recording and Collection Department of the Yerevan Municipality • Monthly reports for 2011 and 2012 provided by the State Real Estate Cadastre Committee to the Yerevan Municipality • Current Report 'On Results of Audit of the Legitimacy and Efficiency of the Process of State Title Registration by Regional Units (Selectively) of the State Real Estate Cadastre Committee at the Government of Armenia' approved per CoC Council Resolution 3/3 of February 10, 2012 • Government Decree 1636-N of November 10, 2011 • Interviews with officers of the State Revenue Committee at the Government of Armenia, the State Real Estate Cadastre Committee at the Government of Armenia and the Yerevan Municipality • Website of the State Revenue Committee at the Government of Armenia (www.taxservice.am), • Website of the State Real Estate Cadastre Committee at the Government of Armenia (www.cadastre.am)
PI-15	FD RD ADs CC MOF TS Taxpayers NGO	<ul style="list-style-type: none"> • RoA Law on Taxes • RoA Law on Property Tax • RoA Law on Land Tax • RoA Law on Arrears of Property and Land Taxes • RoA Law on the Treasury System • RoA Law on the Payment and Settlement System and Payment and Settlement Organizations • Resolution No. 402-N of March 16, 2012 of Yerevan Council of Aldermen on Approving the Report on Execution of the City of Yerevan Budget 2012 • Findings of the review of property and land tax recording automated system and statements • Reviews of processes and documents related to revenue collection in administrative regions • Reviews of revenue accounts in LSFinance system, references and reports retrieved from the system

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-16	DF RD ADs IA	<ul style="list-style-type: none"> • RA Budget System Law • RA Law on Local Self-Governance • RA Law on Local Self-Governance in Yerevan City • Government Decree 48 on Approving the Procedures for Execution of the RA State and Community Budgets of 12.01.2002 • Yerevan City Council resolutions on Yerevan Budgets for 2010-2012 • Yerevan Mayor resolutions on quarterly breakdowns for execution of Yerevan budgets for 2010-2012 • All resolutions of the Yerevan Mayor on changes to the 2012 Yerevan budget • Monthly revenue plans for Yerevan municipality and reports on their execution • Daily internal reports on revenues and expenditures • Results of review of the LSFinance system and statements retrieved from the system
PI-17	FD ADs MOF	<ul style="list-style-type: none"> • RoA Law on the Budget System • RoA Law on Local Self-Government in the City of Yerevan • RoA Law on Local Self-Government • RoA Government Decree No. 164 of March 9, 1998 • RoA Government Decree No.2096-N of December 1, 2005 • RoA Government Decree No.168 of March 9, 1998 • RoA Government Decree No.48 of April 4, 2002 on Approving the Procedure for Executing the ROA State and Community Budgets. • Resolution No. N56-N of December 23, 2009 of Yerevan Council of Aldermen on the City of Yerevan Budget 2010 • Resolution No.169-N of December 23, 2010 of Yerevan Council of Aldermen on the City of Yerevan Budget 2011 • Resolution No. N356-N of December 23, 2011 of Yerevan Council of Aldermen on the City of Yerevan Budget 2012 • Resolution No. 186-N of March 15, 2011 of Yerevan Council of Aldermen on Approving the Report on Execution of the City of Yerevan Budget 2010 • Resolution No. 402-N of March 16, 2012 of Yerevan Council of Aldermen on Approving • the Report on Execution of the City of Yerevan Budget 2011 • Yerevan Mayor's 2010-2012 Budget Messages

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-18	FD HD IA MTA HayAudit LLC	<ul style="list-style-type: none"> • RA Law on Community Service • Government Decree 231-N on Recognition of the State Authorized Body for Issues Relating to Community Service and Regulation of the Community Service of 03.03.2005 • Government Decree 1471-N on Establishing the Procedures and Format for Maintaining Work Sheets of 25.08.2005 • MTA Order 05-N on Establishing the Procedures for Maintaining Community Servant Logbook of 26.01.2009 • MTA Order 04-N on Approving General Description of Each Subgroup of Each Group of Community Service Positions of 04.12.2008 • MTA Order 03-N on Approving the List of Positions Included in Each Group and Sub-group of Community Service Positions of 04.12.2008 • Yerevan Council Resolution 531-A on Amending Yerevan Council Resolution 3-A of July 6, 2009 and Revoking Yerevan Council Resolution 4-A of July 6, 2009, dated 28.11.2012 • Yerevan Municipality internal audit reports for 2011-2012 • External audit reports for 2010-2012 Yerevan budget reports • Interviews with employees of 'HayAudit, LLC' audit firm which has audited the 2012 Yerevan budget execution report • Yerevan Municipality personnel records and reports on the latter as presented to the MTA • Staff recruitment and resignation applications, orders, personal sheets • Review of the procedures and database of the 'Armenian Programs' system operated in the Municipality for salary calculation and payroll preparation purposes, statements generated by the above system • Time sheets for 2011 and 2012, extended 'chessboard' reports, calculation sheets, payrolls, monthly income tax summary assessments, application for registration of hired workers and service providers under civil-legal contracts, other documentation • Salary payment requests for 2011 and 2012, and statements from the LSFinance system on salary-related payments • Annex 24 (Charter of HR Divisions) and Annex 20 (Charter of Finance Department) of Yerevan Mayor Resolution 4141-A on Approving the Charters of the Structural Units of the Staff of the Yerevan Municipality and the Public Order Maintenance Service of 24.05.2012 • Positions passports (descriptions) of the HR Department and Finance Department employees

