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PEFA Assessment**

**ARMENIA**

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

**January 2024**



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## ARMENIA

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

May 2024



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EUROPEAN UNION FOR ARMENIA



### PEFA Partners





## **Government of Armenia**

### **Public Expenditure and Financial Accountability (PEFA)**

May 2024

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

PEFA Secretariat  
May 16, 2024

## PEFA CHECK, ASSESSMENT MANAGEMENT AND QUALITY ASSURANCE

Management and oversight of the assessment have been under the auspices of a Steering Committee composed as follows:

Ministry of Finance	Mr. Armen Gevorgyan, Adviser to the Minister - Chair
European Union Delegation	Ms. Frank Hess, Head of Cooperation, European Union Delegation
Agence Française de Développement	Ms. Lise Enezian, Project Officer for Armenia
Asian Development Bank	Mr. Grigor Gyurjyan, Senior Economics Officer
World Bank	Mr. Arman Vatyan, Lead Governance Specialist
International Monetary Fund	Mr. Medhi Raissi, Resident Representative in Armenia

Each institution and the PEFA Secretariat commented on the draft Project Concept Note and the PEFA Assessment Report. Other Armenian stakeholders, including the Audit Chamber, National Assembly, Ministry of Economy, Ministry of Territorial Administration and Infrastructure, State Revenue Committee, and State Property Management Committee, also provided comments. Responses were provided to all commentators in more than one round of comments.

Day-to-day supervision and management of the assessment was carried out by Ms. Zuzana Sorocinova, Programme Officer at the EUD. The Assessment Team comprised i) Dave Biggs, Team Leader; (ii) Elisaveta Teneva – PEFA Team Member; (iii) Iain Rennie – PEFA Team Member; and (iv) Irina Grigoryan – local support expert. Iain Rennie was funded by the ADB, and the other three were funded by the EU.

Key dates throughout the exercise were:

Approval of the PCN: April 2023

Missions to Yerevan, Armenia: January, February/March, June, November 2023

Submission of first draft report: August 2023

Presentation of draft report to Minister and senior staff of Ministry of Finance and other stakeholders, including international development partners: November 2023

Circulation of draft final report: January 2024

Submission of final report: May 2024

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## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AFD	Agence Francaise de Developpement
AFS	Annual Financial Statement(s)
APSAS	Armenian Public Sector Accounting Standards
ARLA	Armenian Lawyers Association
ASB	Authorised State Body
BCG	Budgetary Central Government
CBA	Central Bank of Armenia
CN	Concept Note
CoA	Chamber of Audit
CSO	Civil Society Organisation
DP	Development Partner
EBO	Extra-Budgetary Organisation
EBRD	European Bank for Reconstruction and Development
EDRC	Economic Development and Research Centre
EU	European Union
FMC	Financial Management and Control
GFMIS	Government Financial Management Information System
GFS	Government Finance Statistics
GoA	Government of Armenia
ICD	International Cooperation Department
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards.
LoP	Law on Procurement
MLSA	Ministry of Labour and Social Affairs
MoE	Ministry of Economy
MoESCS	Ministry of Education, Science, Culture and Sport
MoF	Ministry of Finance
MTAI	Ministry of Territorial Administration and Infrastruc4ture
MTEF	Medium-Term Expenditure Framework
NA	National Assembly
NGO	Non-Government Organisation
OT	Oversight Team
PCRB	Procurement Complaint Review Board
PDMD	Public Debt Management Department
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMS	Public Finance Management Strategy
PIU	Project Implementation Unit
RA	Republic of Armenia
SIGMA	Support for Improvement in Governance and Management
SNCO	State Non- Commercial Organisation
SOE	State Owned Enterprise
SPMC	State Property Management Committee
SRC	State Revenue Committee
TI	Transparency International
TIN	Taxpayer Identification Number



TSA Treasury Single Account  
VAT Value Added Tax  
VFM Value for Money  
WB World Bank

## METHODOLOGY

The assessment followed the 2016 PEFA assessment framework and other supplementary guidance issued by the PEFA Secretariat (available at [www.pefa.org](http://www.pefa.org)).

### **Type of assessment:**

This assessment is the third to have been undertaken in Armenia, the most recent previous assessment having reported in 2014 under the 2011 PEFA Framework. This is, therefore, a baseline assessment for the PEFA Framework 2016.

Much has changed since then, both globally and more specifically in relation to Armenia, within and outside the Public Financial Management (PFM) field. Armenia has had to deal with the twin shocks of the COVID-19 pandemic and armed conflict on its borders, as well as the fallout from the Russian invasion of Ukraine. These shocks severely impacted the three-year period covered by this assessment (2020-22).

In the area of PFM, there have been significant changes in law, practice, technology and staffing. Many officials who participated in the previous assessment are no longer in (the same) posts. In addition, this is the first assessment in Armenia under the 2016 PEFA Framework, with which there was initially only limited familiarity on the part of the Government of Armenia (GoA). Hence, the assessment has been led by the external assessors appointed by the European Union (EU) and the Asian Development Bank (ADB), although a range of GoA officials has provided invaluable input to the process. It should be noted that the PEFA assessment is designed, *inter alia*, to feed into an update of the GoA PFM Reform Strategy and an internal PFM review process on the part of the EU.

Despite the long period between assessments, the GoA was keen to see that the current evaluation tracked change from the previous assessment issued in 2014 and for that purpose the PEFA Secretariat's Guidance on tracking change in performance for successive assessments using different versions of PEFA framework was applied. Performance tracking is presented in Annex 4 of the report.

### **A number of indicators were used:**

The assessment team used all 31 performance indicators and 94 dimensions that comprise the 2016 PEFA Framework.

### **Timeline/ Dates of mission:**

The assessment process took place from January to April 2024 and involved one preliminary and three main missions to Yerevan, the capital city of Armenia. The dates of the missions were:

- 18-22 January 2023 - preliminary mission by Team Leader;
- 20 February – 3 March 2023 first full mission;
- 5-16 June 2023 – second full mission;
- 20-24 November 2023 – final mission.

The assessment team comprised (i) Dave Biggs, Team Leader; (ii) Elisaveta Teneva – PEFA Team Member; (iii) Iain Rennie – PEFA Team Member; and (iv) Irina Grigoryan – local support expert. Iain Rennie was funded by the ADB, and the other three were funded by the EU. In terms of roles, whilst all Team members attended almost all meetings held during the missions, lead responsibility for the 31 Performance Indicators was shared as follows: (i) Dave Biggs – PI 1-5,7-9, 27-29; (ii) Elisaveta

Teneva – PIs 6, 19-26; (iii) Iain Rennie PIs 10-18, 30-31. Irina Grigoryan provided valuable support as requested by the assessors mentioned above.

**Years covered:**

Based on audited financial information, the assessment covered the last three completed fiscal years in Armenia. They are 2020, 2021 and 2022, and they are equal to the calendar years.

**Cut-off date:**

The cut-off date for assessment purposes was 30 June 2023. This applies to all indicators covering three assessment years or “last completed fiscal year” referred to in several dimensions.

**Coverage:**

The assessment covers the budgetary central government level of Armenia. All budget beneficiaries (including ministries, departments, committees, agencies, public companies and State non-commercial organisations) were included. The Social Security Fund is part of the Ministry of Labour and Social Affairs, and the SNCOs are part of their respective line ministries. The assessment does not cover the sub-national government level except insofar as indicators relate to inter-governmental financial management and accountability.

**The primary subject of the assessment was budgetary central government (BCG), although the broader central government (CG) is considered where the PEFA Framework requires.** In terms of public sector coverage, the focus has been on the 46 main budget bodies, 68 subordinate bodies, the City of Yerevan, and the approximately 1800 State Non-Commercial Organisations (SNCOs) that, taken together, comprise the central government in Armenia. The Ministry of Finance has been the primary beneficiary of the PEFA assessment report, but the Assessment also impacts various budget bodies and subordinate bodies. Examples of these bodies are shown in Table 1 below. The revenue and expenditure of provincial administration is covered under the relevant parent Ministry/budget body.

**Table 1**

Examples of Main budget bodies	Examples of Subordinate bodies	Provincial governments
Prime Minister	Civil Service Office	City of Yerevan
	Statistical Committee	
Ministry of Finance	State Revenue Committee	Aragatsotn
Ministry of Economy	Intellectual Property Office	Ararat
	Tourism Committee	Armavir
Ministry of Labour and Social Affairs	Integrated Social Service	Gegharkunik
Ministry of Territorial Administration and Infrastructure	State Property Management Committee	Lori
Ministry of Justice	Agency for Protection of Personnel Data	Kotayk
	Agency for State Register of Legal Entities;	Shirak
	Penitentiary Service;	Syunik
Ministry of Health	National Institute of Health	Vayots Dzor
	Drug Medical Technology Expertise Centre	Tavush
	Health Care Assistance	
Ministry of Education, Science, Culture and Sport	Science Committee	
	Language Committee	
	Supreme Certifying Committee	

### **Sources of information:**

The process of data and information collection covered the following sources: (i) stakeholder interviews with relevant government officials; (ii) review, processing and analysis of written material, including laws, regulations, reports, budgets, financial statements and statistics - some of this was done on-site during missions to Yerevan and other elements were done remotely from home base (iii) interview with the Chamber of Commerce, (iv) discussions with several leading civil society organisations and (v) other public reports and analytical data relevant to assessing PEFA indicators. The main counterparts during the assessment were the Ministry of Finance and its departments, relevant large budget users such as Ministries of Education, Health, Labour and Social Affairs, Territorial Administration and Infrastructure, the State Revenue Committee, the State Property Management Committee, the Supreme Audit Institution (Chamber of Audit) and the Parliamentary Committees for Budget and Finance.

Much of the required information was derived from official documentation published by the GoA. This was supplemented by consulting the documentation produced by international financial institutions as well as by discussions with the private sector and civil society.

Data collection was carried out by the assessment team members. Verification of information and triangulation was undertaken to ensure accuracy. The complete list of institutions and people met, as well as documents and reports used, is shown in Annex 3 of the report. The constant support of the Adviser to the Minister of Finance and the Budget Coordination Department was invaluable in the entire exercise.

The level of cooperation shown by the Armenian authorities was excellent. Understandably, much of the required information, whether documentary or online, was in the Armenian language, requiring translation before it could be properly analysed. The extensive use of Google Translate was made, which tended to be a slow and imprecise process that required regular reference to the authorities to confirm the Team's understanding.

**Country fiscal year:** Armenia's fiscal year is from 1 January to 31 December.

**Exchange rate:** As of July 2023, 1 USD equals 385 Armenian Dram (AMD).

## EXECUTIVE SUMMARY

### Purpose and management

The purposes of the assessment were:

- to establish a new baseline for the performance of the Armenian PFM system using the 2016 PEFA Framework, bearing in mind that the previous assessment reported in 2014 under the 2011 Framework;
- to inform and guide the development of a new PFM Reform Strategy and Action Plan for the five-year period 2024 -28;
- to highlight the key strengths and weaknesses of the PFM system;
- to provide a basis for continuing capacity development in PFM.

On behalf of the GoA, the Ministry of Finance has expressed and shown its strong commitment to using the findings of the PEFA Assessment to inform and guide the continuing process of PFM reform and modernisation in Armenia. The essential prioritisation and sequencing of activities that will be reflected in the Reform Strategy and Action Plan will be supported by both the scoring of the PEFA indicators and, arguably, more importantly, by discussing PFM issues in the PEFA Report.

Strategic management and oversight of the Assessment have been carried out by the PEFA Steering Committee, which comprises representatives of the Ministry of Finance of the Republic of Armenia Government, the European Union Delegation, the French Agency for Development, the Asian Development Bank, the World Bank and the International Monetary Fund. The lead agency was the European Union, represented by Mr. Frank Hess, Head of Cooperation and Ms. Zuzana Sorocinova, Programme Officer. The EUD, as the primary funding agency, chairs the Committee.

Whilst the primary entity responsible for the RA Government's oversight of the Assessment was the Ministry of Finance, several other key Armenian institutional stakeholders have had an active involvement with the Assessment, including the Audit Chamber, the State Revenue Committee, the State Property Management Committee, the National Assembly and several civil society organisations. To optimise participation and ownership of the Assessment, an Oversight Committee has been chaired by the Ministry of Finance at the operational level. In addition, there has been regular and highly beneficial dialogue between the assessment team and the Adviser to the Minister of Finance both during and between in-country missions.

As is customary with PEFA assessments, the report contains no specific PFM reform recommendations. Instead, the Assessment should be seen as a vehicle for guiding Governments in determining short—and long-term actions that contribute to the achievement of their planned PFM outcomes.

### Main strengths and weaknesses of the PFM systems in Armenia

Armenia's PFM systems show several significant strengths, including:

- Effective aggregate expenditure control;
- An overall high level of fiscal transparency;
- Sound macro-fiscal planning and management;
- Efficient tax administration;
- Well-performing accounting and reporting systems;

At the same time, specific weaknesses have been identified, namely:

- Incomplete information on planned tax revenue composition;
- An excessive number of programmes and measures with limited focus on outcomes;
- Disconnections between strategic planning and budget preparation;
- Shortcomings in capital investment appraisal, implementation and monitoring;
- Confused and inconsistent internal audit arrangements;
- Limited independent evaluation of government service delivery programmes.

More broadly, regarding aggregate financial discipline, the Armenian PFM system has demonstrated its ability to plan and contain expenditures within available resources despite the shocks the country has experienced in the last three years.

Some of the necessary foundations for effective resource allocation through strategic planning of services and medium-term fiscal planning are in place at the macro level and individual budget bodies. Medium-term and annual budgeting practices are generally sound and efficiently implemented, though there are weaknesses in the links between strategic plans and resource allocation. There is room for improvement in the quality - and, in some cases, relevance – of the performance indicators and targets which are set for public service provision. There is also a lack of connection between projected expenditure levels in the MTEF and the starting baseline for budget preparation.

Several initiatives underway may contribute to greater efficiency and effectiveness in using public resources. It is particularly encouraging to note that the GoA is paying close attention to delivering a wide range of public services, as evidenced by the recent programme and performance-based budgeting reforms. It has also been experimenting with partial contracting of internal audit services to the private sector in pursuit of improved financial and operational efficiency, though the effectiveness of this approach has been uneven. Essentially, the internal audit arrangements are still evolving. The Audit Chamber also contributes to improvements in public services through its performance audit work, and the use of independent consultants to evaluate government programmes is being trialled.

Armenia has received support from the international development community towards improving public financial management (PFM) for several years, some of which have been provided using EU budget support. EU assistance has generally been partly conditional on maintaining macroeconomic stability, implementing a continuing program of public financial management (PFM) reform, and further improvements in the transparency of PFM. This assessment, which the EU and the ADB sponsored, is intended to provide an overview of progress in PFM since the previous assessment reported in 2014 under the 2011 PEFA Framework and, at the same time, to establish a benchmark for the future measurement of progress. The assessment will inform and guide the development of a new PFM Reform Strategy and Action Plan for the five-year period 2024-28, highlight the key strengths and weaknesses of the PFM system, and provide a basis for continuing capacity development in PFM.

The assessment focuses on **budgetary central government** (BCG) – this means the 46 main budget bodies and 68 subordinate bodies, the City of Yerevan and about 1800 SNCOs that, taken together, comprise the central government in Armenia.

Armenia has faced a very challenging social, economic, political and security environment during the period covered by this assessment (2020-22). Three major exogenous shocks affected the country: the COVID-19 pandemic, armed conflict with neighbouring Azerbaijan and the regional insecurity associated with the Russian invasion of Ukraine. Despite these shocks, the IMF reports that, after

falling by 7.2% in 2020, real GDP grew by 5.7% in 2021 and 12.6 percent in 2022, “driven by robust consumption and a surge in inflow of income, capital, business, and labour”.

In terms of public finances, the IMF notes that, by the end of the period under review in 2022, Armenia had significantly improved its fiscal position. The headline fiscal deficit narrowed to 2.1 percent of GDP in 2022 due to robust revenues and spending under-execution. Central government debt dropped by 14 percentage points of GDP to 46.7 percent due to deficit reduction, high nominal growth, and exchange rate appreciation.

In the field of PFM, Armenia has been undertaking a wide range of developments under its PFM Reform Strategy 2019-23. These include the introduction of programme budgeting and the gradual application of accrual accounting principles to government financial statements. An interesting approach to resourcing government internal audits has been introduced whereby most of the larger budget bodies have contracted out the service to the private sector, albeit with different perceptions of the degree of success in the eyes of government officials.

This assessment shows that Armenia has generally maintained **aggregate fiscal discipline**, with effective cash and debt management and prompt and accurate budget execution reporting. Aggregate expenditure has been kept within budgeted amounts, although there have been fluctuations in the balance between recurrent and capital expenditure and between functions. There have also been significant variances between aggregate revenue forecast and the outturn, as well as pretty large variances in the composition of revenue. Payroll control and procurement management are generally satisfactory.

Considerable efforts have been made to improve the **strategic allocation and management of resources** using programme performance indicators against which actual achievements are measured. However, the indicators are mostly financial or defined in terms of outputs or activities rather than outcomes in terms of service improvements. Budget documentation does not seem to provide any clear indication of the link between the actions to be undertaken and the achievement of specified outputs, let alone outcomes. Institutional arrangements in the form of the Government Programme and the High-Level Investment Committee chaired by the Prime Minister provide a framework on which specific decisions on capital investments or other actions to achieve service improvements should be based. However, there are not yet strong linkages between these strategic plans and budget allocation. Efforts supported by the World Bank, IMF, and ADB to strengthen public investment management should enable improvements in project appraisal, implementation, and monitoring, but the impact of these arrangements will be optimised only if the links between strategic plans and actual decisions are strengthened.

Good scores on PFM Indicators do not necessarily show that resources are used efficiently for **service delivery**. It is important to ensure that the focus on correct procedures is not at the expense of good performance in providing public services. In this context, it is encouraging that there are continuing efforts to improve the balance of external audit work away from compliance with systems and performance. There is an important role here, too, for internal audit, where the effectiveness of a contracted-out approach is under review by the Ministry of Finance.

Overall, the picture is of continuing gradual improvement in PFM across a range of important issues despite a very volatile socio-economic and political environment compounded by national security concerns. Financial management information systems have improved, and important work is taking place on developing and implementing a multi-module Government Financial Management Information System (GFMIS) that is intended to provide a fully automated budget planning process

connected to accounting units and facilitate more efficient expenditure management. From the transparency perspective, much fiscal information is published promptly.

There are good prospects for continuing improvements in PFM, supported by Armenia's international development partners. A five-year PFM reform strategy will be developed for 2024-28. Whilst this will be informed by the current PEFA assessment, it will be important for the RA Government to choose priorities carefully so as not to exceed the capacity of the PFM system to absorb reform demands.

### **Performance changes since the previous PEFA assessment**

The last PEFA assessment was conducted in 2013, using the 2011 methodology. Annex 4 provides a detailed analysis of changes since then. Overall, this reveals a positive situation. Most (61%) of the PFM areas have not changed, and nearly one-third (29%) achieved higher PEFA scores in 2023.

The areas of improvement include the process of capturing all central government operations of budgetary and former extra-budgetary (SNCO) activities, allowing a complete picture of expenditure and revenue in the annual budget execution reporting. This contributes to more comprehensive budget reporting and better transparency.

Another positive development is the transparency of taxpayer obligations and liabilities, with more explicit tax procedures and regulations. Payroll control has become more rigorous due to monthly reconciliation between the staff list and the payroll, which results in a lack of retroactive adjustments. Fiscal discipline is strengthened by linking the personnel data and payroll data so that changes are reflected each month.

The strengthening of the internal control system is also evidenced by having more effective internal controls of non-salary expenditure.

Internal audit functions better now, some of which have been contracted out to the private sector. Applying most international accounting standards (PI-25 scored B from D+) adopted as APSAS has improved the quality of the annual financial statements. Overall, these improvements have contributed to predictability and control in budget execution.

The three areas where the performance declined are: (i) PI-1 scored B from A due to higher variance in aggregate expenditure out-turn compared to the approved budget; (ii) PI-3 scored C from A for higher variance in aggregate revenue out-turn compared to the approved budget; (iii) significant amounts of uncleared advance account balances at year-end that affect the timeliness and regularity of accounts reconciliation.

Regarding the three budgetary outcomes, aggregate fiscal discipline is supported by:

- i) sound operation of procedures forecasting expenditure commitments and providing reliable information on the availability of funds that would maintain smooth resource allocation throughout the year
- ii) Good internal controls on expenditure commitments and compliance with payment rules to ensure that public funds are spent as planned.
- iii) Reliable fiscal discipline with no incurred expenditure arrears and effective debt management.

The strategic allocation of resources is evidenced by:

- i) improved government's ability to predict and collect revenue,



- ii) absence of unreported government operations,
- iii) monitoring of subnational governments with transparent financial information.

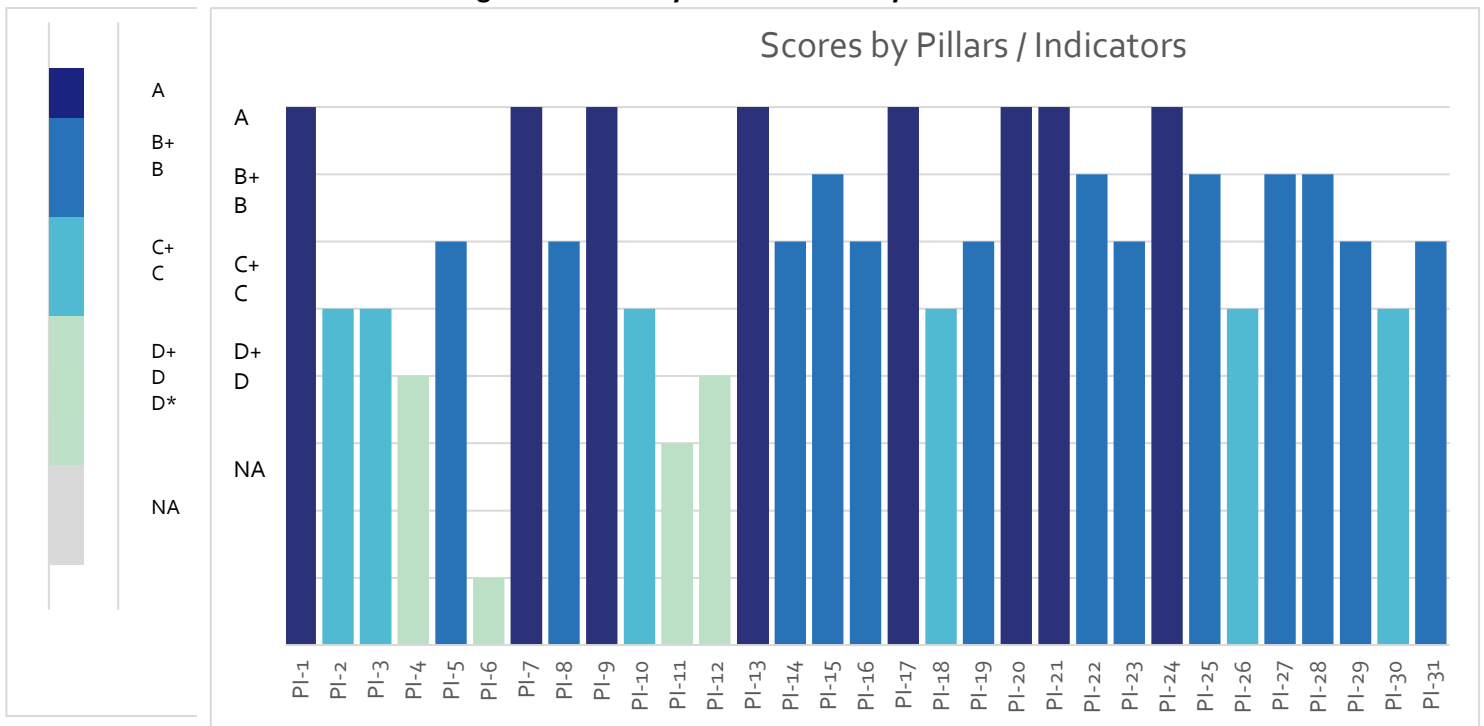
On the other hand, public investment and asset management need further development.

Efficient service delivery in the operations of government finances is demonstrated by

- i) the improved public procurement practice with the prevailing competitive method;
- ii) expanded coverage of internal audit;
- iii) better quality of the financial accounting statements

However, there remains a need to do more to strengthen the independent evaluation of service delivery programmes.

**Figure 1: Summary of PEFA scores by indicator**



**Table 2: Overview of the scores of the PEFA indicators**

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

## Impact of PFM performance on budgetary and fiscal outcomes

This section of the report considers the ways in which PFM performance impacts the key budgetary and fiscal outcomes. The first outcome is aggregate fiscal discipline. In this area, Armenia has done well in managing public expenditure during a period of great economic, security and social instability. This achievement is indicated by the A score awarded to PI-1, which addresses the aggregate expenditure outturn, and by the absence of the use of contingency funding (PI-2.3). Revenue administration has also performed well at the aggregate level. In terms of both expenditure and revenue, there has been a premium on a certain amount of flexibility given the effects of COVID, armed conflict on the border and the Russian invasion of Ukraine. This has resulted in significant variances in the composition of expenditure and revenue.

The second outcome concerns the strategic allocation of resources where overall performance has been rather mixed. Although a programmatic approach to expenditure planning and reporting has been in place since 2019, the linkages between long-term national development goals, medium-term sector strategies and plans and budgets remain weak. There have been problems regarding the planning, execution and monitoring of capital expenditure projects, though there are signs that public investment and public asset management reforms are in progress.

The outcome concerns efficient service delivery. Some of the necessary architecture for public service management is in place here. There is a framework of performance indicators that are used to measure and monitor service delivery, but the process suffers from a surfeit of indicators that are heavily focused on financial inputs rather than service outputs, especially outcomes. Independent performance evaluation is in its infancy, though the Chamber of Audit does undertake performance audits, and several programme evaluations are being trialled. There is also a role for a strengthened internal audit function across government where current practice needs strengthening. Accounting reform is underway and focused on applying accruals methodology intended to provide the basis for better resource allocation and management.

## I. PFM CONTEXT IN ARMENIA

### 1.1. [Financial overview](#)

Armenia has a population of 2.96 million and is a middle-income economy (GDP per capita in 2022 was US\$6,584). Armenia's exports are largely dependent on commodities and tourism. In recent years, the Armenian economy has been buffeted by several shocks. In 2020 and 2021, the economy was adversely affected by both the COVID-19 pandemic and renewed hostilities on Armenia's borders. In 2022, the invasion of Ukraine by Russia had a significant impact on Armenia, like other countries in the region. Overall, these implications have been positive, with the economy growing very strongly, benefiting from financial inflows, increased immigration, re-exports to Russia and strong tourism growth.

Strong economic growth is expected to continue in the short term, with the IMF projecting GDP growth of 5.5% in 2023 and 5.0% in 2024. Inflation is expected to decline to 5.6% in 2023 and 4.0% in 2024.

Over the medium term, Armenia's economic development challenges include raising productivity to levels seen in post-Soviet Eastern European economies, improving the quality of economic infrastructure spending and reducing high unemployment rates.

Recent economic developments are summarised in Table 3 below. Table 4 shows the structure of the public sector, and Table 6 shows the financial structure.

**TABLE 3: Selected economic indicators**

	2020	2021	2022
GDP (in millions of US dollars)	12,642	13,879	19,514
GDP per capita (in US dollars)	4,269	4,685	6,572
Real GDP growth (%)	-7.2	5.8	12.6
CPI (annual average change) (%)	1.2	7.2	8.6
Unemployment rate (in per cent)	18.2	15.5	13.0
Gross government debt (% of GDP)	63.5	60.3	46.7
Exports of goods and services (% change)	-34.1	31.3	100.3
Imports of goods and services (% change)	-33.2	20.4	66.5
Current account balance (% of GDP)	-4.0	-3.5	0.8
Total external debt (% of GDP)	102.1	99.8	78.7
Gross official reserves (months of import value)	6.2	6.3	4.8

The fiscal position has been significantly affected by the volatile economic situation in Armenia and the government’s requirements to respond to the country’s public health and national security crises since 2020. In terms of the aggregate fiscal position (presented in Table 5 below), revenues have remained relatively stable as a percentage of GDP. In absolute terms, this has meant that revenues increased rapidly over 2021 and 2022 as the economy recovered from the 2020 downturn. Relatively firm controls on overall spending (except for a significant increase in capital spending in 2022) and the wind-down of COVID-19-related expenditures meant that public spending as a share of GDP declined over the 2020-2022 period by over 4 per cent points. In turn, the fiscal deficit declined significantly. The combination of reduced borrowing requirements, a significant appreciation of the dram and rapidly rising GDP contributed to gross government debt falling from 63.5% in 2020 to 46.7% in 2022.

Table 7 summarises the share of total spending by sector. The required increases in health spending in 2020 and 2021 in response to the pandemic and increased defence spending in the unsettled security environment are clearly seen, while other sectoral allocations are broadly stable. Table 8 summarises recent spending outturns by economic classification. The key change to note is the increase in capital spending’s share of total spending in 2022, which is in line with the priority that the government is placing on increased public infrastructure spending.

**TABLE 4: Structure of the public sector (number of entities and financial turnover)**

Year	Public sector			
	Government subsector		Social security funds 1/	Public corporation subsector
	Budgetary unit	Extrabudgetary units		
Central	46 (main budget bodies) +68 (subordinate) +1800 SNCOs	N/a	1 integrated into the programmes, accounts and reports of MoLSA	176
1 <sup>st</sup> tier subnational (State)				
Lower tier(s) of subnational				

1/ Depending on management control and funding arrangements, a social security fund is a public sector entity that may form part of a particular level of government or be classified as a separate sub-sector of the government sector (GFS 2014, paragraph 2.78).

2/ 'Budgetary central government' comprises all central government entities included in the central government budget.

**TABLE 5: Aggregate fiscal data**

Central government actuals (in percent of GDP)			
	2020	2021	2022
Total revenue	25.2	24.1	24.3
—Own revenue	24.4	23.9	24.1
—Grants	0.9	0.2	0.2
Total expenditure	30.6	28.7	26.4
—Noninterest expense	24.3	23.0	19.6
—Interest expense	2.7	2.6	2.3
Transactions in non-financial assets	3.7	3.1	4.5
Aggregate deficit (incl. grants) (below the line)	-5.1	-4.6	-1.9
Primary deficit	-4.4	-4.0	-1.5
Net financing			
—External	-0.4	3.1	-1.3
—Domestic	5.5	1.4	3.2

**TABLE 6: Financial structure of central government – actual expenditure (in currency units)**

Year 2022	Central government			
	Budgetary unit	Extrabudgetary units	Social security funds	Total aggregated 1/
Revenue (m of drams)	2,063,096	N/A	N/A	2,063,096
Expenditure	2,242,626			2,242,626
Transfers to (-) and from (+) other units of general government	68,700			68,700
Liabilities	N/A			N/A
Financial assets	N/A			N/A
Non-Financial assets	N/A			N/A

**TABLE 7: Budget allocations by function**

Actual budgetary allocations by sectors (as a percentage of total expenditures)			
	2020	2021	2022
Social Protection	28.8	30.9	27.4
Defence	20.5	16.8	21.4
General Public Services	9.5	10.0	9.3
Interest Expenses	8.7	9.0	8.8
Public Order	8.0	8.0	8.8
Health	7.8	8.0	6.3
Education	7.6	7.5	7.4
Economic	6.6	7.6	7.8
Other	2.5	2.8	2.8

**TABLE 8: Budget allocations by economic classification**

Actual budgetary allocations by economic classification (as a percentage of total expenditures)			
	2020	2021	2022
Current expenditures	88.1	89.2	83.0
—Wages and salaries	20.1	19.7	18.7
—Goods and services	6.0	6.6	6.1
—Interest	8.7	9.0	8.8

—Transfers	<b>39.5</b>	<b>41.8</b>	<b>38.8</b>
—Others	<b>13.8</b>	<b>12.1</b>	<b>10.6</b>
Capital expenditures	<b>11.9</b>	<b>10.8</b>	<b>17.0</b>

## 1.2. Institutional arrangements for PFM

The Republic of Armenia is a sovereign, democratic, social state governed by the rule of law. The government's legislative, executive, and judicial powers are exercised in conformity with the Constitution and regulations based on the separation and balance of the three branches of government. The Constitution of Armenia was adopted on 5 July 1995 through a referendum and was subsequently amended in 2005 and 2015 through referenda.

The National Assembly represents the people of Armenia and implements the legislative power. It also supervises the executive power, adopts the State Budget, and performs other functions prescribed by the Constitution.

The President of the Republic is the Head of State. The President observes compliance with the Constitution and is elected by the National Assembly for seven years.

The Government of Armenia is the supreme body of executive power. It develops and implements the country's domestic and foreign policies and manages all public bodies of the state administration system. The Government comprises the Prime Minister, Deputy Prime Ministers, and ministers.

The judicial power in Armenia is administered only by courts in compliance with the Constitution and laws. The Constitutional Court, the Court of Cassation, the Courts of Appeal, the Courts of First Instance of General Jurisdiction, and the Administrative Court operate in the Republic of Armenia.

The administrative-territorial units of Armenia are known as marzes [regions] and the communities. There are 10 marzes in the territory of the Republic of Armenia. The capital, Yerevan, is a community and belongs to the central government level.

The Budget System Law is the core legal framework regulating all budget-related processes, operations and functions. It distinguishes two budget levels: (i) State budget and (ii) Community budget.

The State budget covers 46 main budget bodies that report to the Government of Armenia. These include all 13 ministries and the 11 provincial governments, including the capital city, Yerevan. There are 68 subordinate bodies reporting to the main budget bodies, comprising different agencies, committees, foundations, and state services.

There are about 1,800 state non-commercial organisations, or SNCOs (e.g., schools, health, cultural, and sports establishments), with more than 80% of their budgets funded by the state budget. SNCOs are budgetary units with individual budgets that are fully covered in the main budget. They appear in the Annual Budget Execution report with their total expenditures and revenue.

There are 176 State-owned Enterprises, and those with a 50% or more share of the State are monitored by the State Property Management Committee, which is a subordinate budget body to the Ministry of Territorial Administration and Infrastructure. The Social Security and Pensions Funds are part of the Ministry of Labour and Social Affairs, and there are no extra-budgetary funds.

There are two levels of territorial government authorities: (i) the central level and (ii) the local self-governing level of administration, usually referred to as the community. There are 71 communities in Armenia. The provincial administration is part of the central government and has no separate budget. A mayor elected by a direct vote heads the community level. Every community is governed by a municipal council, which is the legislative body.

The central government of Armenia covers all main budget bodies (46), subordinate bodies (68), provincial governments (11), and State Non-Commercial Organisations (1800).

**Table 9: Types of Government Institutions**

Examples of Main budget bodies	Examples of Subordinate bodies	Provincial governments
Prime Minister	Civil Service Office	City of Yerevan
	Statistical Committee	
Ministry of Finance		Aragatsotn
Ministry of Economy	Intellectual Property Office	Ararat
	Tourism Committee	Armavir
Ministry of Labour and Social Affairs	Integrated Social Service	Gegharkunik
Ministry of Territorial Administration and Infrastructure	State Property Management Committee	Lori
Ministry of Justice	Agency for Protection of Personnel Data	Kotayk
	Agency for State Register of Legal Entities;	Shirak
	Penitentiary Service;	Syunik
Ministry of Health	National Institute of Health	Vayots Dzor
	Drug Medical Technology Expertise Centre	Tavush
	Health Care Assistance	
Ministry of Education, Science, Culture and Sport	Science Committee	
	Language Committee	
	Supreme Certifying Committee	
State Revenue Committee		

### 1.3. Legal and regulatory arrangements for PFM

The Constitution of Armenia is the supreme legal authority. It was established in 1995, amended a first time in 2005 and a second time in 2015 through a referendum, turning the political system into a parliamentary republic. It defines Armenia as a sovereign, democratic, social state governed by the rule of law. The people of Armenia exercise their power through free elections and referenda, as well as through state and local self-government bodies and officials provided for by the Constitution. State power is exercised in conformity with the Constitution and the laws based on separating the legislative, executive and judicial powers.

Armenia's legal system is based on the Constitution, laws approved by the National Assembly, decrees issued by the President, and decisions and orders made by the Government.

There is no specific legal framework for public internal financial control. A law on financial management control was planned to be adopted in 2019, but it has still not been completed.

**Table 10: Main PFM laws and regulations**

PFM area	Law/ regulation	Brief description and coverage
<b>All</b>	Constitution	
<b>Planning</b>	Law on Budget System, 2019 (last amendment March 2023)	The Law defines the budgetary system of the Republic of Armenia and regulates the process of budgeting.
<b>Budgeting</b>	Law on Budget System, Law on Treasury, Government Decree No. 706., 2018	Government Decree on budget procedure
<b>Accounting</b>	Law on accounting of public sector organisations	It defines uniform bases for organising and maintaining accounting, preparing and submitting general purpose financial statements of public sector organisations, and regulating other relations pertaining to accounting of public sector organisations.
<b>Tax Administration</b>	Tax Code, 2016 Customs Code	The Tax Code regulates the relations related to the taxes and fees applied in the Republic of Armenia. It prescribes the principles of the tax system, the scope of taxpayers, tax rates, the procedure and terms of tax calculation, payment, and levying tax liabilities, as well as defining the principles of tax benefits.
<b>Internal Audit</b>	Law on Internal Audit, 2012 MoF Order No. 165-N, 23 February 2013	The Law defines IA's mandate, scope, authority, responsibility and reporting relationship in central and local government. The MoF Order defines the order and requirements for establishing the internal audit function and the Internal Audit Committee.
<b>External Audit</b>	Constitution, Law on Chamber of Audit	The Constitution and the Law stipulate the independence (but not financial), mandate, and organisation of the supreme audit institution so that it can perform its mandate autonomously.
<b>Intergovernmental fiscal relations</b>	Law on Treasury Law on State Non-Commercial Organisations (SNCOs)	There are about 1800 SNCOs, which are part of the central government budgeting. About 1400 of them are education establishments, and 31 are authorised bodies. They all provide input to their line ministries on all related budget planning and implementation stages.
<b>Parliament</b>	Law on Rules of Procedure of the National Assembly	The legal act clearly defines the measures to be implemented within the framework of the budget scrutiny process.
<b>Internal control</b>	FMC Manual Law on Budget System Law on Treasury The Law on Civil Service	
<b>Procurement</b>	Law on Procurement, 2018	The Law regulates the public procurement process, including the appeal mechanism. The Law is supplemented by a few decrees that also contribute to the procurement legal



PFM area	Law/ regulation	Brief description and coverage
		framework dealing with specific issues generally related to e-procurement,
<b>Public participation</b>	Law on Regulatory Legal Acts, 2018  Prime Minister Decree N 35-A "On starting the budget processes of 2022", paragraph 24 in the Annex.	<p>The Law regulates relations pertaining to public discussion, regulatory impact assessment, expert examination, promulgation, entry into force, effect of, amendment, supplement to, and termination of a regulatory legal act, as well as application, interpretation, clarification of norms of legal acts in cases of legal contradictions (legal collisions) and legislative gaps and the rules of legislative technique.</p> <p>The Prime Minister Decree provides the legal provisions of public participation in budget formulation.</p> <p>The procedure stipulates the need, as part of the process of the development of the draft MTEF (including the RA 2022 state budget), to conduct discussions on the budget with interested civil society organisations in the areas under their jurisdiction and present information on the results of the talks (including a summary of submitted comments and proposals on acceptance or rejection.</p>

#### 1.4. PFM Reform process

Over the past two decades, a few PFM diagnostics have shaped ongoing PFM reform processes designed and implemented by the Armenian authorities.

In 2008, a PEFA Assessment was undertaken by a group of specialists across several Armenian agencies: the Ministry of Finance, State Tax Service and State Customs Committee, the Chamber of Control, and the Standing Committee on Financial, Credit and Budget Issues in the National Assembly. The draft assessment report was discussed with experts from several international organisations, including the World Bank, IMF, and PEFA Secretariat.

The Assessment reported several strengths relating to the budget's credibility and policy-based budgeting. At the time of the assessment, key weaknesses were identified concerning fiscal risks from state-owned bodies, such as State Non-Commercial Organisations, shortfalls in the internal control system and weak internal audit processes, a lack of a risk-based approach to tax audit planning, shortfalls in the implementation of performance-based budgeting and a lack of clarity concerning the accounting standards used in government financial reporting.

A subsequent PEFA assessment was undertaken in 2013 and published in 2014. This assessment was conducted by the Ministry of Finance, State Revenue Committee, Chamber of Control and the Standing Committee for Financial-Credit and Budgetary Affairs of the National Assembly. Consultants

funded by the EU and GIZ supported the assessment, with the World Bank team extensively engaged in the process through the review of draft and final reports. Development partners and the PEFA Secretariat reviewed the draft assessment.

The 2013 assessment reported strengths in the budget's credibility, comprehensiveness and transparency, budget preparation processes and budget execution. Weaknesses were noted around insufficient development of a medium-term perspective in budgeting with consequent inattention to cost-effectiveness in service delivery. Revenue administration and forecasting weaknesses created risks that revenue shortfalls would impair service delivery. Fiscal risks arising from insufficient monitoring of SNCOs and Closed Joint Stock Companies (CJSCs) were noted together with external audit limitations (e.g. inability to prepare auditable annual financial statements and the absence of economic and performance audits carried out by the Chamber of Control). More broadly, the assessment noted that despite two decades of PFM and public administration reforms, centralised management systems were still in place, contributing to insufficient focus on the cost-effective delivery and accountability of public services.

Regarding other PFM assessments, recent reports include the IMF's publication of a Public Investment Management Assessment (PIMA) in 2018, the IMF's Armenia Fiscal Transparency Evaluation of 2019 (FTE) and the SIGMA Baseline Measurement Report in 2019. The PIMA identified a range of significant weaknesses of the public investment management system at that time concerning planning, project appraisal and selection, costing and budgeting and project implementation.

The Government of Armenia's current PFM reform strategy is outlined in the Work Program on Implementation of Measures Envisaged within the Public Finance System Reforms Action Plan for 2019-2023, published on the Ministry of Finance's website. The Ministry of Finance publishes reports on progress in implementing the PFM work program on the Ministry's website. At the time of the assessment, the most recent report published related to the six months from January to June 30, 2022.

The current work program is broad-ranging in nature. It includes improvements in macroeconomic forecasting, fiscal risk management, and program budgeting implementation. It also includes legal changes to the tax and procurement codes, improvements in financial reporting and monitoring, and the further development of the GFMIS. The work program is being implemented with the support of several development partners.

The Ministry's PFM Work Program reporting identifies the progress in implementing the current strategy. The most recent report notes areas where initiatives identified in the work plan have been completed (e.g., implementation of DGSE macroeconomic models, regulation of corporate sector accounting and auditing, and setting directions for future tax reform). Several areas are reported as either having work underway or yet to commence. This is not surprising given that there remained a year in the current program, the ambitious nature of the work program, the disruption caused to the implementation of the reform program by the security and public health shocks hitting Armenia in recent years and the need to identify development partner support for reform in some areas.

However, there remains a clear Government commitment to PFM reform, and the Ministry of Finance is showing strong leadership regarding preparing a new PFM reform strategy and action plan to be implemented from 1 January 2024 onwards. The Ministry sees finalising the PEFA assessment in 2023 as a critical input into developing the next PFM reform strategy.

## II. DETAILED ANALYSIS OF PFM PERFORMANCE

### PILLAR ONE: BUDGET RELIABILITY

**This indicator assesses the extent to which** the government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the initially approved budget.

#### **Overall performance: key strengths and weaknesses**

Budget reliability is assessed using the first three performance indicators of the 2016 PEFA Framework. This is done by comparing the actual expenditure and revenue outturns with the originally approved budgets. If the budget is reliable, actual spending and revenue will be close to what was initially intended, planned, and approved. The three indicators assess the extent to which the budget is realistic and implemented as intended by considering the financial years 2020, 2021 and 2022.

Overall performance is somewhat mixed, with a very good score attributable to aggregate expenditure management and the use of contingency reserves but relatively weaker performance on expenditure and revenue composition. The lowest performance score relates to the functional composition of expenditure, which reflects in-year changes to the relative priorities originally planned. However, several significant destabilising factors occurred during this period, namely the COVID-19 pandemic, armed conflict on Armenia’s borders, and the Russian invasion of Ukraine.

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

This indicator measures the extent to which aggregate budget expenditure outturns the amount initially approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator.

It includes all expenditures, both capital and recurrent, and the portion financed by external loans and grants. The coverage is Budgetary Central Government (BCG), and the timing is the last three completed fiscal years.

Indicator/Dimension	Score
PI-1. Aggregate expenditure outturn	A

Expenditure is recorded on a cash basis, that is, payments, although a reform process is underway to convert the accounting basis to the accrual method.

#### **1.1 Aggregate expenditure outturn**

**Performance level and evidence for scoring:** Table 11 below summarises the actual aggregate expenditures against the approved initial budget, while Annex 5 explains the analysis in detail. The analysis indicates that actual aggregate expenditures deviated from the original budget by +2.1% in 2020, +8.3% in 2021, and +2.7 % % in 2022. The score is A since the variance was less than 5% in two of the three years.

**Table 11: Total budget and actual expenditure (billion AMD)**

	FY 2020	FY 2021	FY 2022
Budget	1856	1851	2184
Actual	1895	2004	2243
Variance	39	153	59
% Execution	102.1%	108.3%	102.7%

Source: Cash-based State Budget Execution Reports 2020-22

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

**Possible causes of PFM performance identified during the PEFA assessment:** Deviations from the original budget were less than 5% per cent in two of the three years 2020-22, indicating an effective expenditure management system.

**Performance change since a previous PEFA assessment:** Performance is weaker: If the 2011 criteria were applied to the 2020-22 data, thereby excluding debt interest and foreign-financed project expenditure, the variances would have been 2.8%, 10.6% and 5.2%, resulting in a score of B compared with the score of A recorded in 2014 (see Annex 4).

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

This indicator measures how reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

The variance is calculated by adjusting each original budget line to the amount it would have been if its proportion of the actual expenditure had remained as planned. Interest payments are excluded from dimension 2.1 but included in dimension 2.2. Coverage: BCG. Timing: Last three completed fiscal years.

Indicator/Dimension	Score
<b>PI-2. Expenditure composition outturn (M1)</b>	<b>C+</b>
2.1 Expenditure composition outturn by function	C
2.2 Expenditure composition outturn by economic type	B
2.3 Expenditure from contingency reserves	A

Since 2019, expenditures have been budgeted and managed on a programme basis, although there is still a considerable amount of detailed line-item budgetary control. The authorities recognise the need to reform the program and performance indicator structure.

#### **2.1. Expenditure composition outturn by function**

##### **Performance level and evidence for scoring:**

Regarding the first dimension, the variances in the functional composition of expenditure were 16.74% in 2020, 10.3% in 2021 and 13.6% in 2022 (a detailed functional analysis table is shown in Annex 5). Since the functional expenditure composition variance was between 10- 15% in all 3 years,

the score for dimension 1 is C. This result indicates that the actual distribution of the available budget resources significantly differs from the planned distribution.

Analysis of the functions shows that for understandable reasons, given that the period under review featured both the Covid-19 pandemic and armed conflict on and near Armenia’s borders, the leading functional “gainers” were Health and Social Protection in 2020 and 2021 and Defence and Public Order in 2022. The main “losers” included Economic Issues, Housing and, in 2022, Education, which experienced a shortfall in that year of almost 15% of its approved budget and over 20% of its adjusted budget

The variance in expenditure composition by function was between 10% and 15% in all 3 years as Armenia had to deal with the COVID pandemic and armed conflict. Hence, the score for the present dimension is C.

**Performance change since a previous PEFA assessment:** If foreign-financed project expenditures and debt interest are excluded from the analysis as in 2014, the annual composition variances by function were 10.4%, 11.7%, and 11.6%, respectively. This would also have resulted in a score of C for PI-2.1 since all 3 variances are in the range of 10-15%. This compares with a score of B recorded in 2014.

## 2.2. Expenditure composition outturn by economic type

### **Performance level and evidence for scoring:**

For the period 2020-22, the variances in the economic composition of expenditure are calculated as 8.9%, 8.4% and 6.4%, respectively. Spending on capital investments was below budget in two of the three years, especially during the pandemic in 2020, when a shortfall of over 20% was recorded. Detailed figures are shown in Annex 5. It should be noted that contingencies are excluded from the calculation as per Framework requirements for this dimension.

These results correspond to a B score since the variance was between 5% and 10% in all three years.

**Possible causes of PFM performance identified during the PEFA assessment:** Variance was less than 10% in all three years due to a significant degree of deferred capital expenditure.

**Performance change since a previous PEFA assessment:** New dimension in 2016 framework.

## 2.3. Expenditure from contingency reserves

**Performance level and evidence for scoring:** Although Armenia makes a budgetary provision for a Contingency Reserve vote, this is a modest amount, and in practice, no actual expenditure was charged to the Reserve during the period under review. Therefore, the dimension score is A.

**Table 12 Use of contingency vote (AMD billion)**

Year	Contingency estimate	Contingency actual
2020	5.09	0
2021	3.85	0
2022	68	0

Actual expenditure charged to a contingency vote was zero. All spending was fully allocated to programmes.

### PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and the end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	Score
PI-3. Revenue outturn	C+
3.1 Aggregate revenue outturn	B
3.2 Revenue composition outturn	C

**General description of the system in place in Armenia:** Revenue administration is the responsibility of the State Revenue Committee, while tax policy responsibility rests with the Ministry of Finance. Fiscal forecasts for revenue are prepared and published with the MTEF and Budget. However, tax revenue forecasts by tax type are not published and reporting to the National Assembly is, by law, currently at a very aggregated level. The revenue is reported as consisting of state tax revenue (accounting for more than 90% of total revenue), state duties and official grants.

Discussions with the Ministry of Finance indicate a commitment to changing the budget law to improve tax policy and composition transparency.

**Recent or ongoing reform activities:** The PFM Reform Strategy encompasses a commitment to improving tax policy and modernising tax administration, covered under a separate strategy on Tax Administration.

#### 3.1. Aggregate revenue outturn

**Performance level and evidence for scoring:** Annex 5 contains detailed data for the three years ending 31 December 2022. Tables 13 and 14 below summarise the results.

**Table 13: Total budget and actual revenue (billion AMD)**

	FY 2020	FY 2021	FY 2022
Budget	1694	1509	1948
Actual	1561	1684	2063
Variance	133	175	115
% execution	92%	112%	106%

**Table 14 Results Matrix**

Year	Total revenue deviation	Composition variance
2020	-7.9%	11.6%
2021	+11.5%	12.1%
2022	+5.9%	12.5%

Source: Annual Budget Laws & State Budget Execution \reports

The table shows that, in the three years covered by the assessment, the aggregate revenue variances were -7.9%, +11.5% and +5.9%, respectively. Since actual revenue was between 94% and 112% of budgeted revenue in two of the three years, the score for dimension 3.1 is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Outturns were between 94% and 112% per cent of budgeted revenue in two of the three years

**Performance change since a previous PEFA assessment:** The basis of the evaluation changed in 2016, as previously, only domestic revenue was considered.

### **3.2. Revenue composition outturn**

In the last three years, the revenue composition variances were 11.6%, 12.1%, and 12.5%, respectively. This corresponds to a PEFA score of C, as all three variances were more than 10%. Data analysis shows that revenue from taxes on goods and services was significantly down in 2020 and 2021 but rebounded sharply in 2022. Revenues from international trade were below budget in all three years.

Score: C.