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-19	PD MOF PSC IA COC	<ul style="list-style-type: none"> • The RA Procurement Law • Government Decree 168-A of 10.02.2011 on Organizing the Procurement Process • RA MOF Orders regulating the procurement process • Yerevan Mayor Directives 1211-A (dated 07.04.2011) and 6688-A (dated 03.10.2012) • The 2012 and 2013 Yerevan Municipality Procurement Plans • Statements on procurement values of the Yerevan Municipality for 2011 and 2012 provided by the Yerevan Municipality Procurement Department • Announcements on individual procurements executed for the needs of the Yerevan Municipality during 2012, procedure records and other documentation • List of members of the Procurement Appeal Council (www.gnumner.am) • Records on complaints filed during 2012 with regard to procurements undertaken for the needs of the Yerevan municipality and the related decisions of the appeal committee (www.gnumner.am) • Procurement E-bulletin (www.gnumner.am or www.procurement.am) • www.azdarar.am • Statement on complaints received by the Procurement Appeal Council during 2011-2013 • Interviews with procurement officers of the Procurement Support Center, the MOF and the Yerevan Municipality
PI-20	FD PD ADs IA SD MOF COC	<ul style="list-style-type: none"> • RA Treasury System Law • RA Procurement Law • Government Decree 48 on Approving the Procedure for Execution of the RA State and Community Budgets of January 12, 2002 • Government Decree 168-N of February 10, 2011 • MOF Order 730-N of September 18, 2008 • MOF Order 597-N of July 23, 2007 • MOF Order 898-N of December 24, 2007 • MOF Order 899-N of December 24, 2007 • Review of the financial and other internal control systems, regulations and functions of the finance and procurement units of the Yerevan Municipality, interviews with officers involved in these processes • Internal audit reports of the Yerevan Municipality and interviews with employees of the Internal Audit Division • Annual and current reports of the Chamber of Control for 2012 (www.coc.am) and interview with officials of the Chamber of Control • Interview with officers of the MOF Central Treasury and units responsible for regulating the procurement process • Interview with the deputy Yerevan Mayor responsible for financial issues

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-21	IA MOF ADs SNCOs (3 Schools) CNCOs (3 Kindergartens)	<ul style="list-style-type: none"> • RA Internal Audit Law • Government Decree 1233-N of 11.08.2011 on Organizing the Internal Audit Process, Designating the Authorized Body As Prescribed in the RA Internal Audit Law and Amending Government Decree 503 of May 15, 2008 • Government Decree 732-N of 31.055.2012 on Assigning the Powers of Control Committees (Controllers) of Joint Stock Companies with 50 Percent and Higher Government Participation to the Internal Audit Units of Government Bodies Authorized to Manage Stocks or Commission Them to Private Companies Based on the Decision of These Bodies, and on Revoking Government Decrees 1923-N (dated November 21, 2003) and 1187-N (dated May 19, 2005) • Minister of Finance Order 974-N of 08.12.2011 on Approving the Methodological Instructions for Application of the RA Internal Audit Professional Standards • Minister of Finance Order 143-N of 17.02.2012 on Approving the Guidelines for Development of the RA Public Sector Internal Audit Manuals and Internal Audit Regulation, and Revoking Minister of Finance and Economy Order 934-N of December 30, 2002 • Minister of Finance Order 1653-N of 23.02.2012 on Establishing the Main Requirements for the Internal Audit Unit and the internal Audit Committee • Yerevan Council Resolution 381-A of 20.01.2012 (through reorganization the Municipality Internal Audit Division was created) • Yerevan Council Resolutions 1273-A of 10.02.2012 and 169-A of 21.01.2013 (The Municipality Internal Audit Regulation was approved and amended) • The Yerevan Municipality 2012-2014 and 2013-2015 internal audit strategies • The Yerevan Municipality 2010-2015 internal audit annual plans • 2011 and 2012 annual performance reports for the Internal Audit Division of the Yerevan Municipality (also quarterly reports for 2011) • Reports for audits conducted by the municipality in individual organizations • Correspondence pertaining to the findings, recommendations presented by the internal audit based on conducted audits, and the associated management responses • Review of the electronic audit system and individual documents (statements on potential risk assessments and identification of risk groups, etc.) • Interviews with the head of the internal audit unit and completed checklists.

Performance Indicators	Information sources	
	Institutions	Documents, websites
PI-22	FD RD PD MOF	<ul style="list-style-type: none"> • RA Law on the Treasury System • RA Law on the Payment and Settlement System and Payment and Settlement Organizations • RA Law on Cash Desk Operations • Findings and Excerpts of the review of the Vector Plus Software for Land and Property Taxes • Reviews of processes and documents in relation to tax collection in administrative districts • Reviews of LSFfinance system accounts, references and reports generated by the system • RA Government Public Finance Management System Assessment Report 2008 (PEFA) • RA Government Decree No. 2335-N of December 29, 2005 • RA Government Decree No. 368 of June 1, 1999 • Reviews of procurement contracts for the needs of Yerevan in 2012 and reviews of relevant documents • Reviews of records in MSEXcel format files and paper documents on the business
PI-23	FD SNCOs (3 Schools) CNCOs (3 Kindergartens) MOF MTA IA ADs	<ul style="list-style-type: none"> • RA Law on State Non-Commercial Organizations • RA Government Decree No. 1648-N of November 27, 2003 on Submitting Targets for Financial and Economic Activities, Preparing, Submitting and Aggregating Reports on these Activities and Restricting Credit-Funded Functions of State Non-Commercial Organizations • «RoA Government Decree No. 604-N of May 29, 2009 on Approving the List of Necessary Property Transferred to Yerevan Municipality with Title • Resolution No. 535-A of Mayor of Yerevan of February 15, 2010 on the Procedure and Dates for Filing Financial Statements and Repealing Yerevan Mayor's Resolution No. 2076-A of October 30, 2005. • Resolution No. 896-A of Mayor of Yerevan of March 22, 2011 on Regulating the Process for Reporting on the Financial and Economic Activities of State and Community Non-commercial Organizations • Resolution No.182-N of February 8, 2011 the Council of Aldermen of the City of Yerevan on Transferring the Jurisdiction of Organizations in the jurisdiction of Yerevan to the Heads of Administrative Districts and Delegating Authorities • Order No. 955-N of December 29, 2003 of Minister of Finance and Economy on Enforcing the RoA Government Decree No. 1648-N of November 27, 2003 (effective until February 2013) • Order No. 104-N of February 4, 2013 of the Minister of Finance on Repealing the Order No.955-N of the Minister of Finance and Economy of December 29, 2003 on Establishing the Reporting Framework for the Financial and Economic Activities of State Non-Commercial Organizations

Performance Indicators	Information sources	
	Institutions	Documents, websites
		<ul style="list-style-type: none"> Resolution No. 607-A of Mayor of Yerevan of March 1, 2011 on Regulating the Process of Coordinating, Recording and Controlling Projects with Gifts, Donations, and Disinterested (Benevolent) and other Assistance provided to entities within Yerevan jurisdiction Quarterly and annual reports for 2011 and 2012 submitted by general education schools and kindergartens Quarterly and annual aggregate reports on schools of general education and kindergartens prepared by Yerevan Municipality Annual 2011 and 2012 activity plans of internal audit under the Municipality Interviews with principals and accountants of kindergartens and schools of general education under the jurisdiction of the Municipality, and reviews of the accounting process of these entities www.mfe.am, www.ognirdprocid.am and www.ognir-mankapartezid.am websites
PI-24	FD ADs RD FCC MOF MTA	<ul style="list-style-type: none"> MOF Order No. 730-N of August 15, 2008 on Approving the Sample Form of RA Community Budget and Filling out Individual Sections of the Form and Repealing MOF Order No. 194-N of March 5, 2004 MOF Order No. 80-N of February 4, 2008 on Approving the Instruction on Budget Execution, as well as General Conditions and Specifics of Preparing, Filing and Aggregating Reports on Financial Activities of State Agencies and Local Governments and Insitutions within their Jurisdiction Repealing MOF Order No. 930-N of December 30, 2002 Resolution No. 896-A of Yerevan Mayor of March 22, 2011 on Regulating the Process for Reporting on the Financial and Economic Activities of State and Community Non-commercial Organizations Annual 2011 and 2012 Reports on Municipality's Internal Audit Activities 2010-2013 Quarterly Breakdown of Yerevan Budget and Their Execution Reports Daily Yerevan Budget Execution Reports and Reports Submitted upon request Quarterly SNCO and CNCO reports for 2012 External Audit Reports for 2010-2012 Yerevan Budget Reports
PI-25	FD IA Hayaudit LLC RD COC MOF	<ul style="list-style-type: none"> RA Budget System Law RA Law on Local Self-Governance in Yerevan MOF Order 730-N on Approving the Generic RA Community Budget Form and Instructions for Completing Individual Sections of the Mentioned Form, As Well As Revoking MOF Order 194-N of March 5, 2004, dated 15.08.2008 MOF Order 80-N on Approving the General Conditions for Preparation, Presentation, Consolidation of Budget Execution Reports, As Well As Financial Performance Reports of Central and Local Government Bodies and Their Subordinate Institutions, the Instruction for Preparation and Presentation of Individual Types of Reports, and on Revoking MOF Order 930-N of December 30, 2002, dated 04.02.2008

Performance Indicators	Information sources	
	Institutions	Documents, websites
		<ul style="list-style-type: none"> • Yerevan Council Resolution 186-N on Approving the 2010 Yerevan Budget Execution Report of March 15, 2011 • Yerevan Council Resolution 402-N on Approving the 2011 Yerevan Budget Execution Report of March 16, 2012 • Yerevan Council Resolution 606-N on Approving the 2012 Yerevan Budget Execution Report of March 19, 2013 • Annual, quarterly, including consolidated reports of SNCOs and CNCOs for 2012 • External audit reports for the 2010-2012 Yerevan budget reports
PI-26	FD COC Hayaudit LLC FCC OD	<ul style="list-style-type: none"> • RA Law on Local Self-governance in Yerevan • RA Budget System Law • RA Law on Chamber of Control • RA Law on Auditing • Government Decree 1931-N of December 29, 2011 • External audit reports (opinions) on the 2010, 2011 and 2012 Yerevan budget execution report • The 2010, 2011 and 2012 CoC annual work plans and their annual performance reports (www.coc.am) • Current report on audit conducted in the Yerevan community by the Chamber of Control (approved per CoC Council Resolution 5/4 of March 22, 2013 www.coc.am) • Yerevan Council resolutions on involving audit services for conducting independent audit of the 2010, 2011 and 2012 Yerevan budget execution reports (No. 153-A of 26.11.2010, 348-A of 09.12.2011 and 533-A of 28.11.2012) • Statements on dates of budget reporting to the Yerevan Councils and their external audit reports issued by the Logistics Department of the Yerevan Municipality • Interviews with the chair of the Standing Committee for Financial-Credit and Economic Affairs and deputy Yerevan mayor responsible for financial issues • Interview with representatives of the audit firm (Hayaudit) which conducted the audit of the 2012 annual Yerevan budget report • Contract between the Yerevan Municipality and Hayaudit, LLC for auditing the 2012 Yerevan budget execution report • Interview with the head of the Methodology, IT and External Relations Department of the Chamber of Control • Note 01/7-21161 of the Yerevan Mayor to the CoC Chairman (dated 25.04.2013)
PI-27	FD COC Hayaudit LLC FCC OD	<ul style="list-style-type: none"> • RA Budget System Law • Law on Local Self-Governance in Yerevan City • Yerevan Council Resolution 1-N on Adopting the Rules of Procedure for the Yerevan Council of 18.06.2009 (amended) • Rules of procedure for the standing committees of the Yerevan Council