**Performance level and evidence for scoring:** Revenue composition variances were between 10-15% in all three years.

**Possible causes of PFM performance identified during the PEFA assessment:** Significant variations in the tax take as compared to forecasts.

**Performance change since a previous PEFA assessment:** New dimension

**PILLAR TWO: TRANSPARENCY OF PUBLIC FINANCES**

This pillar considers the extent to which information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure, including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

**Overall performance: key strengths and weaknesses**

Overall, transparency levels are relatively high, with good scores being recorded for providing critical PFM information to the Parliament and the public. Inter-governmental resource transfers are based on clear rules, and performance is extensively reported, though only a limited amount of independent performance evaluation occurs. There are no issues regarding operations outside financial reporting. One significant shortcoming concerns the absence of disaggregated tax revenue information in budget submissions.

The annual budget estimates, the in-year execution reports, and the year-end financial statements of all central government budget organisations (line ministries and SNCOs) allow a complete picture of government revenue, expenditures and financing (PI-6 scored B). Having all government budget activities reflected in the financial reports facilitates accountability and provides transparency to all public funds’ transactions.

**PI-4. Budget classification**

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator.

Indicator/Dimension	Score
PI-4. Budget classification	C

**General description of the system in place in Armenia:**

**Recent or ongoing reform activities:** No specific reform currently, though updating GFS compliance is being planned

**4.1. Budget classification**

**Performance level and evidence for scoring:**

This single-dimension indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. The requirement for an A score is that budget formulation, execution and reporting are based on every level of administrative, economic and functional classification using GFS/COFOG standards or their equivalent. Coverage: BCG. Timing: Last three completed fiscal years.

In most respects, Armenia satisfies these requirements well. Automated systems identify the economic, administrative, functional and programme/sub-programme classification of all transactions, and budget execution statements provide information on all classifications. However, there is one significant omission from the budget presentation. Because there is currently no specific



legal requirement, no breakdown is provided of tax revenues into tax types; in other words, information is provided at the two-digit level only, although some reporting is shown at the three-digit level. The absence of this information appears to be attributable to concerns over the vagaries of revenue forecasting. Hence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** Although budget classification is mainly consistent with GFS standards, tax revenue types are not shown in the budget submission.

**Performance change since a previous PEFA assessment:** This appears to be a recent practice that has reduced transparency. The score in 2014 was A.

### PI-5. Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, measured against a specified list of essential and additional elements. There is one dimension for this indicator.

Indicator/Dimension	Score
PI-5. Budget documentation	B

**General description of the system in place:** Armenia’s budget process is well documented and consistently applied, and a considerable amount of short— and medium-term information is submitted to the National Assembly.

**Recent or ongoing reform activities:** Presenting financial statements under the accrual basis of accounting is a work in progress.

#### 5.1. Budget documentation

**Performance level and evidence for scoring:** The annual budget documentation provides 9 information elements, including 3 out of 4 basic components, so the score for this indicator is B.

Table 15

Element/ Requirements	Met (Y/N)	Evidence used/Comments
<b>Basic elements</b>		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Yes	The forecast of the fiscal result for 2023 was contained in the Medium-Term Expenditure Framework (MTEF) for 2023-25
2. Previous year’s budget outturn, presented in the same format as the budget proposal	Yes	This was included as part of the standard budget documentation submitted by law each year to the National Assembly.
3. The current fiscal year’s budget is presented in the same format as the budget proposal	Yes	This was included as part of the budget documentation submitted by law each year to the National Assembly.
4. Aggregated budget data for both revenue and expenditure	No	The breakdown of tax revenue by tax type was not shown
<b>Additional elements</b>		

5. Deficit financing, describing its anticipated composition	Yes	The budget documents included the MTEF and debt forecasts, which clearly explained in detail how the budget deficit was expected to be financed in 2023
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	No	The government submitted forecasts of some - but not all - key macroeconomic indicators to the legislature, as interest rates and exchange rates were excluded.
7. Debt stock, including details at least for the beginning of the current fiscal year presented by GFS or another comparable standard	Yes	Records of domestic and foreign debt and guaranteed debt in line with GFS requirements are complete, accurate, updated, and reconciled monthly. Reports to the National Assembly covering debt service, stock, and operations are produced at least quarterly.
8. Financial assets, including details at least for the beginning of the current fiscal year presented by GFS or another comparable standard	No	There is no single record of financial assets. Although CBA and MoF provide information on reserve asset holdings and cash and term deposits holdings, respectively, there are gaps in coverage of other financial assets such as advances and equity holdings.
9. Summary information on fiscal risks	Yes	The MTEF includes a report on all contingent liabilities and other fiscal risks.
10. Explanation of budget implications of new policy initiatives and significant new public investments, with estimates of the budgetary impact of <i>all</i> substantial revenue policy changes and/or changes to expenditure programmes	Yes	Budget documentation for 2023 included the budgetary impact of all significant policy initiatives,
11. Documentation on the medium-term fiscal forecasts	Yes	The MTEF is updated and presented to the National Assembly annually.
12. Quantification of tax expenditures	Yes	The State Revenue Committee estimates tax expenditures by tax type, and the information has been included in the budget proposal since 2014.

Source: Budget documents supplied by Budget Departments, Ministry of Finance

**Possible causes of PFM performance identified during the PEFA assessment:** The generally high level of transparency results in comprehensive disclosure of information to the legislature.

**Performance change since a previous PEFA assessment:** The 2014 score was A, but tax revenue by type has not been submitted.

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

This indicator measures how much government revenue and expenditure are reported outside central government financial reports. It contains three dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-6. Central government operations outside financial reports</b>	<b>A</b>
6.1. Expenditure outside financial reports	A
6.2. Revenue outside financial reports	A
6.3. Financial reports of extrabudgetary units	NA

**General description of the system in place in Armenia:** The practice of extrabudgetary units ceased to exist in 2016 when there was a restructuring of the State Non-Commercial Organisations. 14 of them disappeared by being regrouped or acquired by others, and the expenditure and revenue of what used to be extra-budgetary units are now the expenditure and revenue of SNCOs. All entries of extrabudgetary Funds accounts were closed entirely in 2019. Nevertheless, the term still appears in the Budget Execution Report (5 Reference, 12 Regarding the extra-budgetary funds included in the RA 2022 state budget). Still, it stands for the operations of the SNCOs. There is a formal (documented) definition of SNCO stipulated in the Law on SNCO (#248 dated 23 October 2001) published on the following website: <https://www.arlis.am/DocumentView.aspx?DocID=185333>

The definition is in Article 3. Basic provisions about the state organisation define the SNCO as follows: "The state organisation is a non-profit organisation with the status of a legal entity that does not pursue a profit, which is created only to carry out activities in culture, healthcare, social, sports, education, science, environmental protection and other non-commercial areas. "

As defined in the Law on SNCOs, they carry out entrepreneurial activities and receive income used for the implementation of the statutory goals of the organisations. Almost all the operations of the SNCOs are carried out in the Treasury Single Account. They are presented at the budget programmes level in the Budget Execution Report.

There are about 1800 SNCOs, of which 1400 are educational establishments. The schools are fully financed by the budget. About 5 higher education bodies (universities) became foundations. Foundations are governed by another law requiring them to prepare annual financial statements, report their operations to the State Revenue Committee and be audited by private audit firms. There are 9 (three museums and five universities) SNCOs with their own- source revenue amounting to more than 50% of their annual budget. These 9 SNCOs represent only 2.7% of the total expenditure for SNCOs in FY2022.

The own-source revenue of all SNCOs amounts to 8% of the total BCG and CG revenue volume for FY2022. The volume of SNCO expenditure is 5.1% of the total Government expenditure for FY2022. SNCOs operate expenditure and revenue accounts within the TSA. They provide information about their own-source revenue accounts to the MoF. SNCOs are budgetary units with individual budgets, reporting to their respective line ministries and fully covered by the CG budget. They operate under the control of the line ministry to which they belong. All budget preparation and reporting activities and requirements apply to these organisations that are non-commercial by their nature of activity. There are two reporting periods for the SNCO in a fiscal year: (i) quarterly, within a month after the quarter end, and (ii) annually, by 1st March in the following calendar year.

Table 15 below presents the three groups of the SNCO with examples of the critical organisations with their respective expenditure for FY2022. Group I covers staff, subsidiary, maintenance and technical support bodies belonging to core administrative budget bodies. Group II covers health and educational establishments, institutes and committees, libraries and museums reporting to the line ministries. Group III covers the municipality of Yerevan, which is part of the Central Government. The

original issue of this Annex (5 Reference) to the Budget Execution Report captures in Group III also the SNCOs of all regional governments.

All expenditures and revenues of SNCOs are included in the reports submitted to the Ministry of Finance of the RA (Government Decree No1648- dated November 27, 2003, Order No. 104-N of the Minister of Finance of the Republic of Armenia dated February 4, 2013). Still, the above-mentioned reports are not part of the Budget Execution Report. The performance of the SNCOs is presented at the level of budget programmes (expenditures and revenues are not presented by individual SNCOs). The own source of SNCOs in FY2022 made up 0.8% of the total income of the CG. There is no separate accounting of how the own source revenue of SNCO is spent.

**Table 16: State Non-Commercial Organisations FY 2022**

		EXPENDITURE
1	Prime Minister's staff	2,431,702.5
2	National Academy of Sciences	13,595,168.4
3	State Revenue Committee (Cash Machines Office and Education Centre)	1,451,435.1
4	Forestry Committee of the Ministry of Internal Affairs	2,706,827.0
5	Food safety inspection body	536,278.2
6	Urban Development Committee	46,076.7
7	State Property Management Committee	1,816,552.4
8	Migration service	107,861.2
<b>Subtotal Group I:</b>		<b>22,691,901.5</b>
1	Ministry of Labor and Social Affairs (Child and Family Support Centre, Metal Health Care Centre, Orphanage;	5,081,116.4
2	Ministry of Health	6,106,546.6
3	Ministry of Justice (Translation Centre, Academy of Justice, National Archive)	3,659,382.5
4	Ministry of Emergency Situations (Seismic Protection Service, State Academy of Crisis Management)	1,828,704.3
5	Ministry of Foreign Affairs (School of Diplomacy)	167,642.0
6	Ministry of Economy (Agriculture Centre, National Centre for Innovation and Entrepreneurship)	1,901,076.6
7	Ministry of Internal Affairs (Child Development Centre, Educational Complex of Police)	2,340,061.7
8	Ministry of Environment (National Parks, State Museum of Armenia, Environmental Impact Centre)	4,249,805.0
9	Ministry of Defence (Military Technical Research Institute, Demining and Expertise Centre)	1,252,617.1
10	Ministry of Territorial Administration and Infrastructures (Republican Geological Fund)	28,826.1
11	Ministry of High-tech Industry (Republican Centre of Telecommunications)	361,563.6
12	Ministry of Education, Science, Culture and Sports /224 schools/	32,133,504.8
13	Ministry of Education, Science, Culture and Sports /libraries, museums and colleges/	15,666,938.8
14	Ministry of Education, Science, Culture and Sports /sports schools and facilities/	2,554,467.1
<b>Subtotal Group II:</b>		<b>77,332,253.0</b>
Group 3: Yerevan Municipality		
<b>Yerevan Municipality (primary and secondary schools)</b>		<b>18,135,674.1</b>
<b>Subtotal group III:</b>		<b>18,135,674.1</b>
<b>TOTAL</b>		<b>118,159,826.60</b>

The Social Security Fund account was also closed and made part of the Ministry of Labour and Social Affairs.

SoEs are monitored by two MoF departments: (i) Fiscal Risk Department, with a focus mainly on PPP and (ii) Accounting and Audit Regulation, Reporting Monitoring Department, looking at the profitability of the SoEs based on the submission of annual reports of all SoEs with majority State stake (more than 50% ownership of the State).

All donor projects are in the budget; only the technical assistance interventions are not captured. The own source revenues of SNCOs and SoEs are not in the budget, nevertheless, they report to MoF on volume by way of information.

**Recent or ongoing reform activities:** No reform activities in this area.

### 6.1. Expenditure outside financial reports

**Performance level and evidence for scoring:**

All central government spending is recorded in financial reports. The annual Budget Execution Report captures all expenditures incurred by budget organisations. All SNCOs' operations are in the Single Treasury Account. Their expenses and those of the Social Security Fund are presented at the programme level in the respective line ministry. Hence, there is no expenditure outside the Government financial reports, and the present dimension score is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Regular and timely financial reports strengthened the SNCO's accountability and improved the transparency of its operations.

**Performance change since a previous PEFA assessment:** The Social Security Fund and the operations of the SNCO were integrated into the respective line ministries' financial reports so that they are captured in the annual budget performance reporting at the programme level.

### 6.2. Revenue outside financial reports

**Performance level and evidence for scoring:**

All central government revenue is recorded in financial reports. The annual Budget Execution Report captures all collected revenue transferred to TSA by the State Revenue Committee. SNCOs do not operate expenditure accounts outside TSA. The own-source revenue is reported and captured in the budget as part of the sector ministry accounts. The own-source revenue of SNCOs, which constitutes mainly tuition fees and administrative charges, is reported monthly to the respective line ministries. The own-source revenue is, by law, retained by the SNCO. The own-source revenue of SNCOs in FY2022 represents 0.8% of the CG budget. Hence, there is no revenue outside financial reporting; the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Legislation requires that all collected revenue be promptly transferred to TSA at MoF.

**Performance change since a previous PEFA assessment:** The performance in the last PEFA assessment was the same.

### 6.3 Financial reports of extrabudgetary units

#### **Performance level and evidence for scoring:**

SNCOs are budgetary units with individual budgets fully covered by the budget. They operate under the control of the line ministry to which they belong. This means they all participate in the budget preparation and have reporting deadlines and requirements like any other budget organisation. They prepare stand-alone financial statements and submit their financial reports to the respective line ministries, which, on their part, submit those financial reports to the Ministry of Finance by 1 March of the following year.

Based on the financial information provided by SNCOs, the annual Budget Execution Report covers a part (named 12. Reference in local language 12. Արտաբյուջե\_ՊԵՅ \_) that presents the SNCOs included in the RA 2022 state budget in terms of programme (aggregated to line ministry level) expenditure and revenue. The government of Armenia does not have extrabudgetary funds.

The present dimension is NA.

**Possible causes of PFM performance identified during the PEFA assessment:** The underlying reason for the performance described above is the decision of the Government to integrate all expenditure and revenue of SNCOs within the financial reports of the line ministries and to present comprehensively and timely data in the annual Budget Execution Report.

**Performance change since a previous PEFA assessment:** There is no change in practice and performance.

#### ***PI-7. Transfers to subnational governments***

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships. It considers the basis for transfers from the central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. It contains two dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-7. Transfers to subnational governments</b>	<b>A</b>
7.1. System for allocating transfers	A
7.2. Timeliness of information on transfers	A

**General description of the system in place:** In Armenia, the supervision of the local self-government system is the responsibility of the Ministry of Territorial Administration and Infrastructure (MTAI) at the national level. The system comprises just one level of local self-government, namely the Community, of which there are 71, including Yerevan, the capital city. The legal framework governing fiscal decentralisation is set out in (i) the Constitution, adopted in 1995; (ii) the laws on Administrative and Territorial Division (1995); (iii) Local Self-Government (1996); (iv) Budgetary System (1997); (v) Local Duties and Fees (1998); (vi) Financial Equalization (1998); and (vii) Local Self-Government (2002). Article 7 of the Law on Local Self-Government, entitled “Sources of Formation of a Community Budget”, defines the revenues of a community as comprising:

1. Tax revenues, including land tax, property tax deductions, income tax deductions, profit tax deductions, environmental fees deductions, and fines and penalties for land and property tax legislation breaches, are collectable to the community budgets.
2. Stamp duties.
3. Non-tax revenues, such as rent payments for using assets held in the balance sheets of organisations under the community's jurisdiction and receipts generated on alienation of abandoned, inherited by or donated assets to local governments and owned thereby.
4. Capital inflows are receipts on alienation of the community-owned assets.
5. Allocations in the shape of official transfers, including (a). Subsidies from the state budget under the financial adjustment procedure; (b). Targeted subventions from the state budget for financing capital spending.
6. Sources of financing community budget deficit: (a). Borrowings (credits and loans), including receipts generated on allocation of local securities. The government shall define the procedure for the issue and allocation of local securities; (b). Receipts on privatisation of the state-owned real estate.

**Recent or ongoing reform activities:** No specific reform.

### **7.1. System for allocating transfers**

**Performance level and evidence for scoring:**

In considering the transfer system, it should first be noted that by law, communities are entitled to receive in aggregate a sum equal to 4% of the consolidated Community and State Budget expenditure in the previous fiscal year. Of this sum, by far the largest element is the so-called financial equalisation grants, as the following figures illustrate:

- Total transfers in FY 2022: 68.7 billion AMD;
- Financial equalisation grants 61.9 billion AMD;
- Financial equalisation percentage 88.8%

The other main type of transfer is targeted grants to support the financing of community budget projects. These amounted to 6.7 billion AMD in FY2022.

**Table 17: System for allocating transfers (2022)**

Type of transfer	Budget				Actuals			
	Amount (in bn AMD)	% of the total	Transparent and rule-based (Y/N)	Source of rules	Amount (in bn AMD)	% of the total	Transparent and rule-based (Y/N)	Source of rules
<b>Financial equalisation (unconditional) grants</b>	64.3 of which 50.2 to cover revenue losses of 2020  <i>(Annex N2 to the 2022 Budget execution report)</i>	71.1%	Y	Law on Local Government  Law on Financial Equalisation	64.3, of which 50.2 to cover revenue losses of 2020  <i>(Annex N2 to the 2022 Budget execution report)</i>	70.4	Y	Law on Local Government  Law on Local Government
<b>Targeted (conditional) grants</b>	26,1 Of which current subventions (target grants?) 7.7 and capital subventions 18.4  <i>(Annex N1 Table 7 to the 2022 Budget execution report)</i>	28.9	Y		27 Of which current subventions (target grants) 7.5 and capital subventions 19.5  <i>(Annex N1 Table 7 to the 2022 Budget execution report)</i>	29.6		
<b>Total transfers</b>	90.4				91.3			

Both the financial equalisation grants and the targeted grants are allocated by legally prescribed formulae and rules. Criteria include size of population, property and land taxes collected in a community, zonal aspects of the land, such as location above sea level and quality of land, and age/gender composition of the population. Thus, it can be concluded that the horizontal allocation of almost all transfers from the 2022 State budget to communities was performed through rule-based and transparent systems. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Almost all transfers are allocated based on transparent rules-based systems.

**Performance change since a previous PEFA assessment:** No change from 2014.



## 7.2. Timeliness of information on transfers

**Performance level and evidence for scoring:** The financial year for communities is the same, by law, as that of the central government. The process by which communities receive their annual transfers is managed in accordance with the state budget calendar. In practice, the communities start preparing their budgets in March based on methodological instructions provided by the Ministry of Finance. The mechanism for assessing financial equalisation grants allows communities to receive reliable information on the levels of their transfers several months before planning their own budgets. Reliable transfer amounts were communicated to communities in May or June of each year under review, providing the information for communities to prepare their draft budgets. Figures are formally confirmed with the passing of the State Budget. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** SNGs receive sufficient reliable information to prepare their budget several months before the year-end.

**Performance change since a previous PEFA assessment:** No change from 2014.

### PI-8. Performance information for service delivery

This indicator examines the service delivery information in the executive’s budget proposal or its supporting documentation, year-end reports, performance audits or evaluations, and how much information on resources received by service delivery units is collected and recorded. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-8. Performance information for service delivery</b>	<b>B</b>
8.1. Performance plans for service delivery	B
8.2. Performance achieved for service delivery	B
8.3. Resources received by service delivery units	A
8.4. 8.4 Performance evaluation for service delivery	D

#### 8.1. Performance plans for service delivery

##### **Performance level and evidence for scoring:**

Armenia operates quite an elaborate system of performance planning, reporting and, to some extent, monitoring to maximise budget efficiency. Budget bodies are required by law to produce costed strategic plans in line with the multi-year Government Programme and sectoral priorities, comprising programmes, measures, targets and indicators that serve to underpin the budget process, though not all are produced and/or cost. Both financial and non-financial indicators are produced and published, forming the basis for monitoring outputs and, in some instances, outcomes, such as improved access to fresh water. While methodological guidance has been issued on the development of indicators, there appears to be a widespread recognition that there are too many, often overlapping, indicators and measures, many of which add little value and essentially are tools of detailed financial control. Table 18 below illustrates the scale of the performance planning in relation to four key ministries for the Fiscal Year 2023.

Since the percentage of ministries that are SD compliant is high but insufficiently focused on outcomes, the score is B.

**Table 18: Scoring requirements dimension 8.1**

Ministry	Budget allocation (in mil AMD)	Performance data for service delivery						
		Service Delivery Programme	Number of SD Programmes	SD Programme	Programme Indicators	Planned (Yes/No/Partially)		
						Output	Outcome	Indicator
Education	250,269	250,269	2	Yes	Yes	Y	P	Y
Health	148,291	148,291	1	Yes	Yes	Y	P	Y
Labour and Social Affairs	653,778	653,778	1 6	Yes	Yes	Y	P	Y
Territorial Administration	297,447	297,447	2 3	Yes	Yes	Y	P	Y
<b>TOTAL</b>	<b>1,349,785</b>	<b>1,349,785</b>	<b>7</b>	<b>Yes</b>	<b>Yes</b>			

Source: Ministry of Strategic Plans

**Possible causes of PFM performance identified during the PEFA assessment:** Ministries’ Strategic Plans contain quantified targets covering all service-based expenditure programmes but with limited focus on outcomes.

**Performance change since a previous PEFA assessment:** New dimension.

### 8.2. Performance achieved for service delivery

**Performance level and evidence for scoring:**

Quarterly and annual performance reports are produced by ministries and posted on official websites, including the Ministry of Finance website, to explain progress against targets and any deviations from the plan. The Ministry of Finance produces its own consolidated report for discussion with the Office of the Prime Minister. There is, however, more focus on short-term financial indicators and outputs rather than longer-term non-financial outcomes. Based on the analysis and supporting evidence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Information is reported mainly in relation to non-financial indicators and outputs.

**Performance change since a previous PEFA assessment:** New dimension.

### 8.3. Resources received by service delivery units

**Performance level and evidence for scoring:**

Most serviced delivery units take the form of SNCOs, primarily financed by the budget. Automated systems collect information about all transactions – revenue and expenditure - involving central and subnational government institutions, including individual schools and health clinics, which are wholly

integrated into the budget at the central or subnational government level. The central government Ministries can draw on the Treasury system to monitor the situation of all service delivery units throughout the country. All these arrangements were operational throughout 2020-22. Whilst resources have since 2019 been appropriated by the programme, the reports generated by the automated system encompass all resources received by all individual service delivery units. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Information about the resources received by each school and health clinic is produced by automated systems.

**Performance change since a previous PEFA assessment:** No change.

#### 8.4. Performance evaluation for service delivery

##### **Performance level and evidence for scoring:**

Some independent evaluation occurs through the activities of the Audit Chamber, which undertakes a certain amount of performance auditing of expenditure programmes, including so-called “quality surveys”, but the AC’s resources are limited, and the results are not published. A limited amount of programme evaluation has taken place in some Ministries, such as the Ministry of Labour and Social Affairs, covering, for example, the State Employment Programme. Private consulting companies have evaluated other programmes, and several pilot evaluation programmes are in progress. In addition, the Department for Financial Budgetary Supervision of the Ministry of Finance is moving towards a more excellent assessment and monitoring role from its more traditional inspection focus. At this stage, however, whilst some independent evaluations have been undertaken and results published, it is impossible to conclude that systematic and independent performance evaluation has been applied in the past three years. Based on the analysis and supporting evidence from reports produced by the Audit Chamber, less than 25% of expenditure has been independently evaluated, so the score for the present dimension is D.

**Possible causes of PFM performance identified during the PEFA assessment:** Some independent evaluation has occurred, and more are being trialled.

**Performance change since a previous PEFA assessment:** New dimension

#### **PI-9. Public access to fiscal information**

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified information elements to which public access is considered critical. It has one dimension.

Indicator/Dimension	Score
PI-9. Public access to fiscal information	A

**General description of the system in place in Armenia:** Overall transparency levels are high, and the public has access to most /critical fiscal information.

**Recent or ongoing reform activities:** A Citizen’s Budget is now routinely prepared.

#### 9.1. Public access to fiscal information

**Performance level and evidence for scoring:** The table below shows the requirements met.

**Table 19: Fiscal Information accessible by the public**

Element/ Requirements	Met (Y/N)	Evidence used/Comments
<b>Basic elements</b>		
1. <b>Annual executive budget proposal documentation.</b> A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive’s submission to the legislature.	Yes	The budget proposal for 2023 was posted online within three days of its submission to the National Assembly.
2. <b>Enacted budget.</b> The annual budget law approved by the legislature is publicised within two weeks of passage of the law.	Yes	This was published within a few days of approval by Parliament.
3. <b>In-year budget execution reports.</b> As assessed in PI-27, the reports are routinely made available to the public within one month of their issuance.	Yes	These are published within a month of the end of the period to which they relate.
4. <b>Annual budget execution report.</b> The report is made available to the public within six months of the fiscal year’s end.	Yes	This is published less than 5 months after year-end.
5. <b>Audited annual financial report, incorporating or accompanied by the external auditor’s report.</b> The reports are made available to the public within twelve months of the fiscal year’s end.	Yes	These are published within six months of the end of the financial year
<b>Additional elements</b>		
6. <b>Prebudget statement.</b> The broad parameters for the executive budget proposal regarding expenditures, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year.	No	This was contained in the Explanatory Note to the budget submitted to the National Assembly on 29 September 2022
7. <b>Other external audit reports.</b> All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	Yes	Other Audit Chamber reports are published on the AC website upon issuance to the National Assembly.
8. <b>Summary of the budget proposal.</b> A “citizen’s budget” and, where appropriate, translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval.	Yes	A “Citizens’ Budget” is published annually in January of the budget year.