Performance Indicators	Information sources	
	Institutions	Documents, websites
		<ul style="list-style-type: none"> • Review of documents related to the discussion of the Yerevan Council draft resolutions on the 2012 Yerevan budget, the 2012 Yerevan City Development Plan, Approval of Rates of Local Duties and Fees in Yerevan City for 2012 (packages of documentation presented to the Council, minutes of sessions of the Committee for Financial-credit and Economic Issues, agendas and minutes of the Council sessions, summary statements and other internal communications, etc.) • Yerevan Council resolutions on Yerevan budgets for 2010-2012 • Yerevan Mayor resolutions on quarterly breakdowns for execution of the Yerevan budgets for 2010-2012 • All resolutions of the Yerevan Mayor for 2012 on amending the 2012 Yerevan budget • Interview with the chair of the Standing Committee for Financial-credit and Economic Issues • Interview with the Deputy Mayor of Yerevan responsible for financial issues
PI-28	FD COC Hayaudit LLC FCC OD	<ul style="list-style-type: none"> • RA Budget System Law • RA Law on Local Self-governance • RA Law on Local Self-governance in Yerevan • RA Law on Chamber of Control • Yerevan Council Resolution 1-N on Adopting the Rules of Procedure for the Yerevan Council of June 18, 2009 (with amendments) • Rules of procedures for the standing committees of the Yerevan Council • Yerevan Council resolutions on involving audit services for conducting independent audit of the 2010, 2011 and 2012 Yerevan budget execution reports (No. 153-A of 26.11.2010, 348-A of 09.12.2011 and 533-A of 28.11.2012) • Minutes on Yerevan Council sessions on approval of the 2010, 2011 and 2012 budget execution reports (www.yerevan.am) • Yerevan Council resolutions on approving the 2010, 2011 and 2012 Yerevan budget execution reports (No. 168-N of 15.03.2011, 402-N of 16.03.2012 and 606-N of 19.03.2013) • Statements on dates of budget reporting to the Yerevan Councils issued by the Logistics Department of the Yerevan Municipality • Minutes of meetings of the Standing Committee for Financial-Credit and Economic Affairs for considering the 2012 annual budget report • Interviews with the chair of the Standing Committee for Financial-Credit and Economic Affairs and deputy Yerevan mayor responsible for financial issues • Interview with representatives of the audit firm (Hayaudit) which conducted the audit of the 2012 annual Yerevan budget report • Interview with the head of the Methodology, IT and External Relations Department of the Chamber of Control

Annex 4: List of Stakeholders Interviewed

Name, surname	Title
YEREVAN COMMUNITY	
Vaheh Nikoyan	Deputy Yerevan Mayor
Naira Nahapetyan	Standing Committee for Financial-Credit and Economic Affairs of the Yerevan Council, chair
<i>Finance Department</i>	
Vilen Arevshatyan	Finance Department, head
Hamazasp Galstyan	Finance Department, deputy head
<i>Division for Planning and Monitoring Incomes and Expenses of Organizations</i>	
Mariam Gevorgyan	Division for Planning and Monitoring Incomes and Expenses of Organizations, head
Artak Hambarzumyan	Division for Planning and Monitoring Incomes and Expenses of Organizations, chief specialist
Karapet Hovhannisyan	Division for Planning and Monitoring Incomes and Expenses of Organizations, chief specialist
<i>Financial Operations Division</i>	
Kristineh Avetisyan	Financial Operations Division, head
Ani Parsyan	Financial Operations Division, chief specialist
Hasmik Galstyan	Financial Operations Division, chief specialist
Lilit Yedigaryan	Financial Operations Division, lead specialist
Hakob Ohanyan	Financial Operations Division, lead specialist
<i>Accounting and Reporting Division</i>	
Geghanush Mkrtchyan	Accounting and Reporting Division, head
Hasmik Aloyan	Accounting and Reporting Division, chief specialist
Hrachia Ghazaryan	Accounting and Reporting Division, chief specialist
<i>Budget Planning Division</i>	
Siranush Gevorgyan	Budget Planning Division, head
<i>Division for Coordination of Functions of Non-Commercial Organizations</i>	
Tigran Igityan	Division for Coordination of Functions of Non-Commercial Organizations, head
<i>Procurement Department</i>	
Rudik Tadevosyan	Procurement Department, head
Grigor Chtryan	Division for Organization of Procurements, head
Tatevik Khosroyeva	Division for Organization of Procurements, lead specialist
<i>Internal Audit Department</i>	

Armen Gevorgyan	Internal Audit Division, head
Makich Khecheyan	Internal Audit Division, chief specialist
<i>Revenue Accounting and Collection Department</i>	
Gayaneh Hakobyan	Revenue Accounting and Collection Department, head
Mher Mkrтчyan	Non-Tax Revenue Accounting and Collection Division, head
Artur Khachatryan	Tax Revenue Accounting and Collection Division, head
<i>Supervision Department</i>	
Armen Simonyan	Supervision Department, head
<i>HR Management Division</i>	
Lusineh Sargsyan	HR Management Division, head
<i>Department for Development and Investment Projects</i>	
Armen Harutyunyan	Department for Development and Investment Projects, head
Nuneh Sakanyan	Division for Coordination of International Investment and Other Institutions' Projects, head
Tanya Markaryan	Division for Development and Investment Infrastructure Projects, lead specialist
<i>Logistics Department</i>	
Gagik Baghdasaryan	Logistics Department, head
<i>Arabkir administrative district</i>	
Armen Hovhannisyanyan	Finance Division of Arabkir administrative district, head
Gohar Hovhannisyanyan	Finance Division of Arabkir administrative district, specialist
<i>Malatia-Sebastia administrative district</i>	
Artur Hambardzumyan	Finance Division of Malatia administrative district, head
<i>Erebuni administrative district</i>	
Edgar Mkrтчyan	Erebuni administrative district, deputy head
Artur Sargsyan	Finance Division of Erebuni administrative district, head
Lilit Gevorgyan	Finance Division of Erebuni administrative district, specialist
PUBLIC SCHOOLS CONTROLLED BY THE YEREVAN COMMUNITY	
Armineh Hovhannisyanyan	Yerevan School 130, principal
Galia Vasilyan	Yerevan School 174, principal
Lyusia Galstyan	Yerevan School 174, accountant
Asatur Saryan	Yerevan School 35, principal
Lilia Markosyan	Yerevan School 35, accountant
PRE-SCHOOL INSTITUTIONS CONTROLLED BY YEREVAN COMMUNITY	
Naira Gevorgyan	Yerevan Pre-school Institution 32, director
Mariam Safaryan	Yerevan Pre-school Institution 32, accountant