<p>9. <b>Macroeconomic forecasts.</b> The forecasts assessed in PI-14.1 are available within one week of their endorsement.</p>	<p>Yes</p>	<p>These are included in the Medium-Term Expenditure Framework, which is published immediately after it has been endorsed.</p>
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The requirements are met for all five basic elements and 3 out of 4 additional elements. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** A total of 9 elements of information was made available within the prescribed timescale, including all five basic elements

**Performance change since a previous PEFA assessment:** No change

## **PILLAR THREE: MANAGEMENT OF ASSETS AND LIABILITIES**

**Pillar III measures the degree to which** effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

### **Overall performance: key strengths and weaknesses**

The assessment shows that fiscal risks are well managed (PI-10 score C+) but with some limitations. The financial reports of public corporations are externally audited and published for around half of SOEs (by total expenditures). Yerevan municipality is the only externally audited subnational government, and Yerevan's statements have not been published. The government's contingent liabilities and fiscal risk reporting are published annually in the Fiscal Risks Statement published with the MTEF.

The key weak point of the public investment management process (PI-11 score D) is that there are no approved economic selection criteria for capital investment projects, and all documentation relevant to selecting and monitoring investment projects is not published. The related impact is low transparency in the decision-making process when choosing how public funds are invested. There is limited monitoring and publication of information on the progress of major investment projects.

The assessment shows that asset management is not very effective (PI-12 score C). The asset registers are fragmented, with information gaps when published. The budget documentation does not cover information on transfers and disposals of all assets, even if the procedures and rules for the transfer and disposal of assets are well established. The lack of transparency, in general, may expose the risk of the efficient and effective use of the resources owned and controlled by the government.

A strong point to note is the debt management function, supported by monitoring, detailed recording, and reporting of debt and guarantees, and a publicly available debt management strategy providing accountability for all government borrowings.

### **Analysis**

Armenia has a relatively low score on the public investment management process (PI-11 score D). It has been characterised by an absence of economic appraisal of investment projects, formal prioritisation processes to evaluate competing investment projects and systematic monitoring processes for investment projects. There has also been limited transparency, through publication, around the performance of various elements in the public investment process. The Armenian government has prioritised reforming the public investment management process with two decrees, in 2021 and 2023, which include establishing a clear mandate for the Ministry of Economy in appraising significant investment proposals and instituting the Investment Committee to review and prioritise major investment proposals. However, as the period for assessing this indicator relates to Fiscal Year 2022, the public investment management reforms were not implemented.

The implementing ministries for major investment projects are expected to monitor their progress. Implementing agencies also develop performance indicators to monitor the progress of investment

projects, which are provided to the Ministry of Finance, which includes them in the government’s annual Budget execution report.

**PI-10. Fiscal risk reporting**

This indicator measures the extent to which fiscal risks to the central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government’s own programmes and activities. They can also arise from other implicit and external risks, such as market failure and natural disasters. This indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores.”

Indicator/Dimension	Score
<b>PI-10. Fiscal risk reporting</b>	<b>C+</b>
10.1. Monitoring of public corporations	C
10.2. Monitoring of subnational governments	C
10.3. Contingent liabilities and other fiscal risks	B

**General description of the Armenian system: Financial statements are required to be prepared by public corporations and subnational governments.** However, there is currently no general requirement that these statements be externally audited. Only a tiny minority of public corporations and one municipality – Yerevan - have externally audited financial statements. The Ministry of Finance monitors a broad range of contingent liabilities and fiscal risks, which are published annually with the draft budget proposal.

**Recent or ongoing reform activities:** In recent years, the Ministry of Finance has built its capability to understand and monitor fiscal risks. This reform has been supported by technical assistance from the Asian Development Bank.

**10.1. Monitoring of public corporations**

**Performance level and evidence for scoring:**

All SOEs report their financial statements to the Ministry of Finance within six months of the end of the financial year to calculate the dividend payable to the government. This deadline is typically met by SOEs. SOEs report to the Ministry of Finance in accordance with Armenian public sector accounting standards (e.g., revenues, expenses, operating position, balance sheet).

A minority (21) of SOEs (176 in total) have externally audited financial statements (as noted in Table 20 below). The companies with audited financial statements (required by law (applying to both public and private sectors) depending on the size of revenues, assets or employee numbers) account for around 50% of total SOE expenditures in 2020.

**Table 20 Externally Audited SOEs**

		thousand AMD
NN	Name of SOE	Expenses-2020
1	St Grigor Lusavorich Medical Centre	8,118,950
2	V.A. Fanarjyan National Oncology Centre	3,762,637
3	High Voltage Power Grid	18,079,608
4	Armenian Aeronavigation	3,178,368
5	Armenia Post	8,949,051
6	Export Insurance Agency of Armenia	25,581
7	Yerevan Metro	3,730,161
8	Gyumri Medical Centre	1,661,819
9	Armenian Atomic Power Plant	42,207,583
10	Vanadzor Medical Centre	2,831,378
11	National Centre of Infectious Diseases	2,924,455
12	Electric Power System Operator	2,868,525
13	Public Television of Armenia	5,469,615
14	Public Radio Company of Armenia	848,877
15	Research Institute of Energy	232,680
16	Prof. R.H. Yolyan Haematology Centre	1,925,580
17	Armenia TV and Radio Broadcasting Network	1,112,788
18	Water SOE	2,163,906
19	Spa and Physical Medicine SOE	318,964
20	Artashat Medical Centre	1,898,760
21	Hrazdan Medical Centre	1,045,523

<b>Expenses for Externally Audited SOEs Total</b>	<b>113,354,809</b>
<b>Expenses for non-Externally Audited SOEs Total</b>	<b>129,295,977</b>
<b>Total for all SOEs with 50% or more state participation, thousand AMD</b>	<b>242,650,786</b>
<b>Externally Audited SOEs Share of Total SOE expenses %</b>	<b>47%</b>

Comprehensive reporting of public corporation financial performance to the Ministry of Finance within six months of the end of the financial year means that the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:**

Financial statements are provided by public corporations to the Ministry of Finance within nine months after the end of the financial year.

**Performance change since a previous PEFA assessment:** No change.

**10.2. Monitoring of subnational governments**

**Performance level and evidence for scoring:**

A single information system is used to capture expenditures and revenues of sub-national governments. This information is provided to the relevant central government entity, the Ministry of Territorial Administration and Infrastructure, within a month of the end of the reporting month.



Information on the financial position (expenditures and revenues) of each subnational government is published on the Ministry’s website. In addition to the information collected by the Ministry of Territorial Administration and Infrastructure, under a 2009 law applying to the municipality of Yerevan, the municipality is also required to produce externally audited financial statements, but these statements are not published. Hence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** Unaudited financial information is published for sub-national governments.

**Performance change since a previous PEFA assessment:** The previous assessment was “D”. The 2011 framework assessed the extent of monitoring (as well as the production of financial statements).

### 10.3. Contingent liabilities and other fiscal risks

Table 21: Contingent Liabilities

Contingent Liability (CL)	CL Value (AMD bn)	% of 2022 BCG spending
South Caucasian Railway	103.2	4.6
Veolia Jur	86.9	3.9
Armenia International Airport	17.2	0.8
Contour Global Hydro Cascade	102.1	4.6
Arm power	120	5.4
FRV Masrik	24.2	1.1
Legal proceedings (total)	349.0	15.5

**Performance level and evidence for scoring:** Consistent with a methodology approved in 2018 and a government resolution of 6 November 2020, the Ministry of Finance prepares an annual fiscal risk statement, which is published as part of the MTEF. The fiscal risk statement covers most material contingent liabilities, particularly those relating to SOEs, PPPs, loan guarantees and legal claims. The material contingent liabilities are noted in the table above, which comprises three PPP arrangements, three power purchase agreements, and a range of legal proceedings. The fiscal risks statement also covers significant fiscal risks relevant to the Armenian context, such as the risks arising from natural disasters and climate change. Individual entities are required to report contingent liabilities to the Ministry of Finance as part of the regular financial reports. For most entities, there is a limited set of contingent liabilities (and largely fiscally relatively minor on an individual basis, such as legal claims). While several major PPP contingent liabilities are disclosed, there are some legacy PPP contingent liabilities that are not disclosed. These are unquantified but may be significant. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Most but not all potential significant contingent liabilities are reported and published. In addition, the Ministry of Finance annually publishes a report on fiscal risks, which is published in the MTEF.

**Performance change since a previous PEFA assessment:** a new dimension.

### PI-11. Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of government public investment projects, emphasising the largest and most significant projects. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-11. Public investment management</b>	<b>D</b>
11.1. Economic analysis of investment projects	D
11.2. Investment project selection	D
11.3. Investment project costing	D
11.4. Investment project monitoring	C

**General description of the system in place in Armenia:** The management of public investment is undergoing significant change in Armenia. The Ministry of Economy has been given a mandate to lead the appraisal of major investment projects (over 1bn drams) and to support the work of the Investment Committee to prioritise and approve investment projects for inclusion in the budget process. The Ministry of Finance is responsible for assessing investment proposals of less than 1 bn drams.

**Recent or ongoing reform activities:** Two decrees, in 2021 and 2023, respectively, have reset the legal framework applying to public investment management. The Ministry of Economy has, with the support of development partners, developed a role in leading the appraisal and prioritisation of major investment projects. In addition, a central guide on investment appraisal has been developed with the support of development partners, and this will be established as national guidance. As the assessment of investment projects covers work undertaken in 2021 in the context of the preparation of the 2022 Budget, these tasks were conducted by the Ministry of Finance in the context of its mandate at that time.

### 11.1. Economic analysis of investment projects

**Performance level and evidence for scoring:** No economic analysis was carried out by sponsoring line ministries or undertaken by the Ministry of Finance as part of its review function about the major investment projects considered in Budget 2022. This analysis drew connections with the Government’s policy programme and checked compliance with budget guidelines. However, economic appraisal was not undertaken (e.g. systematic use of cost-benefit analysis) as part of the review of these projects. The analysis of the proposals was not published. Hence, the present score for this dimension is D.

**Possible causes of PFM performance identified during the PEFA assessment:** Administrative compliance checks were carried out on projects but not economic appraisal.

**Performance change since a previous PEFA assessment:** New dimension.

### 11.2. Investment project selection

**Performance level and evidence for scoring:**

The assessment looks at the process used to select investment projects included in the budget for Fiscal Year 2022. The selection process used to select Fiscal Year 2022 investment projects occurred in 2021. This period was before the establishment of the Investment Committee, which now plays a role in reviewing which projects are approved for advancement into the budget process. Previously, projects were not ranked based on objective criteria such as cost/benefit analysis or strategic fit

assessment. This left political consultation with different ministerial offices as the primary method to determine the successful selection of projects. Hence, the score for the present dimension is D.

**Possible causes of PFM performance identified during the PEFA assessment:** No objective process for prioritisation of investment projects.

**Performance change since a previous PEFA assessment:** New dimension.

### 11.3. Investment project costing

**Performance level and evidence for scoring:**

Projections of the capital costs for the forthcoming budget year and the following two forecast financial years are included in the MTEF and Budget documentation. While this means that significant investment projects with a life of up to three years have the total capital costs included in the budget documentation, this will not be the case for projects with a longer lifespan. Hence, the score for the present dimension is D.

**Possible causes of PFM performance identified during the PEFA assessment:** The capital costs of major projects for the three years of MTEF are included in the budget proposal. However, this may not always include the total capital costs of major projects.

**Performance change since a previous PEFA assessment:** New dimension

### 11.4. Investment project monitoring

**Performance level and evidence for scoring:**

The implementing ministries for major investment projects undertake the progress monitoring of investment projects. Performance indicators for the implementation of major investments are included in the Budget proposal. These indicators include information on progress made (e.g. km of road completed), whether implementation is on schedule, and the costs incurred. These indicators are provided to the Ministry of Finance, which includes them in the government’s annual Budget execution report. Hence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** Information on the performance of major investment projects included in the annual budget execution report.

**Performance change since a previous PEFA assessment:** New dimension.

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

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-12. Public asset management</b>	<b>C</b>
12.1. Financial asset monitoring	C
12.2. Nonfinancial asset monitoring	C

12.3. Transparency of asset disposal	C
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**General description of the system in Armenia: Asset management and monitoring are fragmented across several different entities**, and the coverage of assets is not yet comprehensive.

**Recent or ongoing reform activities:** The PFM reform agenda includes the development of whole-of-government financial statements on an accrual accounting basis. This will consist of the preparation of comprehensive records of public assets.

**12.1. Financial asset monitoring**

**Performance level and evidence for scoring:**

The recording of financial assets is fragmented and incomplete. Currently, there is no single consolidated register of financial assets. The Central Bank of Armenia monitors and publishes information on foreign currency reserves, and the Ministry of Finance collects information on cash balances and publishes this information as part of the Budget Execution Report. The book value of the Government’s holdings in SOEs (both fully and partly owned) is held by the Ministry of Finance. Information on other types of financial assets, such as advances and receivables, is not currently recorded and published in an asset register. Information on the performance of financial assets has not been published. Hence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** There are gaps, for example, –advances and receivables - in the coverage of financial asset registers. Information on the annual performance of financial assets has not been published.

**Performance change since a previous PEFA assessment:** a new dimension

**12.2. Nonfinancial asset monitoring**

**Performance level and evidence for scoring:**

Armenia has a partial and fragmented approach to non-financial asset monitoring. There is no single consolidated register of non-financial assets. Given the significant share of minerals in Armenia’s exports, sub-soil assets are important in Armenia. These assets are recorded in a register that is maintained and published by the Ministry of Territorial Administration and Infrastructure. The State Property Management Committee maintains a register on land and building asset holdings. The information collected by the Committee includes information on the age of buildings and their current usage (e.g. whether they are occupied by ministries). It is worth noting that these asset registers are fragmented across various ministries, and there are currently no asset registers for several types of non-financial assets, including machinery and equipment, inventories, valuables and intangible assets. Hence, the score for the present dimension is C.

**Table 22. Categories of nonfinancial assets**

Categories	Subcategories	Where captured	Comments
Fixed assets	Buildings and structures	State Property Management Committee	The committee maintains and publishes a register of those buildings and structures for which it is responsible.
	Machinery and equipment	No single asset register.	

	Other fixed assets	No single asset register.	
Inventories	—	No asset register	
Valuables	—	No asset register	
Nonreduced assets	Land	State Property Management Committee	The committee maintains and publishes a register of land for which the Committee is responsible for managing.
	Mineral and energy resources	Ministry for Territorial Administration and Infrastructure	The ministry maintains and publishes an asset register of sub-soil assets.
	Other naturally occurring assets	No asset register	
	Intangible non-produced assets	No asset register.	

**Possible causes of PFM performance identified during the PEFA assessment:** There are gaps – machinery and equipment, inventories, valuables, intangible assets - in coverage of non-financial assets. Some information is collected on the usage and age of some non-financial assets.

**Performance change since a previous PEFA assessment:** a new dimension

### 12.3. Transparency of asset disposal

#### **Performance level and evidence for scoring:**

Procedures and rules for the transfer or disposal of non-financial assets are established. All the information on transfers and disposals of non-financial assets is published. The information on the government decisions of the disposal or transfer of land and buildings is published on the official website [www.arlis.am](http://www.arlis.am) (legal information website of Armenia), as well as on the website [www.e-gov.am](http://www.e-gov.am) (Electronic Government of the Republic Of Armenia), and the announcements on the disposal of assets are published on the official websites [www.stateproperty.am](http://www.stateproperty.am) (official website of the State Property Management Committee) and [www.azdarar.am](http://www.azdarar.am) (website of the official announcements). The summary of the above-mentioned information is included in the annual report of the State Property Management Committee.

Some information (e.g., date of disposal) is reported, but other information (e.g., original cost, date of acquisition) is not always available and, therefore, not always reported.

Hence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** All the information available is published on the transfers and disposals of assets, but there are gaps in the information set (e.g. original cost, date of acquisition).

**Performance change since a previous PEFA assessment:** a new dimension

### **PI-13. Debt management**

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure

efficient and practical arrangements. It contains three dimensions and uses the M2 (AV) method for aggregating scores.

Indicator/Dimension	Score
<b>PI-13. Debt management</b>	<b>A</b>
13.1. Recording and reporting of debt and guarantees	A
13.2. Approval of debt and guarantees	A
13.3. Debt management strategy	A

**General description of the system in place in Armenia:** The Law on Public Debt provides a clear framework for managing public debt, and this work is primarily undertaken by the Public Debt Management Department (PDMD) of the Ministry of Finance.

**Recent or ongoing reform activities:** No current significant reforms.

### 13.1. Recording and reporting of debt and guarantees

#### **Performance level and evidence for scoring:**

The department used the DMFAS (V.6) debt recording system until 2018, when a lack of IT support prompted using Excel to record external debt borrowing.

After a loan agreement is signed, the original documents are kept at the Ministry of Foreign Affairs, with copies at the Ministry of Justice and Ministry of Finance. After the loan negotiations, the PDMD inputs the data into the Excel spreadsheet, after which it is verified by the supervisor. The existing process, therefore, complies with the two-step, dual verification procedure.

The PDMD also monitors disbursements and information on disbursements is easily tracked as the PIUs need to input all withdrawal requests into the Treasury IT system.

For domestic debt issuance, the system automatically sends all information regarding the auction, which is inputted into the domestic debt spreadsheets. Another specialist double-checks the entries. The existing process, like the one for external debt, complies with the two-step dual verification procedure.

The processes described above ensure that all debt is recorded, verified for accuracy, and reconciled. In addition, the monthly publication of the reconciliation of debt issuance and transactions provides further assurance as to the comprehensive, updated, and accurate nature of the debt information available.

The Public Debt Management Department (PDMD) of the Ministry of Finance publishes monthly, quarterly, and annual reports on public debt, including debt stocks, outstanding guarantees, compositions, transactions, and risk indicators for the debt portfolio. Reports on public debt service, transaction by transaction, are published on the Ministry of Finance website quarterly. The score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Systematic and comprehensive recording and reporting of debt management transactions and guarantees.

**Performance change since a previous PEFA assessment:** Unchanged.

## 13.2. Approval of debt and guarantees

### **Performance level and evidence for scoring:**

The Ministry of Finance is the sole debt management entity in the government (“authorised body” in terms of the Public Debt Law of 2008). Within the Ministry of Finance, several departments have responsibilities to enable the Ministry to discharge its responsibility as the authorised body to undertake debt management. The Public Debt Management Department (PDMD) develops debt management strategies, undertakes debt management operations, reconciles transactions, and reports on debt management operations.

In addition, the International Cooperation Department (ICD) within the Ministry of Finance plays a coordinating role in contracting multilateral and bilateral external loans. Under the Law on International Agreements, the Ministry of Finance is the “competent body” for contracting international credit and grant agreements. ICD is the focal point in the Ministry in managing the procedures prescribed by this law.

The Legal Department of the Ministry of Finance is responsible for issuing guarantees. After issuance, the PDMD receives information on guarantees for reporting purposes and a copy of the government decree approving the guarantee. All planned annual borrowings are included in the state budget, which the National Assembly approves every year. The score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Clear legal framework and approval processes for issuance of debt and guarantees.

**Performance change since a previous PEFA assessment:** Unchanged.

## 13.3. Debt management strategy

### **Performance level and evidence for scoring:**

The PDMD produces the medium-term Debt Management Strategy (DMS) covering the Armenian government’s public debt and government guarantees and updates this annually. The strategy covers the same three-year period of the MTEF. The strategy is published in the MTEF, which also reports on outcomes relative to the previous strategy. The MTEF is submitted to the National Assembly. The strategy includes a section on the objectives of debt management. The strategy outlines the key areas of risk – refinancing risk, interest rate risk and exchange rate risk – and includes indicators under each risk category. Each indicator has a quantitative benchmark against which to manage performance. The DMS also includes a detailed presentation of the activities from the previous year. The Debt Management Strategy also includes an annual Debt Sustainability Analysis undertaken by the Ministry of Finance. The yearly borrowing plan is included in the budget proposal, approved by the National Assembly, and is consistent with the debt management strategy published within the budget. The score for the dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Three-year debt management strategy with quantitative indicators published annually in MTEF and presented with the annual borrowing plan to the National Assembly.

**Performance change since a previous PEFA assessment: a new dimension**



## **PILLAR FOUR: POLICY-BASED FISCAL STRATEGY AND BUDGETING**

This pillar measures the extent to which the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

### **Overall performance: key strengths and weaknesses**

Overall, Armenia scores very well on the Pillar Four indicators. The legal framework requires a high degree of transparency around fiscal policy intentions. A well-established medium-term expenditure framework guides the development of the annual budget. The budget process is orderly and predictable. Lower scores across these indicators highlight gaps in the level of transparency required for consistently high indicator scores with respect, for example, to some macroeconomic indicators, revenue by tax type and information relating to the costs of individual revenue and expenditure decisions. There are also weaknesses in the connection between strategic plans and resource allocation. While the budget is developed within a medium-term context, outer-year budget projections do not form the baseline for planning future budgets, reducing the potential for the medium-term outlook to anchor the fiscal position over time.

### **Analysis**

Armenia publishes regular macroeconomic and fiscal forecasts and alternative fiscal scenarios with the MTEF and Budget (PI-14 scored B). This otherwise high level of transparency is limited in two respects. The macroeconomic forecasts of interest and exchange rates have not been published as the authorities consider that publication is inappropriate in the Armenian context. In addition, estimates of revenue by tax type have not been published.

Armenia has a well-established, transparent, and regular approach for the government to articulate its fiscal strategy and report progress against it (PI-15 scored B+). As required by the Law on Budget System, the government submits its fiscal strategy to the legislature annually, including quantitative targets for key fiscal indicators, particularly public debt. Similarly, the government reports annually against progress towards its fiscal strategy. The one significant omission is that there is no published estimate of the fiscal impact of changes in revenue and expenditure policies.

Armenia scores well in placing expenditure limits within an explicit medium-term expenditure framework (PI-16 scored B). Both expenditure estimates and aggregate and entity ceilings are set for three years. The major shortcoming in this indicator is that budget year estimates are not reconciled with the previous year's three-year expenditure estimates.

Armenia has a low score (PI-18 D+) in terms of legislative scrutiny of the budget. Legislative scrutiny is broad (e.g., covers budget priorities, fiscal strategy, and individual ministry budgets), completed promptly, and governed by the laws governing the National Assembly's procedures across consideration of the draft budget (MTEF) and the final budget proposal. However, the absence of a breakdown of tax forecasts by tax types limits the ability of the legislative to scrutinise the government's revenue projections.

### PI-14. Macroeconomic and fiscal forecasting

This indicator measures a country's ability to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. It contains three dimensions and uses **M2 (AV)** for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-14. Macroeconomic and fiscal forecasting</b>	<b>B</b>
14.1. Macroeconomic forecasts	C
14.2. Fiscal forecasts	C
14.3. Macro fiscal sensitivity analysis	A

**General description of the system in place in Armenia:** The Law on Budget System requires the regular publication of macroeconomic and fiscal forecasts and macro-fiscal sensitivity analysis.

**Recent or ongoing reform activities:** No current significant reforms

#### 14.1. Macroeconomic forecasts

##### **Performance level and evidence for scoring:**

The Ministry of Finance prepares a comprehensive set of macroeconomic forecasts to support the development of the MTEF and the Budget. The forecasts are published with the MTEF and the Budget proposal for the fiscal year and the following fiscal years. The Central Bank of Armenia prepares and publishes with the Budget an opinion on the macroeconomic forecasts prepared by the Ministry of Finance. However, forecasts for two of the key macroeconomic indicators are not published (as required for an "A" or "B" rating). These are forecasts of interest rates and the exchange rate. The authorities consider that the publication of these indicators is currently inappropriate in the Armenian context as publication could give rise to undesirable financial market movements. Based on the analysis and supporting evidence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** Macroeconomic forecasts are published but do not include two key macro indicators – forecast interest rates and exchange rate.

**Performance change since a previous PEFA assessment:** new dimension.

#### 14.2. Fiscal forecast

##### **Performance level and evidence for scoring:**

Fiscal forecasts for revenue, expenditure and the budget balance for the budget year and two following years are prepared and published with the MTEF and Budget. There are also comparisons of forecast revenues and expenditures with the most recent MTEF and Budget but without the breakdown of the significant variances driving the overall movement in the key indicators. Moreover, forecasts of revenue by type (particularly with respect to tax revenue, which represents the bulk of total revenue) are not published (as required for an "A" or "B" rating). As noted in 14.1, the interest

rate and exchange rate assumptions underpinning the macroeconomic forecasts are not published. However, by law, the fiscal forecasts in the Budget assume that the actual exchange rate on 30 September remains constant in nominal terms over the forecast period. Hence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** Published fiscal forecasts do not include a breakdown of revenue by tax type.

**Performance change since a previous PEFA assessment:** a new dimension

### 14.3. Macro fiscal sensitivity analysis

#### **Performance level and evidence for scoring:**

A set of sophisticated fiscal forecast scenarios based on alternative macroeconomic assumptions, such as the implications for GDP and the fiscal position of stronger or weaker economic growth than projected. In addition, while interest rate and exchange rate assumptions underpinning the economic forecasts are not published, the fiscal scenarios assess the fiscal impact of a particular percentage change in the exchange rate. These scenarios are prepared by the Ministry of Finance and published in the MTEF, and the budget proposal is submitted to the National Assembly. The score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** A range of fiscal scenarios based on alternative macro assumptions are published.

**Performance change since a previous PEFA assessment:** a new dimension

#### **PI-15. Fiscal strategy**

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support achieving the government’s fiscal goals. It contains three dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-15. Fiscal strategy</b>	<b>B+</b>
15.1. Fiscal impact of policy proposals	C
15.2. Fiscal strategy adoption	A
15.3. Reporting on fiscal outcomes	A

**General description of the system in Armenia:** The Law on Budget System requires regular transparent reporting from the government concerning its fiscal strategy and progress made towards the objectives set out in the fiscal strategy.