Nuneh Yeghoyan	Yerevan Pre-school Institution 96, director
Anahit Palyan	Yerevan Pre-school Institution 96, accountant
Inna Davtyan	Yerevan Pre-school Institution 72, director
Eliza Andreasyan	Yerevan Pre-school Institution 72, accountant
RA CHAMBER OF CONTROL	
Karen Arustamyan	Methodology, Information Technologies and International Relations Department, head
PROCUREMENT SUPPORT CENTER, SNCO	
Artur Arakelyan	Procurement Support Center, SNCO, deputy director
Harutyun Tunyan	Department for Procurement Support and Legal Advice, head
STATE REVENUE COMMITTEE AT THE GOVERNMENT OF ARMENIA	
Artur Manukyan	Taxpayer Service and Taxation Procedures Department, deputy head
RA MINISTRY OF TERRITORIAL ADMINISTRATION	
Susanna Sahadyan	Accounting Division, head
Artur Soghomonyan	Department for Community Service Issues, head
RA MINISTRY OF FINANCE	
Grikor Aramyan	Department for Internal Public Financial Control and Public Procurement Methodology, deputy head
Gayaneh Zargaryan	Budget Execution, Reporting and Analysis Department, head
Anna Sargsyan	Financial Reporting Department, head
Zhirair Titizyan	Operations Department, head
Davit Hambardzumyan	Budget Process Management Department, head
Zhora Asatryan	Department for Financial Planning of Recurrent Budget Expenditures of Social Sector of Economy, head
Sergei Galstyan	State-Owned Enterprises Monitoring Department, head
Levon Mekrtchyan	Division for Financial Management Monitoring of State-Owned Non-Commercial Organizations, head
Arayik Yesayan	Department for Management of Liabilities to the State Budget of the Republic of Armenia, head
Artak Marutyan	Accounting and Service Division of Public Debt Management Department, head / deputy head of department
Samvel Khamvelyan	Operations Division of Public Debt Management Department, head / deputy head of department
STATE REAL ESTATE CADASTRE COMMITTEE AT THE GOVERNMENT OF ARMENIA	
Arman Petrosyan	Service Offices Coordination Department, head
TAXPAYER PROTECTION, NON-GOVERNMENTAL ORGANIZATION	
Pailak Tadevosyan	NGO Director

HAYAUDIT, LLC	
Edvard Hambaryan	Auditor
ASIAN DEVELOPMENT BANK (ADB)	
Nina Hajoyan	Team leader, management specialist, Management and Capacity Building Initiative – 2 Project
Anahit Petrosyan	National management specialist – urban development Management and Capacity Building Initiative – 2 Project
WORLD BANK (WB)	
Tigan Kostanyan	Economist Poverty reduction and Economic Development Europe & Central Asia Region, The World Bank Yerevan Office
GERMAN SOCIETY FOR INTERNATIONAL COOPERATION (GIZ)	
Varsenik Mnatsakanyan	Senior Advisor Public Financial Management in the South Caucasus

Annex 5: Files for calculating HLG-1, PI-1 and PI-2

Functional classification (by categories)	Year data =		Actuals	Adjusted budget	Deviation	Absolute deviation	Percent
	2010	Approved budget					
GENERAL PUBLIC SERVICES	589,387.0	584,565.8	586,364.8	(1,799.0)	1,799.0	0.3%	
SECURITY AND JUDICIAL ACTIVITY	-	-	-	-	-	#DIV/0!	
DEFENSE	-	-	-	-	-	#DIV/0!	
ECONOMIC RELATIONS	5,883,437.8	6,138,184.6	5,853,269.3	284,915.3	284,915.3	4.9%	
ENVIRONMENTAL PROTECTION	-	-	-	-	-	#DIV/0!	
HOUSING CONSTRUCTION AND UTILITIES	1,696,000.0	1,696,000.0	1,687,303.4	8,696.6	8,696.6	0.5%	
HEALTH	-	-	-	-	-	#DIV/0!	
RECREATION, CULTURE AND RELIGION	532,561.4	532,561.2	529,830.6	2,730.6	2,730.6	0.5%	
EDUCATION	15,487,084.2	15,069,865.8	15,407,671.1	(337,805.3)	337,805.3	2.2%	
SOCIAL PROTECTION	207,505.8	203,064.6	206,441.8	(3,377.2)	3,377.2	1.6%	
RESERVE FUNDS NOT CLASSIFIED IN MAIN CATEGORIES	-	-	-	-	-	#DIV/0!	
NON-TARGETED/ NON-CONVENTIONAL TRANSFERS FROM THE CENTRAL GOVERNMENT	9,095,490.4	9,095,490.4	9,048,851.5	46,638.9	46,638.9	0.5%	
13	-	-	-	-	-	#DIV/0!	
14	-	-	-	-	-	#DIV/0!	
15	-	-	-	-	-	#DIV/0!	
16	-	-	-	-	-	#DIV/0!	
17	-	-	-	-	-	#DIV/0!	
18	-	-	-	-	-	#DIV/0!	
19	-	-	-	-	-	#DIV/0!	
20	-	-	-	-	-	#DIV/0!	
21 (= amount of other items)	-	-	-	-	-	#DIV/0!	
Allocated expenditures	33,491,466.6	33,319,732.4	33,319,732.4	0.0	685,962.9		
Total expenditures	33,491,466.6	33,319,732.4					
Total (HLG-1(i)) difference						0.5%	
Total (HLG-1(ii)) difference						2.1%	
						0.0%	