**Recent or ongoing reform activities:** No current significant reforms

### 15.1. Fiscal impact of policy proposals

**Performance level and evidence for scoring:** Policy changes with expenditure implications are costed and included in the information provided on programs of the relevant line ministries for the budget year in the budget proposal. Revenue policy changes are noted in the discussion on revenue forecast changes in the MTEF and budget proposal. However, the information on revenue and expenditure policy costing changes is not consolidated in the budget documentation to provide an overall assessment of the fiscal impact of policy changes in budget preparation.

Based on the analysis and supporting evidence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** The budget proposal provides information on the costs of individual policy changes for the budget year.

**Performance change since a previous PEFA assessment:** a new dimension

### 15.2. Fiscal strategy adoption

**Performance level and evidence for scoring:** Consistent with the Law on Budget System, each year, in the MTEF, the government publishes its fiscal strategy for the three years covered by the MTEF together with quantitative goals for the key fiscal indicators (i.e. public debt, levels of public expenditures, levels of state revenues). The fiscal strategy sets out quantitative goals for each of the years covered by the MTEF for expenditure on non-financial assets, growth of current expenditures, level of total current expenditure and government debt and the projected changes year-by-year in the level of spending, revenue and debt. The strategy also has clear “rules” for the management of public spending, depending on the level of public debt (i.e. debt above 60% of GDP, between 40%-60% of GDP and below 40% of GDP) to ensure that the fiscal position can self-correct if shocks push the fiscal position away from the intended debt track. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Government in MTEF outlines its fiscal strategy and quantitative goals for key fiscal indicators relating to government expenditure and debt for each year in the three-year fiscal planning period.

**Performance change since a previous PEFA assessment:** new dimension.

### 15.3. Reporting on fiscal outcomes

**Performance level and evidence for scoring:** As required by the Law on Budget System, the government reports on progress achieved against the previous year’s fiscal strategy in the MTEF. This includes assessing actual performance relative to budget expectations of the fiscal indicators in the fiscal strategy – non-financial asset spending, current expenditures (both growth and level) and government debt. To the extent that fiscal outcomes deviate from the fiscal strategy, the government is required to outline what actions it expects to take to ensure that future outcomes align with the government’s fiscal strategy. For example, in the 2021 MTEF, the government noted the deviation from expected progress in the fiscal strategy owing to the COVID-19 pandemic (as permitted by point 8.3 of the Law on Budget System) and made a commitment over 2021-23 to align fiscal indicators with the government’s fiscal strategy. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Government in MTEF reports on progress made towards previously set goals, any deviations from intended track and intended actions to respond.

**Performance change since a previous PEFA assessment:** a new dimension

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

This indicator examines how much expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-16. Medium-term perspective in expenditure budgeting</b>	<b>B</b>
16.1. Medium-term expenditure estimates	A
16.2. Medium-term expenditure ceilings	A
16.3. Alignment of strategic plans and medium-term budgets	C
16.4. Consistency of budgets with previous year's	D

**General description of the system in place in Armenia:** The Law on Budget System requires the draft budget proposal (MTEF) and budget proposal to provide estimates on a three-year basis at entity and program levels.

**Recent or ongoing reform activities:** No current significant reforms.

#### 16.1. Medium-term expenditure estimates

**Performance level and evidence for scoring:** Consistent with the Law on Budget System, the MTEF and final Budget proposal published annually provide estimates of expenditures for three years organised by economic, administrative, and programme levels. The score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** The MTEF and final Budget proposal provide estimates of expenditures for a three-year period by economic, administrative, and programme level.

**Performance change since a previous PEFA assessment:** New dimension

#### 16.2. Medium-term expenditure ceilings

**Performance level and evidence for scoring:** The budget circular in Armenia is issued in two stages. The first, covering the detailed methodologies for budget preparation, was provided by the Ministry of Finance to ministries in late January. The circular containing budget ceilings for entities will be released in mid-February. After the release of the methodological circular, the Ministry of Finance

advises the government on the aggregate budget ceiling for the budget year and the two following forecast years together with the proposed ministry ceilings. There follows consultation across the government and agreement on the three-year ceiling and its allocation to ministries.

The score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Ceilings for the three-year fiscal planning period are agreed upon by the government and are allocated to ministries before the preparation of initial budget estimates.

**Performance change since a previous PEFA assessment:** New dimension.

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

**Performance level and evidence for scoring:** Armenia has a range of strategic plans. The Government's Program and Action Plan outlines strategic priorities for implementation over the government's term of office. There are separate strategic plans for ministries. There are also strategic plans for major public investments. Currently, there are no good connections between the various strategic plans, nor are strategic plans cost and prioritised in a way that is consistent with the fiscal ceilings established as part of the MTEF process. This means that strategic plans are likely to be aspirational rather than realistic. As such, there is only partial alignment of strategic plans and the budget in Armenia. Hence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** While there are several sets of strategic plans, including strategic plans for line ministries for line ministries, there is inconsistent and partial alignment between strategic plans and the budget.

**Performance change since a previous PEFA assessment:** Performance unchanged.

### 16.4. Consistency of budgets with previous year's estimates

**Performance level and evidence for scoring:** Currently, the budget documentation does not reconcile the current year's budget year expenditure estimates to the equivalent (i.e. second year) in the previous year's three-year expenditure estimates. The score for the present dimension is D.

**Possible causes of PFM performance identified during the PEFA assessment:** Budget documents do not highlight the consistency of current budget year estimates with the previous second year of three-year estimates.

**Performance change since a previous PEFA assessment:** New dimension

### ***PI-17. Budget preparation process***

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It contains three dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-17. Budget preparation process</b>	<b>A</b>
17.1. Budget calendar	B
17.2. Guidance on budget preparation	A
17.3. Budget submission to the legislature	A

**General description of the system in place in Armenia:** The Prime Minister’s decree sets out the milestones for the annual budget process and sets the basis for the budget circulars provided by the Ministry of Finance to budget entities.

**Recent or ongoing reform activities:** No current significant reforms.

### 17.1. Budget calendar

**Performance level and evidence for scoring:** The implementation of the annual budgetary process is defined by the Law on the Budget System. The process begins each year in January with the Prime Minister’s decree, which identifies the budget calendar (which is provided to all ministries) for the development of the MTEF and the budget proposal. The timetable sets out all the key process steps for the Ministry of Finance and line ministries through the preparation of the draft budget (MTEF) and budget proposal until the passage of the Budget by the National Assembly.

The Ministry of Finance releases a methodological budget circular in late January to enable ministries to commence estimates preparation. The Ministry of Finance provides advice on budget ceilings to the Prime Minister in early February. Government-agreed budget ceilings are advised to ministries in mid-February, and draft estimates (for the MTEF) are received by mid-March. (Estimates for ongoing expenditures and new spending bids are provided separately a week apart.)

While ministries receive the initial (methodological) budget circular more than six weeks before estimates are required for submission, advice on ceilings is provided around three weeks later, leaving ministries with four weeks to prepare the estimates in the knowledge of both budget methodology and entity ceilings.

Compliance with the material budget process steps (e.g., preparing estimates for MTEF and Budget proposal) is high, although there are some cases where entities experience slippage in providing submissions to the Ministry of Finance on time.

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

**Possible causes of PFM performance identified during the PEFA assessment:** Ministries provided four weeks to prepare budget submissions with knowledge of both budget methodology and entity ceilings. Submissions are primarily made on time.

**Performance change since a previous PEFA assessment:** A rating of “A” was provided in the last assessment (i.e. around six weeks to complete estimates). Unclear that practice has changed in the intervening period, so it is unclear based on evidence from previous assessments.

## 17.2. Guidance on budget preparation

### **Performance level and evidence for scoring:**

In Armenia, the release of information required for ministries to prepare budget estimates follows two steps. The first step is the release of methodological instructions from the Ministry of Finance to ministries in late January each year, together with the budget process timeline attached to the Prime Minister's decree. The second step is the release of the budget circular on government-agreed entity ceilings, which will be issued in mid-February. The agreement on ceilings follows the receipt of advice from the Ministry of Finance to the Prime Minister in early February. The expenditure ceilings cover the three-year fiscal planning period and all budgeted expenditures.

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

**Possible causes of PFM performance identified during the PEFA assessment:** Budget circular on ceilings reflects government-wide agreement on spending ceilings for each entity.

**Performance change since a previous PEFA assessment:** Performance unchanged.

## 17.3. Budget submission to the legislature

### **Performance level and evidence for scoring:**

The draft state budget will be presented to the government for review in September. The government must submit the draft State budget to the National Assembly at least 90 days before the start of the next budget year (i.e., before 1 October). This requirement is followed in practice. The budget for Fiscal Year 2020 was presented on 30 September 2019, for Fiscal Year 2021 on 29 September 2020, and for Fiscal Year 2022 on 30 September 2021.

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

**Possible causes of PFM performance identified during the PEFA assessment:** Budget submission consistently provided to the National Assembly at least 90 days before the start of the new financial year.

**Performance change since a previous PEFA assessment:** Performance unchanged.

## ***PI-18. Legislative scrutiny of budgets***

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinises, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. The indicator contains four dimensions and uses the **M1 (WL)** method for aggregating dimension scores.



Indicator/Dimension	Score
<b>PI-18. Legislative scrutiny of budgets</b>	D+
18.1. Scope of budget scrutiny	D
18.2. Legislative procedures for budget scrutiny	C
18.3. Timing of budget approval	A
18.4. Rules for budget adjustments by the executive	C

**General description of the system in place in Armenia:** The National Assembly considers the draft budget proposal (published as MTEF) in June/July each year and reviews it between late September and its passage in December (before the commencement of the new financial year on 1 January).

**Recent or ongoing reform activities:** No current significant reforms

### 18.1. Scope of budget scrutiny

**Performance level and evidence for scoring:** The legislature’s scrutiny of both MTEF and the budget proposal is extensive in several respects, covering multi-year budget priorities for each sector, the Government’s fiscal strategy and expenditure estimates. However, as noted in the discussion on PI-4, there is a significant omission in the level of detail provided concerning tax revenue forecasts presented to the legislature. Therefore, the legislature’s capacity to review revenue estimates is significantly constrained. Scores of C and above require the legislature’s review to cover the *revenue details*. For this reason, the score for the present dimension is D.

**Possible causes of PFM performance identified during the PEFA assessment:** Comprehensive focus on legislative scrutiny covering budget priorities, fiscal strategy, and expenditure estimates.

**Performance change since a previous PEFA assessment:** Performance unchanged.

### 18.2. Legislative procedures for budget scrutiny

**Performance level and evidence for scoring:** The Law on Budget System and Law of the Procedures of the National Assembly set the rules within which the National Assembly scrutinises the budget, and these procedures are followed. However, no provision is currently made for seeking public consultation on the budget proposal, and the procedural arrangements do not include details on technical support or negotiation procedures. The score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** Budget scrutiny is governed by law and follows legal requirements in practice. However, legislative scrutiny does not permit systematic public consultation on the Budget.

**Performance change since a previous PEFA assessment:** The previous assessment was “A”. The current methodology requires public consultation on the budget proposal for an “A” rating.

### 18.3. Timing of budget approval

**Performance level and evidence for scoring:** The Budget is required by law to be passed by the National Assembly before 1 January (the start of the financial year). In practice, approval of the Budget

occurs several weeks before the start of the financial year. The Budget for Fiscal Year 2020 was passed on 10 December 2019, for Fiscal Year 2021, the Budget was passed on 10 December 2020, and for Fiscal Year 2022, the Budget was passed on 9 December 2021.

**Table 21: Actual dates of budget approval for the last three completed fiscal years**

Fiscal year	Actual date of approval
2020	10 December 2019
2021	10 December 2020
2022	9 December 2021

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

**Possible causes of PFM performance identified during the PEFA assessment:** The budget is consistently approved several weeks before the start of the financial year.

**Performance change since a previous PEFA assessment:** Performance unchanged.

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

**Performance level and evidence for scoring:** Clear rules govern the administrative in-year reallocation of ministry budgets. The Government can reallocate resources between programmes up to 3% of the approved state budget for a given year. In addition, starting with the 2002 State Budget law, the National Assembly uses annual budget law every year to allow the government to increase expenditures by up to the excess of actual budget receipts over the budgeted amounts without applying to the National Assembly. This allows the government to increase overall spending during budget execution without applying to the National Assembly. On this basis, performance is scored as C.

**Possible causes of PFM performance identified during the PEFA assessment:** Clear rules exist, but in addition to administrative reallocation of expenditures, the rules permit significant administrative expansion of total expenditure during budget execution if actual revenues are higher than budgeted revenues.

**Performance change since a previous PEFA assessment:** Performance unchanged.

## **PILLAR FIVE: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION**

This pillar considers whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

### **Overall performance: key strengths and weaknesses**

The process of predicting and controlling budget execution shows strengths rather than weaknesses. All assessed functions and processes are well-controlled and contribute to transparent public fund usage. The key strengths demonstrating sustainable management and improvement since the last PEFA assessment are presented below.

The assessment of revenue administration indicates that the function is well structured, developed and in a continuous process of improvement, working closely with IMF. The information on tax and customs liabilities and redress is clear; the public is well informed about tax legislation, and various media are employed to reach the taxpayer. This is evident from the website of the State Revenue Committee. Risk management and a formalised compliance improvement plan exist. The practice indicates that regular tax audits are carried out to improve tax collection and minimise revenue arrears. An excellent point to note is the practice of monitoring revenue arrears, but the downside to note is the poor volume of aged (more than 12 months) revenue collection. The daily inflow of revenue collection into TSA at MoF, Treasury facilitates the reconciliation of accounts in real-time.

Cash flow and stock are planned well in advance, and strong budget spending discipline is applied with no significant adjustments.

Expenditure arrears control (PI-22) generally contributes to budget credibility by monitoring and clearing payables. The sound internal control system also benefits from the organisation of payroll and personnel records (PI-23), which are updated in time for salary payment. A payroll audit is carried out every year.

Procurement practice (PI-24) shows good performance. The key strengths are monitoring and public access to data and information. The volume of procurement contracts indicates that the tenders through competitive tenders are high (83%). Another good point to note is the procurement appeal mechanism, which has been transferred to the general court system since mid-FY2022. There has been a notable improvement in public procurement management, with significant efforts still being made to make the function more efficient, transparent, and sustainable.

The assessment of PI-25 shows the next strength in the PFM system. The internal control for non-salary payment is strong, ensuring clear responsibilities, segregation of duties, expenditure commitment controls, and strict application of payment rules and procedures. This setting contributes to a sound internal control system, assuring that transactions are performed as intended. Resources are used only when the authority has been verified. The overall effect of the PFM system is that fiscal discipline is maintained at all levels.

The internal audit function is established in most public administration bodies. Following a decision by the government to achieve more independence and efficacy in this area, the function was

outsourced for nearly all CG budget bodies, and only 14 (6%) of them continued with their in-house internal audit teams. The internal audit is finding the balance between efficient and sustainable functions. The weaknesses that are yet to be improved are the focus of internal audit reviews based on compliance with transactions rather than the efficiency of the internal control system, the implementation of all planned audits, and the management's response to the audit recommendations.

### **Analysis**

The process of predicting and controlling the budget execution is structured well and functions effectively. This indicates that the budget is implemented in a comprehensive control environment with an adequate system of well-regulated monitoring, reporting and accountability. Such performance ensures that the budgeted public funds are collected and spent as intended. The SRC collects all government revenues and uses multiple channels to provide payers easy access to up-to-date information on the main revenue obligations. There are redress procedures. A structured and systematic approach is applied to assess revenue management compliance risk. A compliance improvement plan is followed to prioritise the risk of large taxpayers. Since 2008, the RA State Revenue Committee has introduced a strategy for improving tax and customs discipline, a risk management system was launched, and a Risk Management Council was established within the framework of the strategy. In addition, a disciplinary risk register was introduced, where compliance risks are identified, and an analysis of these risks is carried out, setting priorities that have the greatest impact on the state budget.

The payroll is not automatically linked to the personnel database. However, the controls allow the budget entities to insert updates for staff employment, such as dismissal, promotion, and transfer to another position within the government. This ensures that all changes are made and verified against the approved personnel budget allocations every month and in time for salary payment. Changes in the personnel database affecting an employee's payroll are made electronically with human intervention.

All due payables are made within the deadline, and expenditure arrears have not been incurred during the assessment period. Currently, arrears are not shown in the budget execution report, but their disclosure is planned in the PFM Reform strategy outlining measures to be achieved by the end of 2023. The information on arrears will be incorporated in the RA state budget execution reports by all Central Government and subnational budget organisations.

The Treasury control process integrates the registered information on expenditure commitments with the actual payment request and justifies expenditures through automatic control. The efficiency of the controls over expenditure commitments and payments is substantiated by the absence of expenditure arrears over the last ten years. The government's payment obligations are within the limits of annual budget allocations and projected cash availability.

Much of the internal audit function is outsourced to the private sector audit firms, with the government's legal framework for internal control being applied. The period of having outsourced internal audit service is short to judge efficiency, and while some budget organisations are satisfied and others not, the fact that MoF has discontinued the external service for the last two fiscal years implies that it is time to assess if the outsourced service contributes to better internal control and value for money in spending public funds.

### PI-19. Revenue administration

This indicator covers the administration of all tax and non-tax revenue types for the central government. It assesses the procedures used to collect and monitor central government revenues. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-19. Revenue administration</b>	<b>B</b>
19.1. Rights and obligations for revenue measures	A
19.2. Revenue risk management	B
19.3. Revenue audit and investigation	A
19.4. Revenue arrears monitoring	D

#### General description of the system in place in Armenia:

The State Revenue Committee merged the customs and tax services in 2008. It was part of the Ministry of Finance for a couple of years, and the Minister of Finance was appointed head of tax administration. In 2016, the State Revenue became a separate budget organisation. The structure of the SRC consists of a head, five deputies, a Secretary General and a Head of Staff. One deputy is in charge of customs, with three directorates and five customs houses. The deputy in charge of tax coordinates the services, analysis, inspections and supervision of all territorial branches.

The proportion of revenue collected from tax and customs in the three years of assessment is cumulative: 79% collected by tax and 21% collected by customs. Thus, the State Revenue Committee fully represents the revenue administration function of the Government of Armenia.

A Discipline Improvement Strategy was launched in 2020 with the support of the IMF and the ISO 31000 Standard.

The revenue consists of state tax revenue, state duties and official grants.

A Compliance Improvement Plan for one year assesses taxpayers on four categories (key, large, medium, and low). It sets out a list of activities to improve discipline, including training and information sessions. Once a year, an assessment of achievement is done with the IMF. Another risk assessment system is the Automatic Tax Audit (a system assessing by algorithm, classifying the payer by risk score), according to which the list of taxpayers to be audited is planned). A comprehensive audit checks the relations among tax-registered entities. There is a working group to update the risk assessment indicators in line with the amendments of the law. The list of entities to be audited increased from 800 to 2000 last year and is made public for preventive purposes. This practice is not supported by the IMF when taxpayers are allowed to make adjustments. However, according to SRC, it helps to make taxpayers more vigilant.

The type of taxes is defined in the Tax Code as follows:

- (i) State taxes: (a) Value Added Tax; (b) Excise Tax; (c) Profit Tax; (d) Income; (e) Environmental; (f) Road; (g) Turnover Tax.
- (ii) Local taxes: (a) Property tax; (b) Motor Vehicle Property Tax.

**Table 23: Key categories of Revenue.**

*(all amounts in billion AMD)*

	FY 2022	%
<b>State budget revenues:</b>	<b>2,063.10</b>	
1. <u>Tax revenue and governmental duties</u>	1,926.00	93.35%
2. <u>Official grants</u>	15.00	0.73%
3. <u>Other revenue</u>	122	5.91%

	FY2022	%
<b>Tax revenues and government duties</b>	<b>1,926.00</b>	
<b>1. Tax revenues</b>	<b>1,819.10</b>	<b>94%</b>
VAT:	679.6	37%
Excise tax	127.5	7%
Profit tax	222.8	12%
Customs duty	56.7	3%
Income tax	474.8	26%
Turnover tax	40.7	2%
Social contribution (for accumulated pension)	64.5	4%
Environmental tax and nature use fee	95.9	5%
Other taxes	56.7	3%
<b>2. State duty</b>	<b>106.8</b>	<b>6%</b>

*Source: State Budget of RA, Performance analysis*

**Recent or ongoing reform activities:** One of the government commitments formalised in the PFM Reform Strategy is improving tax policy and modernising tax administration, which aims to reduce the shadow economy and form a competitive business environment. It is envisaged that a unified tax potential and actual tax gap assessment methodology will be developed, and based on the results, a programme of tax abatement actions will be implemented, providing an adequate level of tax-to-GDP ratio.

### 19.1. Rights and obligations for revenue measures

#### **Performance level and evidence for scoring:**

The SRC has adopted a comprehensive approach to providing taxpayers with full information on all tax and customs issues. Its website enables easy access to rules, procedures, and forms. Tax is checked and paid electronically by filing electronic invoices. Taxpayer obligations are provided electronically; taxpayers can see their individual tax liability online. In addition to the website information, tax liabilities are posted and published.

There is a redress mechanism. The taxpayer can file claims to the Appeal Committee, which the State Revenue Committee provides electronically. Claims for tax refunds and signals for tax-related irregularities are directly communicated to the SRC. Under the Tax Code (2018), the claims are

reviewed, and timely decisions are issued. The SRC reports the outcome of the processed appeals in its Annual Activity Report, which is published on the Committee's website.

Based on the analysis of available information and the supporting evidence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Systematic and sustainable enhancement of providing service and updated information to taxpayers.

**Performance change since a previous PEFA assessment:** Performance has been sustainable since the previous assessment, when the SRC saw significant improvement, enabling easier and quicker taxpayer access to information. Introducing a “hotline” service clarifies tax issues, weekly ‘TaxInfo’ TV programmes, regular training programmes, and large-scale awareness campaigns.

## 19.2. Revenue risk management

### **Performance level and evidence for scoring:**

The State Revenue Committee introduced the strategy for improving tax and customs discipline in 2020 by establishing a risk management system. The strategy framework covers an analysis of compliance risks, setting out priorities for the risks with the greatest impact on the state budget. Next, a plan for improving the tax discipline of selected taxpayers is developed and implemented. It identifies the most risk-prone taxpayers and sectors of economic activity. The plan was implemented in FY2021-2022 for the following groups and sectors: a) large taxpayers, b) the construction sector, c) public food, and d) tax compliance of importing taxpayers. To implement the plan, the following components were elaborated: (i) established Risk Management Council headed by the Chairman of the SRC approving the target groups and monitoring the implementation of the plan; (ii) developed register of tax compliance risks; (iii) selection of tax discipline improvement activities; (iv) monitoring and evaluation of the implanted plan with further steps to be undertaken to improve tax discipline.

Compliance improvement plans are currently being implemented (and expected to be completed by the end of 2023) for the following groups and activities: a) large taxpayers requiring special control, b) improving tax discipline in the construction sector, and c) improving customs discipline of certain groups of foreign economic operators.

Since 2020, with the support and involvement of the IMF, the SRC has introduced a Compliance Risk Management System, Risk Register, and Risk Management Council. There are separate compliance improvement programmes. The Risk Management Standard ISO 31000 is applied, and the list of selected taxpayers for audit is published.

SRC collects all revenue using a structured and systematic approach (Tax and Customs Discipline Improvement Strategy) to prioritise compliance risk for large taxpayers and other groups of taxpayers operating in selected risk-prone economic activities.

Based on the analysis of the available information and supporting evidence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** The extensive support of IMF and the sustainable efforts of SRC in applying risk-based selection criteria for revenue compliance improvement.

**Performance change since a previous PEFA assessment:** Revenue risk management is a new PFM area of assessment that sets a benchmark for further reviews.

### 19.3. Revenue audit and investigation

#### **Performance level and evidence for scoring:**

SRC undertakes audits (referred to as thematic control by the staff of SRC) and inspections according to their compliance improvement plans (Discipline Improvement Plan). The rate of completed planned audit activities in FY2022 was 95%. Comprehensive audits (all issues) and thematic field audits check cash registers and unregistered employees. The list of the planned comprehensive audits for next year is published in advance, while the thematic audit is ad hoc.

Tax audits are planned by applying a risk-based approach that is regulated and in the tax control framework per Article 336 of the Tax Code. The methodology of the risk-based audits is approved by Decision No. 570-N dated 25.07.2017.

The SRC provided as evidence the compliance improvement document and the planned and performed audits and inspections for FY2022.

All (more than 90% of the thematic planned audits) were carried out in FY2022. They are carried out by the Discipline Improvement Strategy (improvement of tax and customs regulation strategy) and the Tax and Customs Discipline Improvement Plan for large taxpayers with a turnover of 400 million drams. The Discipline Improvement Plan constitutes the SRC compliance improvement plan that was elaborated with the support and under the guidance of the IMF. The compliance improvement plan formulates measures to be applied to all four categories of taxpayers: key, large, medium, and low.

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

**Possible causes of PFM performance identified during the PEFA assessment:** Planned audits are carried out with inspections according to a Compliance Improvement Plan.

**Performance change since a previous PEFA assessment:** New assessment dimension.

### 19.4. Revenue arrears monitoring

#### **Performance level and evidence for scoring:**

In accordance with the Tax Code (2016 amended 2018), Article 4 states that an arrear is the amount of tax or fees prescribed by the Code or laws of the Republic of Armenia that have not been paid or remain outstanding by the payment deadline.

The State Revenue Committee monitors revenue arrears and reports them in the Annual Activity Report issued every year. SRC can track tax arrears electronically through its Taxpayer 3 e-management system, established in 2012. The stock of revenue arrears at the end of the last completed fiscal year is below 20% (16%) of the total revenue collection of the year. However, the revenue arrears that are older than 12 months are 88%.

All key tax categories appear to be the sources of arrears. Table 24 below shows a trend of uncollected revenue in both fiscal years.