Functional classification (by categories)	Year data = 2011		Actuals	Adjusted budget	Deviation	Absolute deviation	Percent
	Approved budget	2011					
GENERAL PUBLIC SERVICES	619,466.3	615,724.3	615,724.3	679,475.3	(63,751.0)	63,751.0	9.4%
SECURITY AND JUDICIAL ACTIVITY	-	-	-	-	-	-	#DIV/0!
DEFENSE	-	-	-	-	-	-	#DIV/0!
ECONOMIC RELATIONS	5,405,000.0	5,404,893.1	5,404,893.1	5,928,593.4	(523,700.3)	523,700.3	8.8%
ENVIRONMENTAL PROTECTION	40,146.0	33,207.2	33,207.2	44,035.0	(10,827.8)	10,827.8	24.6%
HOUSING CONSTRUCTION AND UTILITIES	1,696,000.0	1,696,000.0	1,696,000.0	1,860,295.0	(164,295.0)	164,295.0	8.8%
HEALTH	-	-	-	-	-	-	#DIV/0!
RECREATION, CULTURE AND RELIGION	624,310.6	624,310.5	624,310.5	684,788.8	(60,478.3)	60,478.3	8.8%
EDUCATION	12,435,757.5	12,412,536.4	12,412,536.4	13,640,434.7	(1,227,898.3)	1,227,898.3	9.0%
SOCIAL PROTECTION	207,505.8	204,199.6	204,199.6	227,607.3	(23,407.7)	23,407.7	10.3%
RESERVE FUNDS NOT CLASSIFIED IN MAIN CATEGORIES	-	-	-	-	-	-	#DIV/0!
NON-TARGETED/ NON-CONDITIONAL TRANSFERS FROM THE CENTRAL GOVERNMENT	8,965,288.7	11,908,132.9	11,908,132.9	9,833,774.5	2,074,358.4	2,074,358.4	21.1%
13	-	-	-	-	-	-	#DIV/0!
14	-	-	-	-	-	-	#DIV/0!
15	-	-	-	-	-	-	#DIV/0!
16	-	-	-	-	-	-	#DIV/0!
17	-	-	-	-	-	-	#DIV/0!
18	-	-	-	-	-	-	#DIV/0!
19	-	-	-	-	-	-	#DIV/0!
20	-	-	-	-	-	-	#DIV/0!
21 (= amount of other items)	29,993,474.9	32,899,004.0	32,899,004.0	32,899,004.0	0.0	4,148,716.8	
Allocated expenditures							
Total expenditures	29,993,474.9	32,899,004.0	32,899,004.0				
Total (HLG-1(i)) difference							9.7%
Total (HLG-1(ii)) difference							12.6%
							0.0%

Functional classification (by categories)	Year data = 2012						Percent
	Approved budget	Actuals	Adjusted budget	Deviation	Absolute deviation	Percent	
GENERAL PUBLIC SERVICES	626,617.8	625,296.5	780,890.8	(155,594.3)	155,594.3	19.9%	
SECURITY AND JUDICIAL ACTIVITY	-	-	-	-	-	#DIV/0!	
DEFENSE	-	-	-	-	-	#DIV/0!	
ECONOMIC RELATIONS	5,365,451.1	5,605,451.1	6,686,422.5	(1,080,971.4)	1,080,971.4	16.2%	
ENVIRONMENTAL PROTECTION	79,224.0	79,012.5	98,728.9	(19,716.4)	19,716.4	20.0%	
HOUSING CONSTRUCTION AND UTILITIES	1,696,000.0	1,696,000.0	2,113,554.3	(417,554.3)	417,554.3	19.8%	
HEALTH	-	-	-	-	-	#DIV/0!	
RECREATION, CULTURE AND RELIGION	624,310.6	624,310.6	778,015.6	(153,705.0)	153,705.0	19.8%	
EDUCATION	11,750,858.8	13,188,888.7	14,643,914.3	(1,455,025.6)	1,455,025.6	9.9%	
SOCIAL PROTECTION	207,505.8	526,782.8	258,593.6	268,189.2	268,189.2	103.7%	
RESERVE FUNDS NOT CLASSIFIED IN MAIN CATEGORIES	-	-	-	-	-	#DIV/0!	
NON-TARGETED/ NON-CONDITIONAL TRANSFERS FROM THE CENTRAL GOVERNMENT	10,095,968.1	15,595,968.1	12,581,590.4	3,014,377.7	3,014,377.7	24.0%	
13						#DIV/0!	
14						#DIV/0!	
15						#DIV/0!	
16						#DIV/0!	
17						#DIV/0!	
18						#DIV/0!	
19						#DIV/0!	
20						#DIV/0!	
21 (= amount of other items)						#DIV/0!	
Allocated expenditures	30,445,936.2	37,941,710.3	37,941,710.3	(0.0)	6,565,133.9		
Total expenditures	30,445,936.2	37,941,710.3					
Total (HLG-1(i)) difference						24.6%	
Total (HLG-1(ii)) difference						17.3%	
						0.0%	

Table 5 - Results Matrix			
Year	HLG-1(i) Total expenditure deviation	HLG-1 (ii) Total difference	
2010	0.5%	2.1%	
2011	9.7%	12.6%	
2012	24.6%	17.3%	
Score for HLG-1(i) indicator	A		
Score for HLG-1 (ii) indicator	D		

Table 2		Year data = 2010							
Fiscal year quarter	Approved budget (amount)	Actual receipts (amount)	Actual amount of receipts in the quarter (*)	Actual deferment of receipts in each quarter	Percent of deferred amounts in total receipts	Weight of total deferred amounts			
quarter 1	7,154,301.2	6,634,784.8	6,634,784.8	0	0.0%	0.0%			
quarter 2	9,267,785.4	9,020,551.4	9,020,551.4	0	0.0%	0.0%			
quarter 3	8,655,622.2	9,017,880.7	9,017,880.7	0	0.0%	0.0%			
quarter 4	8,413,657.8	8,646,515.6	8,646,515.6	0	0.0%	0.0%			
Total amount for the year	33,491,466.6	33,319,732.4	33,319,732.4	0	0.0%	0.0%			
Table 3		2011							
Fiscal year quarter	Approved budget (amount)	Actual receipts (amount)	Actual amount of receipts in the quarter (*)	Actual deferment of receipts in each quarter	Percent of deferred amounts in total receipts	Weight of total deferred amounts			
quarter 1	6,741,012.6	5,866,065.1	5,866,065.1	0	0.0%	0.0%			
quarter 2	8,160,841.9	7,352,620.6	7,352,620.6	0	0.0%	0.0%			
quarter 3	7,754,678.7	9,108,978.4	9,108,978.4	0	0.0%	0.0%			
quarter 4	7,336,941.7	10,571,339.8	10,571,339.8	0	0.0%	0.0%			
Total amount for the year	29,993,474.9	32,899,004.0	32,899,004.0	0	0.0%	0.0%			
Table 4		2012							
Fiscal year quarter	Approved budget (amount)	Actual receipts (amount)	Actual amount of receipts in the quarter (*)	Actual deferment of receipts in each quarter	Percent of deferred amounts in total receipts	Weight of total deferred amounts			
quarter 1	6,842,859.2	6,393,458.0	6,393,458.0	0	0.0%	0.0%			
quarter 2	8,293,800.2	8,870,695.3	8,870,695.3	0	0.0%	0.0%			
quarter 3	7,865,307.2	8,873,115.6	8,873,115.6	0	0.0%	0.0%			
quarter 4	7,443,969.6	13,804,441.5	13,804,441.5	0	0.0%	0.0%			
Total amount for the year	30,445,936.2	37,941,710.4	37,941,710.4	0	0.0%	0.0%			