**Table 24 Revenue arrears for FY 2021 and 2022**  
(all amounts in AMD)

FY	2021				2022			
	Amount	Share	>12 months	Share	Amount	Share	>12 months	Share
<b>Category (type)</b>								
VAT	117,632,347,770	38%	106,416,543,973	90%	115,178,323,360	37%	104,567,673,766	91%
Income Tax	22,973,070,043	8%	16,626,792,854	72%	24,344,171,209	8%	19,296,532,006	79%
Profit Tax	67,115,757,456	22%	61,460,498,790	92%	65,503,926,955	21%	62,006,566,862	95%
State Duties	42,282,229,330	14%	0	-	49,326,547,181	16%	41,470,376,677	84%
Penalties	10,685,269,160	3%	7,888,241,280	74%	11,528,782,239	4%	8,855,240,056	77%
Other	45,309,414,445	15%	35,506,635,394	78%	48,031,454,891	15%	40,864,876,735	85%
<b>Total Arrears</b>	<b>305,998,088,204</b>	<b>19%</b>	<b>227,898,712,291</b>	<b>74%</b>	<b>313,913,205,835</b>	<b>16%</b>	<b>277,061,266,102</b>	<b>88%</b>
<b>Total Revenue</b>	<b>1,586,900,196,690</b>				<b>1,926,000,000,000</b>			

Source: State Revenue Committee (data specially provided for PEFA assessment)

Based on the data provided by SRC and the analysis, the score for the present dimension is D. The reason is that the stock of aged (more than 12 months) arrears in the last completed fiscal year (2022) is more than 75% of the total amount of revenue arrears for the same year. This is indicative of huge, potentially uncollectable revenue. Very few of the arrears are collected during the year; most of them are incurred from uncollected revenue for more than 12 months by taxpayers in the process of court insolvency proceedings. This implies that there is a high probability that the share of arrears exceeding 12 months will never be collected and will be written off.

**Possible causes of PFM performance identified during the PEFA assessment:** The underlying cause of the uncollected revenue is the delayed payment of key revenue categories. The ageing of arrears is caused by the unsustainable business environment and the delayed court decisions on insolvency.

**Performance change since a previous PEFA assessment:** Performance has not improved since the previous PEFA assessment, when the score for monitoring revenue arrears was again D. The debt collection ratio was 60%, and the stock of year-end tax arrears ranged between 13% and 17% of annual tax collections. The reason for the high volume of uncollectable revenue was the same—insolvent companies, which SRC has taken to court.

### PI-20. Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government. It contains three dimensions and uses **M1 (WL)** for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-20. Accounting for revenue</b>	<b>A</b>
20.1. Information on revenue collections	A
20.2. Transfer of revenue collections	A
20.3. Revenue accounts reconciliation	A

**General description of the system in place in Armenia:**

The revenue of the Government of Armenia includes the tax and customs collected by the State Revenue Committee. All tax and duty payers can pay the due amounts to the budget through an online electronic bank payment system, postal system, and banking system.

Following the Tax Code (2018), all collected revenue is transferred to the Single Treasury Account every day. Taxpayers pay directly to the STA. Since 2018, all excess payments have been refunded.

Revenue is transferred daily and reported to MoF monthly, and the final annual settlement on revenue collection is made in the fourth quarter. Monthly revenue collection reports are published.

**Recent or ongoing reform activities:** Not reported.

**20.1. Information on revenue collections**

**Performance level and evidence for scoring:**

The State Revenue Committee collects all government revenue of Armenia. The information on revenue collection is received through a Treasury Single Account on a daily basis. The information is broken down by source and revenue category.

**Table 25: Information on revenue collection (amounts in million AMD)**

Collecting entity	Category of revenue	Total amount collected <sup>1</sup>	Frequency of data transfer to the central agency	Transferred data characteristics (Y/N):		
				Broken down by revenue	Consolidated into a report	Consolidated
SRC	Tax and Customs	1,926,000	Daily	Y	Y	Y

The information on all revenue collected each month is consolidated and published as a part of the budget execution report, and it is available on the MoF website named "Monthly information on the execution of the state budget"

([https://www.minfin.am/hy/page/byujei\\_operativ\\_hashvetvutyunner](https://www.minfin.am/hy/page/byujei_operativ_hashvetvutyunner)), only in local language providing data on all types of revenue and narrative explanations. Treasury at MoF obtains revenue data daily from SRC. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Having all payments made directly to the STA facilitates daily information on revenue collection.

**Performance change since a previous PEFA assessment:** Performance has been sustainable since the previous PEFA assessment.

**20.2. Transfer of revenue collections**

**Performance level and evidence for scoring:**

<sup>1</sup> As described under PI-19 to determine the materiality.

**Table 26: Transfer of revenue collections**

Collecting entity	Category of revenue	Frequency of collections	of transfer to the Treasury
SRC	Tax and customs	Daily	to STA

All tax and customs revenue are paid directly into accounts controlled by MoF. The transfers of revenue collections to the Treasury are made daily. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Having all payments made directly to the STA facilitates daily information on revenue collection.

**Performance change since a previous PEFA assessment:** Performance has been sustainable since the previous PEFA assessment.

### 20.3. Revenue accounts reconciliation

#### Performance level and evidence for scoring:

**Table 27: Revenue accounts reconciliation**

Collecting entity	Category of revenue	Frequency	Timeline	Type of reconciled data (Y/N):			
				Assessments	Collections	Arrears	Transfers to Treasury
SRC	Tax	Monthly	4 weeks	Y	Y	Y	Y

There is monthly reporting on revenue performance. The annual budget execution report provides, in a narrative format, the type of revenue collected. The data is provided by MoF to the Statistical Committee (“Social Economic Situation of RA”). The actual amount of tax revenue by type every month is published on ARMSTAT ([www.armstat.am](http://www.armstat.am)).

The SRC is connected online to the Treasury at MoF. There is daily verification of the accuracy of transfers according to individual taxpayer and tax type. The system provides information on the tax liability of each taxpayer, including incurred arrears, accrued fines and interest. The budget revenue assessment is a continuous process. The MoF makes corrections at the end of the month and reports collections based on planned estimates. In addition, there are quarterly reconciliations between the SRC and the MoF.

A complete reconciliation of tax assessments, collections, arrears, and transfers to MoF takes place within four weeks of the end of the month. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** There is continuous reconciliation of revenue payment to the Treasury accounts and daily update of information on taxpayer liabilities and collection. The reconciliation is part of the routine operation at SRC.

**Performance change since a previous PEFA assessment:** Performance has been sustainable since the previous PEFA assessment.

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

This indicator assesses the extent to which the central MoF can forecast cash commitments and requirements and provides reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-21. Predictability of in-year resource allocation</b>	<b>A</b>
21.1. Consolidation of cash balances	A
21.2. Cash forecasting and monitoring	A
21.3. Information on commitment ceilings	B
21.4. Significance of in-year budget adjustments	A

**General description of the system in place in Armenia:** All budget bodies at the central government level are connected to the Single Treasury Account. All central and subnational government accounts are regularly centralised, reconciled and consolidated by the Treasury at MoF. The Treasury Department is responsible for the payment of expenditures, budget implementation monitoring and cash management. It monitors revenues and expenditures, makes cash forecasts, manages debt, and ensures the availability of funds to implement the approved budget.

All cash balances are calculated daily and consolidated in the TSA, which contains the entire state budget, ministries, SNCOs, and deposits. The TSA is an account opened in Armenian dram in the Central Bank in the name of the Treasury at MoF. All government resources at disposal are deposited in the TSA, and all government payments are made from them.

**Recent or ongoing reform activities:** There are no reported reforms in this PFM area.

**21.1. Consolidation of cash balances**

**Performance level and evidence for scoring:**

All cash balances are calculated daily and consolidated under the TSA. The TSA is an account opened in Armenian dram in the Central Bank in the name of the Central Treasury in MoF. All the resources at the disposal of the Republic of Armenia and communities are deposited in it and all the payments of the Republic of Armenia and communities are made from it.

Cash consists of funds held in the Central Bank of Armenia and cash in hand with the respective budget organisations (petty cash and open and unjustified advances held by budget organisations). The government manages the cash funds using the Treasury Single Account. All cash is in TSA and is consolidated daily. Hence, the score for this dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Cash is managed through TSA.

**Performance change since a previous PEFA assessment:** No change in performance is sustainable.

## 21.2. Cash forecasting and monitoring

### **Performance level and evidence for scoring:**

After the adoption of the respective Law on the State Budget and the approval of the budget quarterly allocations (limiting the quarterly payment for each budget entity), a cash flow forecast for the current budget year is prepared quarterly. Cash flow forecasts are prepared within the State Debt Department. They manage all cash flows, providing data on inflow and outflow daily. Cash flow updates are made weekly. If there are any deviations, they are published in the quarterly budget execution reports.

The Treasury's effective cash flow planning, monitoring, and management activities facilitate the predictability of the availability of funds for budgetary units. Hence, the score for this dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Practice of having cash flow forecasts prepared with the budget plan.

**Performance change since a previous PEFA assessment:** The performance is the same.

## 21.3. Information on commitment ceilings

**Performance level and evidence for scoring:** All spending budget entities can commit their expenditures at the beginning of the new budget year in consistency with the quarterly budget allocations. According to the Law on Budget system, they are known within 45 days after the coming into force of the Law on State Budget. This allows the budget spending entities to plan and commit expenditures 12 months in advance. Expenditure ceilings are decided in February for the current budget expenditure.

Budget organisations can plan and commit expenditures for a quarter in advance in accordance with the quarterly budget allocation system. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Information on commitment ceilings is provided 12 months in advance, but the actual spending is limited by quarterly budget allocations.

**Performance change since a previous PEFA assessment:** The performance is sustainable. There is no change in score or practice.

## 21.4. Significance of in-year budget adjustments

### **Performance level and evidence for scoring:**

Article 23 (Budget System Law amended in 2019) stipulates that during budget execution, budget organisations may reallocate funds between the budget lines of economic classification within the 5% limits of annual budget appropriations (unless otherwise provided by the law on the state budget for the given year). All budget amendments are formalised in a decree being part of the budget implementation documentation published on the government website ([www.arlis.am](http://www.arlis.am)).

Two amendments are annexed to the Annual Budget Execution Report for FY2022, both amounting to within 5% of the FY2022 budget. The two budget amendments were made for demographic reasons (influx of displaced people from the disputed region of Nagorno Karabakh). The budget organisations (line ministries) can reallocate funds within measures (programs) without the approval of the MoF. However, virements are approved by Government decree. Virement rule revision is only for one year. State budget Law for 2022 (Article 9) increased the virement to 5%. The Government can reallocate resources between programmes up to 3% of the approved state budget for a given year. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Budget adjustments are made within the stipulated limit of annual budget appropriations.

**Performance change since a previous PEFA assessment:** There is no change. The performance is sustainable.

### **PI-22. Expenditure arrears**

Indicator/Dimension	Score
<b>PI-22. Expenditure arrears</b>	<b>B+</b>
22.1. Stock of expenditure arrears	A
22.2. Expenditure arrears monitoring	B

**General description of the system in place in Armenia:** The Expenditure Financing Department was established in 2002 because of a merger of the Current Expenditure and the Capital Expenditure Departments. The merger was driven by the transition to electronic systems. It is part of the Treasury with functions based on the Law of the Treasury and Budget System Law. The decree that regulates the relations of the department within the Treasury stipulates that the Expenditure Financing Department:

- (i) Organises the financing of the main budget programmes and interacts with the main budget organisations
- (ii) Transfers funds to the main expenditure programmes from the general state resources
- (iii) Organises funding of special decrees of the Government;
- (iv) Manages reserve fund
- (v) Produces cash flow and expenditure projections
- (vi) Manages balances of STA and reconciliation with bank deposits
- (vii) Carries out risk Performance and analysis of deviation in expenditure programmes
- (viii) Participates in amendments and budget reallocations, freezes accounts
- (ix) Coordinates with budget block and Treasury, allocating funds depending on request; indicators are provided to Budget organisations when the budget is drafted
- (x) Informs budget block on implementation

The Reporting Department, which is part of the Treasury, would receive all information on expenditure arrears from all budget organisations and generate a report from the Client-Treasury system.

**Recent or ongoing reform activities:** The monitoring and managing expenditure arrears is a measure envisaged in the ongoing PFM Reform Strategy 2019-2023 (N 1716-L of November 28, 2019, Appendix 1, section 9). The Strategy acknowledges the need for an efficient public finance management system to be designed with all transactions and related liabilities (including overdue) accounted and reported. The reform measure requires (i) calculation of the payment period for all transactions to be made from the state budget of the Republic of Armenia, (ii) submission of reports on arrears to the RA MoF every quarter, and (iii) incorporation of information on arrears in the RA state budget execution reports. The reform measure is supposed to be implemented by the end of FY2023.

Currently, the monitoring practice shows that all budget organisations submit a monthly report to MoF by submitting form H-2 to MoF. Although the RA MoF receives and registers information on arrears, the stock of arrears is not yet part of the RA state budget execution reports.

### 22.1. Stock of expenditure arrears

#### **Performance level and evidence for scoring:**

The expenditure arrears in the public sector of Armenia are defined as overdue debts, liabilities and obligations; they are payments from the state budget of the Republic of Armenia allocated for salary, pensions, allowances, procurement and grant contracts and debt service. „The unpaid claim or liability becomes arrears if the payments have not been made within the timeframe outlined in the contracts, RA legislation, or other financial regulations “.

There is no centralised practice of monitoring the due date of invoice payment. The due date of invoice payment is monitored by each budget organisation, which is a party to a contract or liable for payment by the legislation.

The information on arrears was triangulated with the Chamber of Commerce and the Accounts Chamber. Both stated that the government pays invoices within the agreed contractual terms, with no pending payments.

The Budget Execution Reports for all three years of assessment state that there is ‘full and timely fulfilment of the obligations assumed by the state bodies in the framework of the state budget expenditure programmes’. The Treasury Reporting Department stated that no expenditure arrears were reported during the assessment period.

No expenditure arrears were incurred and reported in FY2020-2022. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** In principle, Treasury does not allow payment arrears. Commitments and payments are controlled by the budget organisations so that they do not accumulate arrears. All invoices are recorded immediately upon receipt, and all due payables are executed within the legal terms and deadline.

**Performance change since a previous PEFA assessment:** Performance has been sustained since the last PEFA assessment.

## 22.2. Expenditure arrears monitoring

### **Performance level and evidence for scoring:**

By Order No. 254-N adopted in 2019, the Ministry of Finance, no later than the 27th of the following month, reports on the budgetary obligations undertaken by the budgetary organisations during the reporting period. Budget expenditures and budget debts are submitted to the RA Ministry of Finance in accordance with model form H-2. If no budgetary debts have arisen during the reporting period, the institution can inform about it in writing without submitting the sample form H-2. The information monitored by MoF captures arrears data by volume (showing separate columns with contractual commitments, the date of the invoice, and the payment date), and a separate column shows arrears exceeding 30 days and composition. This is evidenced by the H-2 template. Hence, the score for the present dimension is B.

**Table 28: Expenditure arrears monitoring: breakdown by different categories**

Category of arrears	Data generated (Y/N):			Frequency	Timeline
	Stock	Age	Composition		
Category 1: Salaries, allowances, pensions	Y	N	Y	Quarterly	4 weeks
Category 2: Public Procurement	Y	N	Y	Quarterly	4 weeks
Category 3: Debt	Y	N	Y	Quarterly	4 weeks

**Possible causes of PFM performance identified during the PEFA assessment:** Age is not reported as part of the regular expenditure arrears monitoring process.

**Performance change since a previous PEFA assessment:** Due to the strict performance of State budget revenue collections and the expenditure commitment system in place, expenditure arrears have not been incurred for a decade. The practice has been sustainable since the previous assessment. The accounting in the line ministries is still cash-based, and accounts payables recorded at the end of the fiscal year are paid off from the next year 's budget. This system has not changed.

### **PI-23. Payroll controls**

Indicator/Dimension	Score
<b>PI-23. Payroll controls</b>	<b>B</b>
23.1. Integration of payroll and personnel records	B
23.2. Management of payroll changes	B
23.3. Internal control of payroll	B
23.4. Payroll audit	B

### **General description of the system in place in Armenia:**

The main areas of activity entrusted to the ministries are defined by the Law "On the Structure and Activities of the Government". The charters of the state administration bodies are approved by the decision of the Prime Minister, and the functions of the other state bodies are defined by law or other normative legal acts.



In accordance with Article 15, Part 4 of the Law "On Public Service" state and local self-government bodies are to have a staff list that includes all positions of the relevant public body of the CG. This list is defined at the beginning of the year; all salaries are at that time defined and agreed upon with legal and budget departments. The information is entered into the accounting software AS Enterprise, through which the staff database and payroll are integrated.

The budget bodies use electronic systems known as AS-enterprise and AS-accountant that cover functions related to HR, accounting and payroll. AS-accountant is used only for accounting purposes. However, the AS enterprise includes a separate module managing personnel. Thus, the data entered for these two functions, the accounting and personnel management departments, are interconnected.

The human resource database, known as the Civil Service Information Platform, was launched in the fourth quarter of 2020. The civil servant's personal file is an integral part of the register maintained by the relevant authority on the Platform.

The principles of payroll control, as described in the PEFA Draft Report with reference to the budget bodies and apply to the SNCO. The staff list of SNCO, recruitment, salaries, and promotions are governed by sectoral regulations applied by the respective line ministry.

**Recent or ongoing reform activities:** The 27th component of the PFM Reform Strategy refers to the establishment of a financial management information system (FMIS) with the overall purpose of increasing the effectiveness, quality and transparency of public service delivery and enhancing the accountability function through integration of complete financial information of public sector organisations including the process of personnel management.

The 10th component of the 2019-2023 action plan in the Reform of the state finance management system (approved by Annex N 2 of the Government's Decision N 1716-L of December 28, 2019) provides for the establishment of a "Human resource base/data accounting development of an integration system with electronic accounting program modules" (ref.25.1). Implementation is planned for 2020-2023. In order to systematically carry out the relevant works planned by the project, a working group was established in 2021 with the involvement of representatives of the Ministry of Finance, the Civil Service Office of the Prime Minister's Office, the organisation that services the Civil Service Information Platform, as well as the organisations that service the accounting systems. In the course of 2021, the working group studied the work necessary to implement the relevant system and the available opportunities, highlighted the issues and planned the next steps. In 2022, for the purpose of implementing the mentioned measure, the technical task of the system integration of human resource base data with accounting information program modules was developed. The main task of this programme, which is "to integrate human resources base data with the data of accounting information program" is to detect and eliminate any discrepancy of data in both systems, including such arising in the implementation of accounting and personnel management functions. Currently, the integration process is in progress. The work will be completed in 2023.

### 23.1. Integration of payroll and personnel records

#### **Performance level and evidence for scoring:**

The development of remuneration policy in state bodies is conducted by the Civil Service Office. The payroll management of the central government of Armenia is decentralised to each line ministry. The function is performed by the respective Accounting and Finance Administration Departments. When a change is to be made the Accounting and Finance Administration Department has to accept the change based on a signed order coming from the personnel function that is subsequently visible in the AS payroll system. The system allows tracking of time and responsibility for changes. The access to the payroll AS system is protected by password and username which is regularly updated.

A staff list is defined at the beginning of the year; all salaries are defined and agreed upon with legal and budget departments at that time. The information is entered into the accounting software AS Enterprise and integrated with the staff database and the payroll. AS Enterprise electronic list goes to Treasury and is transferred to Client Treasury. The data in AS Enterprise can be managed only by the Personnel and the Accounting and Finance Administration departments at all budget organisations. The number of staff is approved by the Prime Minister. The salaries are regulated by the Law of the Republic of Armenia “On remuneration for persons holding state positions and state service positions”. The minimum wage (also known as “basic salary”) is approved every year, and coefficients for increments are applied.

There is an ongoing process of tendering for a GFMIS that will also cover the integration of payroll and personnel databases so that they are automatically linked. This will enable all procedures, from allocation to execution, to be interlinked in one system.

There is semi-automatic integration between personnel, payroll, and budget data. Payroll is reconciled with personnel records (staff list) every month; the process is manual, and it will be automated with the introduction of the GFMIS. Hence, the score for this dimension is B. A higher score requires that the link between the personnel database and payroll be automatic, i.e., without human intervention.

Prior to the full launch of the system, a comparison of the data from the human resources database will be carried out with the existing accounting programs.

Payroll is reconciled with the personnel record (staff list) every month; the process is manual, and it will be automated with the introduction of the GFMIS.

**Possible causes of PFM performance identified during the PEFA assessment:** Payroll is reconciled with personnel records (staff list) every month, the process is manual, and it will be automated with the introduction of GFMIS.

**Performance change since a previous PEFA assessment:** The performance has improved; there was no reconciliation of payroll and personnel in the last PEFA assessment.

## 23.2. Management of payroll changes

### **Performance level and evidence for scoring:**

Changes that occur after the payroll preparation are considered in the next month. The organisations update payroll lists each month before preparing the payroll, changes are made in a timely manner, and retroactive adjustments are insignificant. The retroactive corrections in FY 2022 were reported as less than 1 % of the total gross salary volume.

Data of retroactive adjustments are provided for three ministries (Ministry of Finance, Ministry of Labour and Social Affairs and Ministry of Education, Science and Sports) of the five-ministry sample, and they account for 75% of the sampled aggregate budget expenditure. The evidence shows that adjustments in salaries in all three fiscal years, at the end of FY2022 and as of time of assessment, are below 1%.

Based on the information and the supporting evidence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** The corrections in payroll. Due to a lack of timely coordination with the personnel, records are immaterial.

**Performance change since a previous PEFA assessment:** Performance has improved. There were 3 months' delays in updating of changes made to personnel records each month, with occasional retroactive adjustments.

## 23.3. Internal control of payroll

### **Performance level and evidence for scoring:**

There are effective internal controls applied to salary calculation, data update and payment. The system restricts the authority to enter changes into the database and calculation and payment of salaries by requiring individual change requests from each budget organisation and verification against the approved budget allocations. The system provides an audit trail by tracking every entry, and potential manipulation of the system is strictly controlled. The system generates payroll reports and keeps a history of all changes made with details of the authorising officers. Therefore, the data is considered to be accurate. Changes in the calculation of salaries are entered by the Accounting and Finance Administration Departments of the budget organisations. The personnel service is part of the same department, and they have the authority to monitor and change only changes related to the number and category of staff. The data are verified by the head of the Accounting and Finance Administration Department on a regular basis. The Chamber of Audit checks payroll annually and reports in the annual budget execution report.

The procedures and practices generate a complete audit trail between the systems. This has reduced the possibility of errors. Based on the information and supporting evidence, the score for this dimension is B.

A higher score would require enhancements in the authorisation and audit trail to ensure the accuracy and integrity of data. This is linked to the required automated, integrated system in place in PI-23.1.

**Possible causes of PFM performance identified during the PEFA assessment:** Data has high integrity but not complete integrity; it will be with an automated integrated system in place.

**Performance change since a previous PEFA assessment:** The performance improved by having more adequate controls in place that ensure the high integrity of data; this was not the case in the last evaluation.

#### **23.4. Payroll audit**

##### **Performance level and evidence for scoring:**

In accordance with Article 20, Part 4 of the Law "On Remuneration of Persons Occupying Public Positions and Public Service Positions," the normal increase of the basic salary of a civil servant within each scale is carried out according to a defined table and scheme. Payroll is increased once every year, once every two years, or once every three years, according to the category.

There is no separate, thematic payroll audit performed by the Chamber of Audit. Payroll is audited every year as part of the usual annual budget performance audit of the budget organisations. This payroll audit covers checks on the number of staff according to the approved staff list, as well as the calculation and payment of salary for each civil service category. The Chamber of Audit does not consider payroll to be an area of high risk, but cases of restricted access to details of the personal information on the payroll were reported.

The latest audit report of the Chamber of Audit, FY2022, did not identify significant issues in payroll control. Payroll audits are done regularly, and identified weaknesses are consistently addressed by the Accounting and Finance Administration Departments of the respective budget organisations in order to implement the audit recommendations.

The irregularities reported by the Chamber of Audit in relation to remuneration refer to the misclassification of bonuses in the section of "Employee salaries and overtime pay" at the Ministry of Economy and a miscalculation of salary payments in a construction project of the Ministry of Territorial Administration and Infrastructure.

While the payroll is an annual and regular activity, there are cases (reported by the Chamber of Audit) of limited access to details of the payroll in order to identify control weaknesses. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** There are issues with access to payroll information for the external auditors.

**Performance change since a previous PEFA assessment:** The practice of having partial payroll audits or staff surveys once every three years has changed. The regular annual payroll audit performed by SAI strengthens the internal control environment by identifying and rectifying weaknesses that have significantly reduced the cases of non-compliance in the payroll processes since the last PEFA assessment. Another reason for improvement in this area is the still manual but effective expenditure verification against the approved payroll budget.

#### **PI-24. Procurement**

This indicator examines key aspects of procurement management. It focuses on the transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement

results, and access to appeal and redress arrangements. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-24. Procurement</b>	<b>A</b>
24.1. Procurement monitoring	B
24.2. Procurement methods	A
24.3. Public access to procurement information	A
24.4. Procurement complaints management	A

### **General description of the system in place in Armenia:**

The adoption of the RA Law on Procurement in 2010 (which replaced the Law on Procurement (2005) and was later revised in 2017 and 2022 introduced significant changes in the legislative and regulatory framework for procurement: (i) the procurement system has been completely decentralised; (ii) the Procurement Complaints Review Board has been established, an independent body composed of representatives of public bodies, communities, Central Bank and NGOs, the latest Board concept was specially designed to consist only of experts appointed only for the purpose of appeal review and decision that do not represent any public organisation. Since June 2022, the appeal mechanism was transferred entirely to the general court system; (iii) the former State Procurement Agency, which was part of MoF, has been transformed into the Procurement Support Centre, providing advice to procurement entities and acting as a Secretariat to the Procurement Complaints Review Board. In mid-2022, this structure was closed.

Currently, since FY2022, the procurement process has been directly monitored, and a Directorate of Public Procurement Policy has been empowered to ensure the regulation and coordination of the public procurement process is in line with Article 16 of the Law. This Directorate is part of the Ministry of Finance. The law does not specify procedures for inspection or quality control of the public procurement data. The Law on Procurement is largely approximated to international practice, with the exception of the review practice before the transition to the court system. The issue of independence of the Review Board was raised in the monitoring report of SIGMA (March 2019) “Principles of Public Administration”.

There is a practice of blacklisting that may inhibit and limit competition and participation in the public procurement process.

An e-procurement system is organised through the platform [www.armeps.am](http://www.armeps.am). It is known to operate fully with e-tendering. There are three databases (websites) on procurement data and information. The key one is the Armepps electronic system of the Ministry of Finance. It is a unified electronic system of public procurement in Armenia. The electronic public procurement system is integrated with the treasury system LS Finance. The system allows economic operators to register, submit applications electronically, attach necessary documents, and find out the status of the application. The system also allows users to generate graphical and data reports, search data by contract, etc.

### **Recent or ongoing reform activities:**

In the absence of a public procurement strategy, the appeal mechanism as a government function is included in the PFM Reform Strategy of the Government 2019-2023 (Annex N 1 to the decision N 1716-L of the RA Government dated 28 Nov 2019) that defines an objective and measures for improvement of the public procurement appeal system.

The procurement appeal system was defined as ineffective, and the objective of setting up an improved public procurement appeal mechanism was elaborated as a reform (Component 17) in 2019 that has now been implemented.

Another reform defined in the Strategy is modernising the electronic procurement system. The introduction of the new e-procurement system will provide access to more users. For this purpose, new software for the e-procurement system is being developed.

#### **24.1. Procurement monitoring**

##### **Performance level and evidence for scoring:**

Procurement-related information is published on the Ministry of Finance website: [https://gnumner.minfin.am/hy/page/2021\\_tvakani\\_hashvetvutyunner/](https://gnumner.minfin.am/hy/page/2021_tvakani_hashvetvutyunner/). The website contains the government procurement database, and it covers information and data for all contracts, including what has been procured, value, duration and who has been awarded the contract. The data is complete for all procurement methods for works, supplies, and services presented to all government bodies, including SNCOs. The procurement data is centralised, and it is automatically compiled by the entries made by all government bodies with access to the system. The database is public and accessible to any interested parties. All government bodies have online access and can insert information on procurement, which is updated automatically in real time. The integration with the treasury system LS Finance allows data from the procurement system to be used by the Treasury and to populate the system, generating data subject to regular audit, for which it was reported that there are no issues of integrity (see PI-27.4).

The Public Procurement Policy Directorate is not an authorised independent body but a function of the Ministry of Finance. The annual procurement report, which consolidates all CG procurement data, is not subject to audit or another third-party check.

The procurement contracting is part of the regular financial and compliance audit of the Chamber of Audit. The Chamber of Accounts audited procurement contractual issues in FY2022 and reported on findings related to cases of non-compliance with the requirements for accountability procedures. These are cases when acceptance protocols were not uploaded into the Armepps (the procurement system). Other cases show delays in entering the system and changes in the contractual arrangements. Such type of findings are indicative of issues with the completeness of the procurement database. The World Bank (in its capacity as a PEFA assessment reviewer) also commented that there are delays in information uploading.

The external audit reports of the Chamber of Audit specify a few non-compliances related to the completeness of the procurement data. They have not published protocols of acceptance for 8 contracts (2 in the Ministry of Health and 6 in the Ministry of Territorial Administration). The total volume of these contracts amounts to 15.4 million AMD or 3% of the CG budget expenditure for FY2022.

There are other cases of non-compliance related to delays in entering information in the procurement electronic system (arms) and violation of the Decree of RA N 526-N of 4 May 2017 on approving the procedure for the organisation of the procurement process. In order to ascertain the value of such findings, there should be a dedicated procurement that would provide a more comprehensive outcome.

The evidence of incomplete procurement data is relevant to budget organisations and represents a 16% share of the CG total budget expenditure. The score for this dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** The ongoing reform related to the improvement of the accessibility and transparency of the databases of public procurement contributes to comprehensive monitoring practice with issues on completeness. A deputy minister is closely managing and monitoring the process of reform in public procurement. There is no sufficient capacity for the external audit to conduct a dedicated procurement audit. There is no legally required regular quality control over the procurement data.

**Performance change since a previous PEFA assessment:** The performance has not changed since the previous assessment.

## 24.2 Procurement methods

### Performance level and evidence for scoring:

Article 18 of the Law on Procurement defines the following procurement procedures: (1) electronic auction, (2) open tender, (3) price quotation, and (4) single source procurement. The table below presents the data received from the MoF on public procurement methods applied in FY2022. The data is broken down into five types of methods, given that urgent one-person and single-source procurement are of a non-competitive nature. In addition, it should be noted that the data of the Ministry of Defence was excluded from the calculation. Also, the data provided does not show the volume of the Ministry of Health. The MoH operates the so-called voucher schemes that are not properly procured. The voucher schemes are funds provided by the government to the public for healthcare services in any medical establishment. There is no health insurance fund in Armenia.

Table 26 below shows the volume of all public procurement contracts in Armenia for FY 2022.

**Table 29 Volume of procurement by method in FY2022**

	<i>Method of Procurement</i>	<i>FY2022</i>	<i>Share</i>
1	Electronic Auction	145,204,070,695	83%
2	Open Tender		
3	Price Quotation		
4	Urgent one person	17,444,122,759	10%
5	Single source procurement	12,680,560,671	7%
<b>Competitive procurement methods (1+2+3)</b>		<b>83%</b>	
	<b>TOTAL</b>	<b>175,328,754,124</b>	

Source: MoF, Procurement Policy Department

The total value of contracts awarded through competitive methods in the last FY 2022 represents 83% of the total value of procurement contracts. Hence, the score for this dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** The competitive public procurement selection method is the default position. The single source appears to be resorted to for 7% of the procurement tenders. The Law on Procurement defines open tender as the default method.

There is also a secondary legislation (Decree No. 526-N of 4 May 2017) that provides potential reasons for the non-competitive process in exceptional cases.

**Performance change since a previous PEFA assessment:** Given the provided data on public procurement volume for FY2022, there has been an improvement in competitive methods since the previous assessment when data was unreliable.

### 24.3. Public access to procurement information

#### Performance level and evidence for scoring:

The legislation on procurement requires that there is public access to procurement information as follows: (i) the legal and regulatory framework for procurement, (ii) government procurement plans – with details of subject, unit of measure, quantity, budgetary allocations, and procurement method, (iii) bidding opportunities, (iv) contract awards (purpose, contractor and value, bidders), (v) data on resolution of complaints, and (vi) annual procurement statistics. These are provided on several websites as follows:

[www.gnumner.am](http://www.gnumner.am)

[www.armeps.am](http://www.armeps.am)

[www.armeps.am/ppcm](http://www.armeps.am/ppcm)

[www.eauction.armeps.am](http://www.eauction.armeps.am)

The appeals filed to the Procurement Complaints Review Board in the first six months of FY2022 were 111, of which only 55 were found to be eligible and were resolved. Of the complaints filed with the court in the second half of 2022, 40, of which 88% were resolved, and the remaining 12 were pending at the time of assessment.

**Table 30 Key procurement information to be made available to the public comprises:**

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(1) legal and regulatory framework for procurement	Y	<a href="http://www.gnumner.am">www.gnumner.am</a> <a href="http://www.eauction.armeps.am">www.eauction.armeps.am</a>
(2) government procurement plans	Y	<a href="http://www.gnumner.am">www.gnumner.am</a> <a href="http://www.eauction.armeps.am">www.eauction.armeps.am</a>
(3) bidding opportunities	Y	<a href="http://www.gnumner.am">www.gnumner.am</a> <a href="http://www.eauction.armeps.am">www.eauction.armeps.am</a>
(4) contract awards (purpose, contractor and value)	Y	<a href="http://www.gnumner.am">www.gnumner.am</a> <a href="http://www.eauction.armeps.am">www.eauction.armeps.am</a>
(5) data on the resolution of procurement complaints	Y	The judicial appeals are published in the "Judicial Appeals" section of the newsletter on the procurement.am website. The data on procurement complaints for the first six months of FY2022 was recorded by the Appeal Board (consisting of two full-time positions) and provided by the MoF. There were 111 complaints filed, out of which 55 were found to be relevant. The volume of complaints filed with the general court in the second half of FY2022 dropped by more than 100%; about 40 complaints were filed.
(6) annual procurement statistics	Y	<a href="http://www.gnumner.am">www.gnumner.am</a> <a href="http://www.eauction.armeps.am">www.eauction.armeps.am</a>



	The annual Procurement Activity Report is published for FY2021, and the respective report for FY2022 covers all data and statistics.
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The requirements for all 6 elements are met. Data on the filed and resolved appeals for the first six months of FY2022 were provided. The score is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Improved public access to annual procurement statistics in the Annual Procurement Activity Reports compiled by the MoF.

**Performance change since a previous PEFA assessment:** The practice has improved by providing public access to all elements and, in particular, to procurement plans, which was the deficient element in the previous assessment.

#### 24.4. Procurement complaints management

##### **Performance level and evidence for scoring:**

The procurement complaints mechanism was until recently represented by an independent Procurement Complaints Review Board established in accordance with section 6, Appealing the procurement process of the Law on Procurement (adopted in 2005, amended in 2016 and the latest amendment made in 2022). The Board was institutionally a structure of the MoF and consisted of experts specially appointed to examine public procurement complaints. The decisions of the Board are binding and can only be contested in the court. There is an online broadcast of procurement appeal board sessions with a schedule of the Appeal Board meetings published at <https://www.e-gov.am/gnumner/>. The appeals were filed and resolved for the first six months of FY2022. There were 111 complaints submitted, of which 56 were satisfied and 55 were assessed as unsatisfactory. The Law HO-4-N "On Procurement" entered into force on 25.04.2022, by which the activity of the persons examining complaints related to procurement was stopped. Pursuant to Article 47 of the Law HO-21-N (repealed on 25.04.23), persons investigating complaints related to procurement were obliged to publish a report in the official procurement bulletin by April 1 of each year. The report was not published in the year 2023, but the relevant information was collected by the RA Ministry of Finance and published in the "Appeals" section of the official procurement bulletin operating at [www.procurement.am](http://www.procurement.am).

By the decision of the RA Government and the amendments made to the Law on Procurement (HO-4\_N dated 1 June 2022), the complaints mechanism was dissolved, and the Board officially ended their activity in mid-FY2022. Since that time, the appeals have been filed with the civil court (Yerevan City Court). This transition was claimed to have been made following a recommendation made by SIGMA. The reason behind this decision was the issue of independence, with some members of the Board being perceived as part of the executive branch. Table 31 below presents the requirements for the appeal board while it was in operation.

**Table 31: Complaints are reviewed by a body that:**

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Y	Evidence (documents for employment and dismissal) was provided on the two members of the Procurement Complaints Review Board that existed till June 2022. They were two persons appointed by a Decree of the Prime Minister as full-time staff at the MoF dealing only with procurement appeals. The members of the Appeal Board were entitled to be engaged only in

		reviewing and making decisions on procurement complaints. The time coverage of this dimension is FY2022.
(2) does not charge fees that prohibit access by concerned parties	Y	There is a fixed fee of 30,000 AMD (approx. USD 78); this was recently changed to 1% of the tender price but not more than AMD 10 million (approx. USD 25,000). If the complaint is satisfied, the fee is refunded.
(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available	Y	Complaints and decisions are published on the Procurement E-bulletin (www.gnumner.am) and are available to the public.
(4) exercises the authority to suspend the procurement process	Y	According to Articles 48 and 49 of the Law on Procurement, the Board can suspend the procurement process, terminate individual decisions made by the evaluation commission during the procurement procedures, and cancel the contract concluded.
(5) issues decisions within the timeframe specified in the rules/regulations	Y	The Board issues a binding decision within 20 calendar days from the day of receiving the complaint. Currently, with the transition of the appeals to the Yerevan City Court, it takes 30 days for decisions to be announced.
(6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Y	The Board decisions can be contested in the general court system.

The requirements for all six elements are met. The same requirements continue to apply in the context of the appeals being filed with the general court system. The data provided on filed and resolved complaints is relevant for the entire FY2022. Based on the analysis and supporting evidence, the score for the present dimension is A

Whether the devolution of the procurement appeal responsibilities to the general court system will induce greater efficiency and effectiveness remains to be seen. The capacity constraints in the court system that were reported by the Chamber of Commerce imply that the efficiency benefits may take a while to materialise. Having no specialised economic court but rather a general court dealing with public procurement complaints may result in a backlog in the long run.

**Possible causes of PFM performance identified during the PEFA assessment:** The reason for the current performance as captured for assessment is the transition period from the extra-judicial concept of the procurement review system to judicial. The year that makes up the basis for assessment is an odd one, combining both systems.

**Performance change since a previous PEFA assessment:** The performance has not changed since the previous assessment.

**PI-25. Internal controls on non-salary expenditure**

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-25. Internal controls on non-salary expenditure</b>	<b>B+</b>
25.1. Segregation of duties	B
25.2. Effectiveness of expenditure commitment controls	A
25.3. Compliance with payment rules and procedures	B

**General description of the system in place in Armenia:**

The public finance internal control function is embedded in the budget implementation process, as prescribed in the Government Decree 706 dated 2018. It regulates how non-salary expenditure is to be made, involving signatures from the chief financial officer and the accountant. The legal Decree, together with the Law on Treasury, prescribes rules for all budget organisations, providing guidance for financial management focusing on risk and identification of effective control activities. The objective of these guidelines is to enhance levels of accountability, systems and process controls and strengthen performance and governance.

The system of internal control is managed by the Central Harmonisation Unit at MoF, which provides oversight and guidance on the application of internal controls. It is not known if there is an operational PIFC policy. The previous assessment reported that there was a PIFC Strategy, and the preparation and enactment of a law on Financial Management and Control (FMC) was about to underpin the Strategy.

The operation of TSA and the various software systems, such as LS Finance, have contributed over time to a strengthened system of treasury control. This is also applied to expenditure commitments entered into for all types of budget-allocated expenditures. The Treasury Department oversees overall control exercised through all transactions and activities that run through TSA and Treasury-Client. The system allows all budget organisations to connect and expedite payments.

The Treasury control process integrates the registered information on expenditure commitments with the actual request for payments and justifies expenditures through automatic control.

Treasury procedures ensure the segregation of functions. Expenditure transactions are authorised by the heads of the budget organisations. Payment recording and accounting are done using the Treasury function. The Public Procurement Directorate at MoF monitors the progress and acceptance of goods, services, and work contracts certified by different officials within budget organisations.

**Recent or ongoing reform activities:** The Government of Armenia is in the process of designing a comprehensive GFMIS to which all budget organisations will be electronically linked and will be controlled by the Treasury Department at MoF.

**25.1. Segregation of duties**

**Performance level and evidence for scoring:**

For all operations done and verified in the Treasury system, there are instructions on the segregation of duties that are complied with by all budget entities. They are defined in the Law on Treasury, and they limit the operational access at different levels of authority. All contracts signed by the budget entity are registered in the Treasury system (Client Treasury) by the Treasury staff. Thus, available and allocated funds are checked and verified. When a payment request is being made, there are different persons checking, signing, and approving. For payments, the order is signed by two persons belonging to the Accounting and Finance Administration departments of the budget organisations, ensuring the four-eye principle. Once the contractual payments are registered in Client Treasury, the system will automatically limit the funds to the contracted volume.

There is appropriate segregation of duties prescribed in the rules and procedures for expenditure payment that are effective in practice. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** There is still no full integration of internal control activities to all duties and functions.

**Performance change since a previous PEFA assessment:** This is a new dimension.

## 25.2 Effectiveness of expenditure commitment controls

### **Performance level and evidence for scoring:**

There are comprehensive commitment controls preventing the budget organisation from incurring unapproved and unauthorised commitments. The internal control system, in the regulations and procedures of the Law on Treasury, limits the payments only to the pre-commitment arrangements. Cash flow plans are prepared by all budget organisations, allocating the spending of funds. Expenditure commitments can be made for three years but are fixed only for the current year.

The budget implementation controls provide for the following: i). control at the level of budget allocation appropriated to each budget organisation – the approved budget spending is registered in the Treasury-Client system; ii). quarterly cash allocation covered by budget appropriation; iii) expenditure commitment control ensuring that commitments are within the budget allocations and that funds cannot be committed for expenditure if there is no budget allocation; in the case of changes in expenditure ceiling, the respective changes are also made in the cost estimates and payment schedules; iv). funds are committed before the public procurement process; v). Registration of contracts in the Treasury Client system, allowing payment only for budget allocation and execution of expenditure commitments based on the approved schedules.

These controls are performed by the Treasury system, where all of the processes, documents and commitments have been recorded and registered.

Ceilings are communicated to line ministries, and it takes one month for the ministry to provide their projects. The process has been in place for the last two years since 2021; before, there were no limits. Now, a ceiling is given before submission of the budget on capital expenditure. The aggregate limit was always there; the distribution by budget organisation was introduced in 2021.

Regarding the commitment controls described above, the SNCO operates its accounts in the Client Treasury. The SNCOs are subject to internal audits, and they are serviced by the internal audit of the respective line ministries. A difficulty shared by the Ministry of Education and Ministry of Health is the volume of education and health establishments to be captured annually by the internal audit. Likewise, the SNCOs are also covered in the external audit of the Chamber of Accounts, as their accounts are part of the annual financial statements of the respective line ministries.

The rules and procedures of payment enforce a level of controls that limit the expenditure commitments to the appropriated budget allocations. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** As a result of the Treasury system controls, expenditure commitments are effectively restricted within the budget-approved ceilings and cash flow forecasts, and the payments from the treasury accounts are made only against the commitments that have been undertaken according to the prescribed processes. Any

expenditure commitment undertaken in violation of the controls described above is considered invalid.

**Performance change since a previous PEFA assessment:** There has been no change since the previous PEFA assessment.

### 25.3. Compliance with payment rules and procedures

**Performance level and evidence for scoring:**

All payments follow the prescribed regular payment procedures, which are respected. There are no mistakes in payment due to the automatic control limiting expenditure in the Client Treasury system. If there are exceptional payments, they are made with the approval and decision of the Prime Minister or by ministerial decree, usually for force majeure circumstances, as in FY2020.

Evidence for this dimension was provided by the Ministry of Finance, Ministry of Education and Ministry of Labour and Social Affairs. The three ministries represent 74% of the sample established for this indicator.

All payments are compliant with regular payment procedures. The rejected payments, which represent the exception to the payment rules and procedures, are immaterial (less than 1%) in FY 2022. The evidence justifies the materiality of 74%. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Strict rules are prescribed and applied in the payment.

**Performance change since a previous PEFA assessment:** The performance is unchanged.

#### ***PI-26. Internal audit***

This indicator assesses the standards and procedures applied in internal audits. It contains four dimensions and uses the **M1 (WL)** method for aggregating dimension scores.

Indicator/Dimension	Score of current PEFA
<b>PI-26. Internal audit</b>	<b>C+</b>
26.1. Coverage of internal audit	B
26.2. Nature of audits and standards applied	C
26.3. Implementation of internal audits and reporting	C
26.4. Response to internal audits	C

**General description of the system in place in Armenia:**

The internal audit function was established in 2012 by adopting the Law on Internal Audit, which provided the regulatory framework. The subsequent amendments targeted approximation to the accepted international practice in internal audits, such as the IIA standards for internal audit, the instructions for their application and the rules for the internal audit process. The law ensures the functional independence of the IA function by directly reporting to the head of the budget

organisation. Strategic (covering 3 years) and annual audit plans are prepared. MoF is responsible for making external evaluations every five years. A quality assessment manual was developed with the support of the World Bank in 2018.

Despite the progress in internal auditing, the function has not been considered fully operational and efficient due to challenges with the introduction of the financial management and control system, but mostly because of the limited capacities of internal auditors. The internal audit provided a review based on transaction compliance. This, as well as alleged issues with independence, necessitated an improvement of internal audit legislation and restructuring the existing internal audit model.

In compliance with an instruction (internal document not disclosed to the public) of the Prime Minister's Office in 2019 to outsource the IA function - the reason being the cost of in-house IA service and the independence issue - most budget government organisations discontinued their internal audit operations and outsourced the function. However, 14 state bodies are known to have kept the IA function. There are different opinions about the advantages of outsourcing the IA. The public bodies that decide to have the external service must open a public procurement tender to select the audit firm that will perform the internal audit for up to three years. Most selected service providers are among the second-tier audit firms in Armenia's private sector market. The MoF has selected several of them that qualify to bid. The list of companies that qualify to conduct internal audits in the public sector is published on MoF's website. The 14 public bodies that were reported to keep in-house IA functions do not represent the entire central government, as they represent only 6% of the total budget expenditure for FY2022. The recruitment of outsourced internal audits is optional. Still, most budget organisations resorted to it.

The first year of having outsourced internal audit service was in FY2020. The three years of applying the model of outsourced service show that there are conflicting views as to the efficiency and effectiveness of this reform. Some ministries consider the in-house function more useful due to the knowledge of the sector, while others advocate for the outsourced one being more economical and independent, with better quality internal audit reports.

It was reported that there is currently an ongoing survey by the MoF on the effectiveness of the new model. The interviews with the sampled ministries show the majority of the ministries, 56%, are not completely satisfied with the quality of the outsourced internal audit service.

Due to the outsourced internal audit function and the decentralised function of internal control and payroll, a sample was established for the assessment of PI-23, PI-25, and PI-26. The selected sample covers five key ministries by volume of budget expenditure for FY2022. They are as follows: (i) Ministry of Finance; (ii) Ministry of Health; (iii) Ministry of Education and Science; (iv) Ministry of Labour and Social Affairs; (v) Ministry of Territorial Administration and Infrastructure (see Table 32 below).

**Table 32 Expenditure of the selected five ministries for FY2022.**

Budget organisation	Budget expenditure 2022	Share in the budget	Share in the sample
1. Ministry of Finance	201,594,053.7	9%	15%
2. Ministry of Education	202,606,190.9	9%	15%
3. Ministry of Health	140,622,322.7	6.3%	10%
4. Ministry of Labour	613,585,519.1	27.3%	44%
5. Ministry of Territorial Administration	223,304,162.0	10%	16%
Other			1

Total budget expenditure			
Total expenditure of the sample	1,381,712,248.4	61.6%	

Source: PEFA team calculation

**Recent or ongoing reform activities:** The current PFM Reform Strategy 2019-2023 identifies an objective of “Efficiency increase of RA public sector internal audit function” through external quality assurance. This is to be achieved by (i) approval and implementation of methodology for internal audit quality evaluation, (ii) cooperation between internal audit and external audit, and (iii) development of professional knowledge of the internal auditors. The Strategy does not mention the option of having an externally provided/outsourced internal audit. On the contrary, it emphasises the capacity development of internal auditors.

### 26.1. Coverage of internal audit

**Performance level and evidence for scoring:**

Internal audits are outsourced to most of the central government's budgets. Only 6% (excluding defence) of the budget bodies have retained their in-house internal audit. A sample of the five biggest spending ministries representing 62% of the central government budget was assessed. They all have resorted to outsourcing the internal audit.

The only exception is the Ministry of Finance, which discontinued the internal audit service for FY2021 and FY2022. The MoF represents 15% of the sample. Therefore, the internal audit is operational for most sampled central government budget organisations at the time of assessment and for the three years of assessment.

The State Revenue Committee, which collects both tax and customs, is the only revenue-collecting administration in Armenia. The STC operate an in-house internal audit practice that issues an annual audit plan and reports on findings and recommendations.

The internal audit practice is operational for 75% of the sampled ministries. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** 75% of the sampled ministries operate a regular internal audit practice, issuing strategic audit plans, making annual audit tasks and issuing annual internal audit reports with recommendations.

**Performance change since a previous PEFA assessment:** There has been an improvement in the coverage of internal audits. An internal audit function is operational in nearly all central government budget bodies.

### 26.2. Nature of audits and standards applied

**Performance level and evidence for scoring:**

Private audit firms apply internal audit standards. The output of their service, that is, the actual internal audit reports, are confidential and were not provided as evidence for the assessment of this dimension. The one exception was the internal audit report of MoF for FY2020 prepared by BDO. The

MoF has not continued the service with the selected external auditor or with any other for the next two fiscal years. Therefore, a judgement on the nature of audits was attempted based on a review of the following relevant documentation: (i) Terms of Reference for the selection of the audit company – provided for four out of five sampled ministries (MoF, MoE, MoH, MoTAI) or 56% of the sample; (ii) internal audit recommendations – provided for MoF for FY2020 only, representing 15% of the sample; (iii) Annual Audit Plans – provided for MoF, MoLSA of 59% of the sample, These sets of evidence documentation shows that the qualified auditor is to apply the internal audit standards in their report, the audit recommendations refer to organisational and systemic issues and the audit plans are made based on risk assessment. The data provided by the sampled ministries on the nature of internal audits show that only 29% of the audits are based on the effectiveness of the internal control system, and the prevailing checks are on financial transactions. Hence, this dimension is scored C.

**Possible causes of PFM performance identified during the PEFA assessment:** International internal audit standards are applied, with a focus on internal control systemic issues; however, there are still financial transaction checks.

**Performance change since a previous PEFA assessment:** This is a new dimension. The quality of the audit was not part of the 2011 framework.

### 26.3. Implementation of internal audits and reporting

#### **Performance level and evidence for scoring:**

Strategic and annual audit plans exist for all assessed budget bodies. The three-year strategic audit plan defines the departments, SNCOs or divisions within a ministry to be audited based on a risk scale. The planned audits are completed for all and more of the planned tasks (audit and consulting services), as evidenced in the Annual Internal Audit Report for 2022, which consolidates information from all budget entities. The three-year Strategic Audit Plans are developed by the respective budget entity's Internal Audit Committee, while the annual audit plans are prepared by the selected external auditor.