Table 5 - Results Matrix		HLG-1 (i)		HLG-1(iii)	
Year	Actual budget deviation	Deferred in-year expenditures necessary for budget execution			
2010	0.5%	0.0%			
2011	-9.7%	0.0%			
2012	-24.6%	0.0%			
Score for HLG-1 (i) indicator		A			
Score for HLG-1 (iii) indicator		A			
Total score for HLG-1 (iii) indicator		A			

Year data =		2010					
Functional classification (by categories)	approved budget	Actuals	Adjusted budget	Deviation	Absolute deviation	Percent	
General Public Services	5,955,637.7	4,837,267.3	5,441,424.0	(604,156.8)	604,156.8	11.1%	
Defense	15,942.0	10,182.7	14,565.6	(4,382.8)	4,382.8	30.1%	
Economic Relations	2,617,977.6	6,950,278.0	2,391,939.7	4,558,338.3	4,558,338.3	190.6%	
Environmental Protection	5,481,403.2	5,002,137.3	5,008,135.3	(5,998.0)	5,998.0	0.1%	
Housing Construction and Utilities	11,133,194.1	6,937,526.2	10,171,946.8	(3,234,420.7)	3,234,420.7	31.8%	
Health	221,000.0	267,706.5	201,918.7	65,787.8	65,787.8	32.6%	
Recreation, Culture and Religion	3,603,228.5	1,484,011.0	3,292,123.4	(1,808,112.4)	1,808,112.4	54.9%	
Education	22,026,039.5	21,165,734.3	20,124,296.8	1,041,437.5	1,041,437.5	5.2%	
Social Protection	561,764.8	504,768.7	513,261.7	(8,492.9)	8,492.9	1.7%	
Reserve Funds not Classified in Main Categories	-	-	-	-	-	#DIV/0!	
Allocated expenditures	51,616,187.4	47,159,612.0	47,159,612.0	(0.0)	11,331,127.1		
Unforeseen expenditures	1,229,513.0	730,453.5					
Total expenditures	52,845,700.4	47,890,065.5					
Total (PI-1) difference						9.4%	
Total (PI-2) difference						24.0%	
Percentage of non-budgeted expenditures						1.4%	

Functional classification (by categories)	2011					
	approved budget	Actuals	Adjusted budget	Deviation	Absolute deviation	Percent
General Public Services	6,309,359.0	7,014,477.1	5,587,443.3	1,427,033.8	1,427,033.8	25.5%
Defense	49,320.0	36,186.6	43,676.8	(7,490.2)	7,490.2	17.1%
Economic Relations	6,289,698.8	2,021,489.0	5,570,032.6	(3,548,543.6)	3,548,543.6	63.7%
Environmental Protection	5,507,138.9	5,431,500.4	4,877,013.1	554,487.3	554,487.3	11.4%
Housing Construction and Utilities	10,622,993.2	7,486,789.3	9,407,512.3	(1,920,723.0)	1,920,723.0	20.4%
Health	105,032.0	154,369.9	93,014.3	61,355.6	61,355.6	66.0%
Recreation, Culture and Religion	8,174,234.9	7,786,297.1	7,238,940.4	547,356.7	547,356.7	7.6%
Education	19,366,908.2	20,030,902.8	17,150,950.1	2,879,952.7	2,879,952.7	16.8%
Social Protection	551,844.3	495,273.1	488,702.4	6,570.7	6,570.7	1.3%
Reserve Funds not Classified in Main Categories	-	-	-	-	-	#DIV/0!
Allocated expenditures	56,976,529.3	50,457,285.3	50,457,285.3	(0.0)	10,953,513.6	
Unforeseen expenditures	1,319,918.6	2,037,493.3				
Total expenditures	58,296,447.9	52,494,778.6				
Total (PI-1) difference						10.0%
Total (PI-2) difference						21.7%
Percentage of non-budgeted expenditures						3.5%