The Terms of Reference for the public procurement tender for the selection of contracted internal auditor of three ministries (MoF, MoH and MoTAI) were reviewed. They refer to services that assess the internal audit environment, the functions related to financial management and control, and the submission of recommendations to the ministry management that will achieve the objectives of risk management. The external audit firm is to report to the ministry's Internal Audit Committee and the Minister.

The evidence with data provided for the sampled ministries shows that the audit plans are fully implemented by 98%, but the data is only for three of the five sampled ministries, representing 69% of the sample. Thus, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** All audit assignments planned by the Internal Audit Steering Committee are completed and result in reports with audit recommendations.

**Performance change since a previous PEFA assessment:** Improvement of performance, more than the planned audit and consulting tasks, are implemented.



## 26.4. Response to internal audits

### **Performance level and evidence for scoring:**

Action is taken by the ministries’ management on internal audit findings. A month after the production and submission of the internal audit report, the respective budget organisation’s management prepares an action plan with a timetable for the implementation of audit recommendations with details on activity. Table 33 below shows the number of internal audit recommendations and the respective measures identified as responses and the implemented ones for the three years of assessment. The data shows that there is a sustainable practice of response to the internal audit findings and recommendations. The data in the table is cumulative for all internal audit practices.

**Table 33: IA recommendations and response for FY2020-2022**

Number	FY2022	FY2021	FY2020
Recommendations presented in final internal audit reports	4279	4176	2349
Measures in the action plan, including the number of measures already implemented	4569	3407	2277
Measures implemented in violation of the time limit set by the action plan.	1540	1964	1349

Source: Internal Audit Activity Report, MoF

However, the data provided for the sampled ministries shows that there is a management response to the audit recommendations for three of the five sampled ministries, representing 69% of the sample. Thus, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** There is a response to the internal audit recommendations, and their implementation is followed up for three out of the five sampled ministries.

**Performance change since a previous PEFA assessment:** Sampling was not used in the previous assessment, and this creates an issue of comparability (see Annex 4, PI-21). In any event, the performance improved, and a few internal audit recommendations were made and implemented at the time of the previous PEFA assessment. Currently, all internal audit reports contain findings and recommendations, most of which are implemented.

## **PILLAR SIX: ACCOUNTING AND REPORTING**

**This pillar considers how accurate** and reliable records are maintained and how information is produced and disseminated appropriately to meet decision-making, management, and reporting needs.

### **Overall performance: key strengths and weaknesses**

Most indicators suggest that the general performance in accounting and reporting is good. Out of the 10 dimensions that comprise the three performance indicators under this Pillar, only one fails to achieve a score of B. This concerns delays in the clearances of advances. On the positive side, high scores are achieved in terms of data integrity, in-year budget execution reporting, and annual financial statements.

### ***PI-27. Financial data integrity***

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-27. Financial data integrity</b>	<b>B+</b>
27.1. Bank account reconciliation	A
27.2. Suspense accounts	A
27.3. Advance accounts	C
27.4. Financial data integrity processes	B

**General description of the system in place in Armenia:** There is a strong legal and regulatory framework governing the routine accounting processes covered by this indicator. This helps to ensure that bank balances are accurate and that balances on suspense accounts and advances are cleared promptly.

The key systems in operation at the Government budget institutions are as follows:

- (i) Mulberry: The document circulation system is used to receive financial reports from budget organisations.
- (ii) Treasury Operation Day (consisting of LS Finance and LS Budget) - a 12-year payment system connecting all ministries and communities and covering all donor accounts. It handles all transactions, budget accounting and performance.
- (iii) AS-enterprise – an electronic system for salary calculation.

**Recent or ongoing reform activities:** Increasing the use of automated processes over time has facilitated more prompt and accurate accounting. A GFMIS is in the process of being developed; it is expected that it will optimise many processes and will automatically prevent expenditure on economic items (synthetic account), which is the third level.

### 27.1. Bank account reconciliation

#### **Performance level and evidence for scoring:**

This dimension is concerned with the process and timeliness of bank reconciliation. Discussions with the Treasury Department in the Ministry of Finance and the Central Bank of Armenia, supported by a real-time demonstration of the process, confirmed that there is daily, real-time reconciliation of government bank balances (covering budget bodies and budget supported SNCOs) held in the Treasury Single Account (TSA) between the Ministry and the CB). Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Undertaken on a daily real-time basis

**Performance change since a previous PEFA assessment:** No change.

### 27.2 Suspense accounts

#### **Performance level and evidence for scoring:**

This dimension concerns suspense accounts, which may arise when, for example, insufficient information is provided about a transaction, such as tax payments. The number of such cases has been increasing to the level of 200-250 per day, apparently due to a failure on the part of commercial banks to follow the required practice. Balances are cleared on a daily basis, and it is reported that the total amount of suspense account balances as of 31 December 2022 was only approximately AMD 100 million out of total expenditure/revenue of approximately AMD 2 trillion.

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

**Possible causes of PFM performance identified during the PEFA assessment:** Some balances were not cleared on 31-12-22, but the amount was not material.

**Performance change since a previous PEFA assessment:** No change

### 27.3. Advance accounts

#### **Performance level and evidence for scoring:**

This dimension considers the promptness and completeness of the clearance of advance accounts, which should, by law, be cleared by the end of the fiscal year. Evidence supplied by the Treasury Department of the Ministry of Finance shows that, whilst advance account balances are reconciled promptly in accordance with the Budget Law, the balance outstanding on 31 December 2022 amounted to AMD 7.287 billion, having been 7.314 billion drams on 1 January 2022. Thus, less than 4% of the opening stock had been cleared by the end of the year. The remaining advances represented 3.5% of aggregate state budget expenditure in 2022.

Based on this analysis, the score for the present dimension is C due to the delays in clearing advances.

**Possible causes of PFM performance identified during the PEFA assessment:** Delays in clearing advance accounts, the balances of which represent 3.5% of annual state budget expenditure.

**Performance change since a previous PEFA assessment:** The score in 2014 was A when it was stated that few balances were carried forward.

#### 27.4. Financial data integrity processes

**Performance level and evidence for scoring:**

This dimension assesses data integrity, which is defined in terms of accuracy and completeness of data.

High standards are maintained in terms of access to data, and authority to change financial records is highly restricted. All occasions when the system is accessed and by whom are logged. A clear audit trail exists to support data integrity that ensures individual accountability and detects any attempt at intrusion into the system. Evidence to support this conclusion was obtained from documentation provided by the Ministry of Finance, a practical demonstration of key systems in operation, and corroboration by the Audit Chamber.

There is no specific individual operational body responsible for the integrity of financial data, although certain technical support services are provided by an agency outside the Government. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Effective automated processes with a clear audit trail.

**Performance change since a previous PEFA assessment:** New dimension

#### **PI-28. In-year budget reports**

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator contains three dimensions and uses the **M1 (WL)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-28. In-year budget reports</b>	<b>B+</b>
28.1. Coverage and comparability of reports	A
28.2. Timing of in-year budget reports	B
28.3. Accuracy of in-year budget reports	B

**General description of the system in Armenia:** There is an extensive system of in-year financial reporting in Armenia, where a leading role is played by the Department of Budget Execution Reporting in the MoF.

The electronic system of budget execution reports was introduced during 2011-2015, which considerably facilitated the reporting, improved the quality, and enhanced the responsibility of the budget bodies regarding timely and reliable report submission. Since 2019, the budget execution reports have also had to be submitted in the programme format.

**Recent or ongoing reform activities:** Improved automated systems have supported the continuing modernisation of the reporting process, including budget reporting by programme.

### 28.1. Coverage and comparability of reports

#### **Performance level and evidence for scoring:**

This dimension assesses the comparability of the information contained in in-year budget execution reports with the original budget. Reports do not have to be published for the purposes of this PI.

Monthly in-year budget execution reports published by the MoF show the breakdown of revenue and expenditure comparable with the original budget in terms of administrative, functional, economic and programmatic classification. All expenditure of State Budget entities, including transfers to de-concentrated units of Central Government - such as Provincial Government - and their expenditure is covered by the reports. Actual figures are compared with year-to-date profiles as well as with the annual budget estimates (both original and revised), and percentage execution rates are clearly set out. Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** There are monthly reports by administrative, functional, programme and economic classification, and they are published.

**Performance change since a previous PEFA assessment:** No change

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

#### **Performance level and evidence for scoring:**

This dimension assesses the promptness of in-year reporting. The Department of Budget Execution Reporting in the Ministry of Finance issues and publishes online monthly, quarterly and annual budget execution reports by the end of the month following the period covered by the report. As well as showing monetary amounts, the reports provide an analysis of and commentary on significant budget variances. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Regular and prompt budget execution reports are routinely issued.

**Performance change since a previous PEFA assessment:** No change.

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

#### **Performance level and evidence for scoring:**

This dimension assesses the reliability and scope of information reported. There are no concerns regarding the accuracy of data contained within the in-year budget reports generated by reliable IT systems. The budget execution reports are prepared monthly - and in the same format as the budget - throughout the financial year but record expenditures based on payments and do not include commitments. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Reports are accurate but do not include commitments.

**Performance change since a previous PEFA assessment:** xxx

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

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the **M1 (WL)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-29. Annual financial reports</b>	<b>B</b>
29.1. Completeness of annual financial reports	B
29.2. Submission of reports for external audit	B
29.3. Accounting standards	B

**General description of the system in place in Armenia** Applying the Armenian equivalent of IPSAS in the process of developing accrual-based, consolidated government financial statements is a central feature of accounting reform in Armenia.

**Recent or ongoing reform activities:** Accounting reform is a key component of ongoing PFM modernisation efforts and includes the development of a consolidation methodology and process, including the required software.

#### **29.1. Completeness of annual financial reports**

##### **Performance level and evidence for scoring:**

This dimension assesses the completeness of annual financial statements for the last completed financial year (FY2022). An A score requires comparability with the approved budget and full information on revenue, expenditure, financial and non-financial assets, liabilities, guarantees and long-term obligations, as well as a cash flow statement.

Annual financial statements are prepared and submitted to the Ministry of Finance by each budget body (such as a Ministry). These comprise the following: (i) statement of financial position; (ii) statement of financial performance; (iii) statement of changes in net assets/equity; (iv) cash flow statement; (v) notes, comprising a summary of significant accounting policies and other explanatory note.

The financial statements are prepared on a mixture of cash and accruals basis and are not (yet) consolidated beyond state revenue and/or expenditure at the national Government level, although full consolidation on an accruals basis is planned. At the Government level, the state budget execution report is prepared on a cash basis. Information on contingencies is available in the debt report rather than the financial statements. Table 34 below summarises the content of the annual financial reports of budgetary central government.

**Table 34: Financial reports of BCG**

Financial report <sup>2</sup>	Date annual report submitted for external audit	Content of annual financial report (Y/N):			Reconciled cash flow statement (Y/N)
		Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	
State Budget Execution Report	By 1 May of the following year	Y	Y/N	Y	Y
Financial Statements of Budget bodies	By 1 May of the following year	Y	Y	Y	Y

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

**Possible causes of PFM performance identified during the PEFA assessment:** The government’s annual financial reports are completed at the ministry level and exclude only non-financial assets at the state level.

**Performance change since a previous PEFA assessment:** Performance improvement

### 29.2. Submission of reports for external audit

**Performance level and evidence for scoring:**

This dimension assesses the timeliness of the submission of reconciled annual financial reports for external audit in relation to the last report submitted. Ideally, in terms of the PEFA Framework, this should take place within 3 months of the end of the accounting period.

The latest annual budget execution report for the year ended 31 December 2022 was submitted to the Audit Chamber in accordance with the law by 1 May 2023. Hence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** Later submission of the annual budget execution report.

**Performance change since a previous PEFA assessment:** The score in 2014 was A, but the standard required is now higher.

### 29.3. Accounting standards

**Performance level and evidence for scoring:**

This dimension assesses the extent to which annual financial reports are understandable to the users of the reports. It considers the last three fiscal years (2020-2022).

Responsibility for accounting standards in the Armenian public sector rests with the Accounting and Audit Regulation, Reporting and Monitoring Department of the Ministry of Finance. In this context,

<sup>2</sup>This may be a consolidated financial report or a list of financial reports from all individual BCG units.

Armenia has adopted Armenia Public Sector Accounting Standards (APSAS) based on the International Public Sector Accounting Standards (IPSAS). At the time of the assessment, APSAS covered over 25 of the IPSAS currently in force, the only exceptions being rather specialised areas such as Financial Reporting in Hyperinflationary Economies. The standards apply to all budget and subordinate bodies, with the ultimate objective of publishing consolidated, accrual-based annual financial statements for the entire government. This remains a work in progress in a three-phase transition process that involves individual budget bodies, then consolidation at the Ministry level and finally, at the state level.

In assessing this dimension, it may be concluded that the accounting standards applied to all financial reports are consistent with Armenia's legal framework and fully disclosed. Most international standards have been incorporated into the national standards with explanations of variations from international standards. At the level of the individual Ministry financial statements, an A score would be justified for 2022, but because the rating is based on all financial reports produced for BCG over the last three years, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** The annual financial statements are consistent from one year to the next, and most international accounting standards are applied as APSAS.

**Performance change since a previous PEFA assessment:** Significant performance improvement as the 2014 score was D due to the lack of accounting standards at the time.



**PILLAR SEVEN: EXTERNAL SCRUTINY AND AUDIT**

**Pillar VII considers whether** public finances are independently reviewed and whether there is an external follow-up on the implementation of recommendations for improvement by the executive.

**Overall performance: key strengths and weaknesses**

The key strengths observed here are that audit reports are completed in a timely manner and provided to the National Assembly. In turn, the Assembly undertakes its scrutiny in an efficient and expeditious manner. The key weaknesses observed are the limitations on the Chamber of Audit’s access to information and the absence of a systematic process to follow through on the Chamber’s or National Assembly’s findings.

**Analysis**

In some respects, Armenia scores well (PI-30 scored C+). Timely audit reports are provided to the legislature, and relevant entities provide timely responses to audit reports. However, a significant issue arises in this indicator – there are significant limitations on the Chamber of Audit’s access to information. Owing to this issue and the M1 (Weakest Link) method, the score for this Indicator is C+.

There is a timely and transparent process to scrutinise audit findings (PI-31 scored B). The focus of legislative scrutiny is necessarily limited owing to the brief time window available to undertake the legislature’s scrutiny, and there is no systematic process to follow through on the legislature’s recommendations and audit findings.

***PI-30. External audit***

This indicator examines the characteristics of external audits. It contains four dimensions and uses the **M1 (WL)** method for combining dimension scores.

Indicator/Dimension	Score
<b>PI-30. External audit</b>	<b>C+</b>
30.1. Audit coverage and standards	C
30.2. Submission of audit reports to the legislature	A
30.3. External audit follow-up	B
30.4. Supreme Audit Institution Independence	C

**General description of the system in Armenia:** The Chamber of Audit undertakes targeted audits on a quarterly basis of government expenditures together with the annual budget execution report. The Chamber provides the audit opinion to the National Assembly, which will scrutinize the audit opinion prior to the approval of the annual budget execution report.

**Recent or ongoing reform activities:** Work is ongoing to revise the law applying to the Chamber of Audit.

### 30.1. Audit coverage and standards

**Performance level and evidence for scoring:** A majority of expenditures (70-80%) are annually audited by the Chamber of Audit, which applies ISSAIs and AC's auditing methodologies based on the ISSAIs. Expenditure audits routinely occur with respect to the largest spending entities (e.g. Ministry of Territorial Administration and Infrastructure, Ministry of Economy, Ministry of Health and Ministry of Labour and Social Administration). Regarding the revenues, the Audit Chamber has included the State Revenue Committee in its annual plans for the last 3 years. The State Revenue Committee of RA is responsible for the collection of taxes and customs duties, which constitute the majority of the total revenues of the state budget of RA. The revenues are included in the subject matter of audits in the State Revenue Committee. These audit reports on state budget execution by the State Revenue Committee formed the basis for providing the overall audit opinion on the execution of the total state budget of RA. The Chamber of Audit highlights significant issues in the audit for the attention of the National Assembly's scrutiny and for remediation by the entity concerned. So, based on the analysis and supporting evidence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** The majority of revenues and expenditures are audited. However, for scores B and above, it is required to audit most (i.e., over 75%) revenues and expenditures.

**Performance change since a previous PEFA assessment:** Performance unchanged.

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

**Performance level and evidence for scoring:** In line with the Law on Budget System and the Law on Rules of Procedure of the National Assembly, the government submits the annual budget execution report to the legislature by 1 May following the end of the financial year. The budget execution report is then forwarded to the Chamber of Audit to prepare its opinion. The budget execution report is approved together with noting the Chamber of Audit's opinion on the report before the second Wednesday of June following the end of the financial year. Audit reports on the government's budget execution report have been consistently provided to the legislature in a very timely manner over the three years under review and within three months of the Chamber of Audit receiving the financial reports.

**Table 35: Timing of audit reports submission to the legislature**

Fiscal years	Dates of receipt of the financial reports by the audit office	Dates of submission of the financial audit reports to the legislature
FY 2020	29/04/2021	27/05/2021
FY 2021	29/04/2022	30/05/2022
FY 2022	02/05/2023	26/05/2023

The score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Audit reports are submitted to the legislature within three months after receipt of financial reports by the Chamber of Audit.

**Performance change since a previous PEFA assessment:** Performance unchanged.

### 30.3. External audit follow-up

**Performance level and evidence for scoring:** The auditee entity is required to send a response up to 30 days after the submission of the audit report. After receiving the response, the Chamber of Audit forwards it to the National Assembly. The National Assembly may follow up on findings and recommendations during the public hearings. There is no mandate and no specific procedure by law to follow up on audit results. All entities responded to audit findings with respect to Fiscal Year 2020, 2021 and 2022. With respect to 2020, 10 reports were required and received, 17 with respect to 2021 and 9 with respect to 2022. All reports were received within the required one -month period after the audit findings were communicated. Currently, there is no systematic follow-up to audit findings, although the Chamber of Audit’s ongoing work program is, in part, shaped by entity responses that have previously been received. Based on the analysis and supporting evidence, the score for the present dimension is B.

**Possible causes of PFM performance identified during the PEFA assessment:** While there are timely and comprehensive responses to audit, there is no systematic follow-up to audit findings.

**Performance change since a previous PEFA assessment:** Performance unchanged

### 30.4. Supreme Audit Institution independence

**Performance level and evidence for scoring:**

The table below summarises the current state of independence with respect to the Chamber of Audit. While there is generally a high level of independence from the executive with respect to the Chamber’s operations, there are significant limitations to the Chamber’s access to personnel records and commercially related information.

**Table 36**

Element/ Requirements	Met (Y/N)	Evidence used/Comments
1. The SAI operates independently from the executive with respect to:	Y	
- procedures for appointment and removal of the head of the SAI	Y	The Constitution of RA and Law on the Chamber of Audit sets out the procedures. Chairman and other members of AC are appointed by the legislature.
- the planning of audit engagements	Y	The Chamber sets its annual work programme independently
- arrangements for publicising reports	Y	Under the Law on the Chamber, reports are required to be published, and legislation must be followed.
- the approval and execution of the SAI’s budget.	Y	While there is independence with respect to budget execution, the annual budget for the Chamber is still negotiated as part of the annual budget process.
2. This independence is assured by law.	Y	The Constitution of RA and the Law on the Chamber of Audit provide the legislative framework for the Chamber’s independence.
3. The SAI has unrestricted and timely access to records,	N	

documentation and information for:		
- all audited entities	N	
- most audited entities	N	
- the majority of requested records	Y	The Audit Chamber faces limitations to the access of personal data, commercially sensitive information, and several types of classified information. The Law on the Chamber of Audit sets out the procedures.

Based on the analysis and supporting evidence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** Significant restrictions exist on the Chamber of Audit’s access to information.

**Performance change since a previous PEFA assessment:** a new dimension

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

This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
<b>PI-31. Legislative scrutiny of audit reports</b>	<b>B</b>
31.1. Timing of audit report scrutiny	A
31.2. Hearings on audit findings	C
31.3. Recommendations on audit by the legislature	C
30.4. Transparency of legislative scrutiny of audit reports	A

**General description of the system in place in Armenia:** The Chamber of Audit undertakes targeted audits on a quarterly basis of government expenditures together with the annual budget execution report. The Chamber provides the audit opinion to the National Assembly, which will scrutinize the audit opinion prior to the approval of the annual budget execution report.

**Recent or ongoing reform activities:** No current significant reforms.

#### 31.1. Timing of audit report scrutiny

##### **Performance level and evidence for scoring:**

The period of audit report scrutiny is consistent and short in Armenia and is governed by the laws noted in the discussion of PI - 30. Audit report scrutiny follows legislative requirements. Typically, the audit opinion is received by the National Assembly in the second half of May and the scrutiny by the legislature is completed in June when the budget execution report is approved.

**Table 37 Timing of audit report scrutiny**

Fiscal years	Dates of receipt of the financial audit reports	Dates of scrutiny by the legislature
FY2020	27/5/2021	15/6/2020
FY2021	30/5/2022	15/6/2020
FY2022	26/5/2023	15/6/2020

The conclusions of the Chamber of Audit regarding the implementation of the state budget are discussed in the National Assembly in the joint sessions of the commissions during the discussion of the annual report on the implementation of the state budget of the previous year. In all three years of assessment the audit report has been scrutinised by 15th of June.

Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Legal framework, which is followed, requires timely scrutiny of audit reports on budget execution report.

**Performance change since a previous PEFA assessment:** Performance unchanged.

### 31.2 Hearings on audit findings

**Performance level and evidence for scoring:**

Between 2020 and 2023, there were only five hearings into audit findings related to budget execution reports (two each with respect to the Ministry of Territorial Administration and Infrastructure and one with respect to the Ministry of Health). One review was in relation to the full-year budget execution report, while the other hearings related to part-year (six and nine months) audit opinions on budget execution reports. Based on the analysis and supporting evidence, the score for the present dimension is C. When the relevant Committee, the Standing Committee on Financial, Credit and Budgetary Issues, decides to call a hearing, they call the head of the audited entity to the Committee together with the relevant representative of the Chamber of Audit.

**Possible causes of PFM performance identified during the PEFA assessment:** Hearings on audit findings are selective.

**Performance change since a previous PEFA assessment:** The previous assessment was “B”. Current methodology requires that most entities with an adverse audit finding are called before the National Assembly.

### 31.3. Recommendations on audit by the legislature

**Performance level and evidence for scoring:**

The legislature makes recommendations on actions that should be taken by the executive in response to audit findings on the annual budget execution report. However, the legislature does not have a legal mechanism or resourcing to follow-up on the executive’s responses to the findings.

Hence, the score for the present dimension is C.

**Possible causes of PFM performance identified during the PEFA assessment:** Recommendations on the audit have not been followed up on by the legislature.

**Performance change since a previous PEFA assessment:** Performance unchanged.

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

**Performance level and evidence for scoring:**

The law relating to the legislature's procedures provides for public hearings on the audit reports, except in cases relating to national security. These legal requirements are followed in practice. Hearings are undertaken by the Financial, Credit and Budgetary Issues Committee and reported to the National Assembly. Committee hearings are published on YouTube, and minutes of hearings are published on the parliamentary website.

Hence, the score for the present dimension is A.

**Possible causes of PFM performance identified during the PEFA assessment:** Hearings are largely undertaken in public, video is available on YouTube, and minutes are published.

**Performance change since a previous PEFA assessment:** new dimension.

### III. OVERALL ANALYSIS OF PFM SYSTEMS

#### Summary of main strengths and weaknesses of the PFM systems in Armenia

Armenia's PFM systems show a number of significant strengths, including:

- Effective aggregate expenditure control.
- An overall high level of fiscal transparency.
- Sound macro-fiscal planning and management.
- Efficient tax administration.
- Well-performing accounting and reporting systems.

At the same time, certain weaknesses can be identified, namely:

- Incomplete information on planned tax revenue composition.
- An excessive number of programmes and measures with limited focus on outcomes.
- Historic shortcomings in capital investment appraisal, implementation and monitoring.
- Confused internal audit arrangements in government.
- Inadequate independent evaluation of government programmes.

#### Detailed analysis

Overall, the Armenia PFM system displays more strengths than significant weaknesses. When the scores for the Performance Indicators (PIs) are mapped against the three budgetary outcomes – aggregate fiscal discipline, strategic allocation of resources and efficient service delivery – the strength of the overall Armenia PFM system is seen. With respect to aggregate fiscal discipline, 12 of the 14 relevant PIs were scored as “A” or “B”. 10 of the 13 relevant PIs for the strategic allocation of resources budgetary outcome were scored as “A” or “B” and 15 of the 17 relevant PIs for efficient strategic delivery were similarly scored.

A particular strength of the PFM system is its ability to manage expenditures consistently and keep them close to budgeted levels. This achievement is particularly noteworthy given the significant shocks experienced by Armenia in recent years, particularly the COVID-19 pandemic and armed conflict on Armenia's borders, which have created unanticipated spending pressures. The maintenance of overall fiscal discipline has been supported by several elements of the PFM systems. There is a clear, predictable and orderly budget process. A clear and transparent fiscal strategy is translated into clear medium-term budget ceilings for budget entities. There are no extrabudgetary units, in-year spending reallocations follow legislated rules, and there is a sound internal control system.

While the response to the major shocks that have hit Armenia has required significant shifts in expenditure at a functional level, overall resources appear to be allocated consistent with the government's strategic objectives. Overall, there are reliable forecasts of expenditure and revenue, which enable the government to allocate resources strategically. There is a medium-term orientation to budgeting, which facilitates the government's ability to allocate resources in line with its strategic priorities. The preparation of the budget is guided by clear and transparent priorities at a strategic level, and priorities cascade through to ceilings for budget entities that are reflected in the expectations of service delivery performance for budget entities. Internal controls, such as those around payroll expenditures, assist budget execution to align with the strategic allocation of resources.

While the scores for some Performance