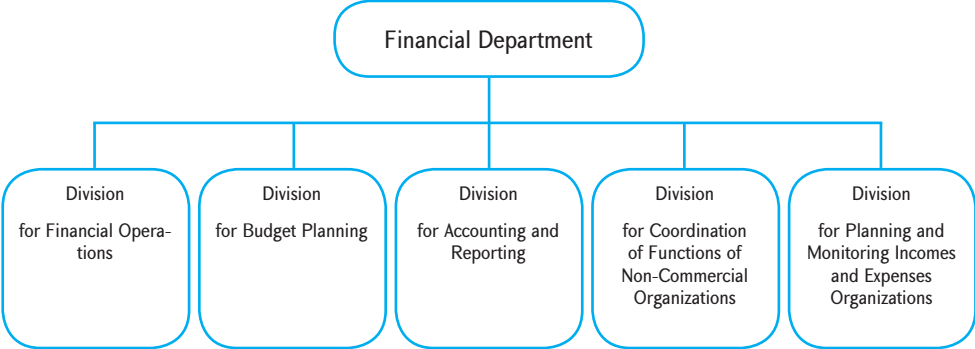
Year data =		2012						
Functional classification (by categories)	approved budget	Actuals	Adjusted budget	Deviation	Absolute deviation	Percent		
General Public Services	7,248,632.9	6,536,699.4	6,802,620.7	(265,921.3)	265,921.3	3.9%		
Defense	43,320.0	40,877.6	40,654.5	223.1	223.1	0.5%		
Economic Relations	13,229,337.5	12,883,860.1	12,415,329.4	468,530.7	468,530.7	3.8%		
Environmental Protection	7,044,532.4	7,042,641.0	6,611,078.6	431,562.4	431,562.4	6.5%		
Housing Construction and Utilities	11,250,346.1	6,187,712.3	10,558,106.4	(4,370,394.1)	4,370,394.1	41.4%		
Health	352,643.5	238,760.1	330,945.2	(92,185.1)	92,185.1	27.9%		
Recreation, Culture and Religion	1,943,112.8	2,153,878.3	1,823,552.0	330,326.3	330,326.3	18.1%		
Education	19,332,781.4	21,303,469.9	18,143,225.2	3,160,244.7	3,160,244.7	17.4%		
Social Protection	615,793.4	915,516.6	577,903.3	337,613.3	337,613.3	58.4%		
Reserve Funds not Classified in Main Categories	-	-	-	-	-	#DIV/0!		
Allocated expenditures	61,060,500.0	57,303,415.3	57,303,415.3	(0.0)	9,457,000.9			
Unforeseen expenditures	2,706,152.5	1,782,287.3						
Total expenditures	63,766,652.5	59,085,702.6						
Total (PI-1) difference							7.3%	
Total (PI-2) difference							16.5%	
Percentage of non-budgeted expenditures							2.8%	

Results Matrix		PI-1	PI-2 (i)	PI-2 (ii)
Year	Total expenditure deviation	Total difference	Unforeseen expenditures (weight)	
2010	9.4%	24.0%		
2011	10.0%	21.7%	2.6%	
2012	7.3%	16.5%		
Score for PI-1 indicator				
Score for PI-2 (i) indicator	D		B	
Score for PI-2 (ii) indicator	A			
Score for PI-2 indicator			D+	

Annex 6: Timetable for the assessment process

Activity	Timetable
Donors and Armenian counterparts set up Oversight Team and agree Concept Note	December 2012
Oversight Team appoints Assessment Team Manager and Assessment Team members, mobilizes external consultants and provides them with basic documents	December 2012
Assessment Team undertakes desk review of documents	January 2013
Inception training of the Yerevan Municipality staff to be involved in the self-assessment (2-3 day workshop on PEFA methodology)	January 2013
Field work collecting and analyzing information and evidence (self-assessment and validation, assessments directly provided by Assessment Team)	February/ May 2013
First draft of Performance Reports presented to Oversight Team	June 2013
Quality assurance by Oversight Team, donor and other peer reviewers and PEFA Secretariat	July 2013
Assessment Team Leader addresses comments from Oversight Team, peer reviewers and PEFA Secretariat, discusses with Assessment Team members and finalizes reports. Submits to Oversight Team, peer reviewers and PEFA Secretariat for review and clearance.	August 2013
Assessment team contributed to the preparation of the recommendations on main directions and priorities of PFM reforms for Yerevan Municipality (based on PEFA assessment)	August 2013
Stakeholders' workshop – Report dissemination	October 2013
Report published	October 2013

Annex 7: Organisational chart of Financial Department at Yerevan Municipality



Annex 8: Disclosure of Quality Assurance Mechanism

Yerevan City, Armenia Disclosure of Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment report for the Armenia, Yerevan City, final report dated September 2013.

1. PEFA Assessment Management Organization

- Oversight Team – Chair and Members: Oversight Team (Task Force) Leader - Deputy Mayor of Yerevan City, Head of Financial Department, Head of Procurement Department, Head of the Revenue Accounting and Collection Department, and Head of Internal Audit Department.
- Assessment Manager: Arman Vatyan (Task Team Leader, the World Bank), and Vahe Nikoyan (Deputy Mayor)
- Assessment Team Leader and Team Members: Arman Vatyan (Task Team Leader, WB), Andrew Mackie (PFM Consultant, WB), Karen Brutyan (Fieldwork Coordinator, WB), Vahan Sirunyan and Sergey Shahnazaryan (Local Consultants, WB). Paul Harnett (PFM Consultant, WB).

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

Draft concept note and/or terms of reference dated October 15, 2012 was submitted for review on December 04, 2012 to the following reviewers:

- Helena Ramos, Senior Public Finance Specialist, PEFA Secretariat
- Feldmann Matthias, Deputy Regional Director, Swiss Cooperation Office for the South Caucasus
- Elene Imnadze, Senior Public Sector Specialist, World Bank, Tbilisi, Georgia
- Daniel J. Boyce, Lead Financial Management Specialist, World Bank, Washington, DC
- Alessandro Zanotta, Economic Adviser – EUROPEAid, Delegation of the European Union to Armenia
- Varsenik Mnatsakanyan, Senior Advisor, Public Financial Management in the South Caucasus, German International Cooperation Agency (GIZ)

Final concept note and/or terms of reference: the concept note was finalized on January 10, 2013 and forwarded to reviewers, including a table showing the response to all comments raised by the reviewers

3. Review of draft report(s)

Draft report dated June 23, 2013 was submitted for review on July 28, 2013 to the following reviewers:

- Helena Ramos, Senior Public Finance Specialist, PEFA Secretariat
- Feldmann Matthias, Deputy Regional Director, Swiss Cooperation Office for the South Caucasus
- Elene Imnadze, Senior Public Sector Specialist, ECSP4
- Alessandro Zanotta, Economic Adviser – EUROPEAid, Delegation of the European Union to Armenia
- Daniel J. Boyce, Lead Financial Management Specialist, LCSFM
- Varsenik Mnatsakanyan, Senior Advisor, Public Financial Management in the South Caucasus, German International Cooperation Agency (GIZ)

4. Review of final draft report

A revised final draft assessment was forwarded to reviewers on September 19, 2013 and included a table showing the response to all comments raised by all reviewers.

This form, describing the quality assurance arrangements will included in the final report.



PEFA assessment report Yerevan City, Armenia, September 2013

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, September 24, 2013

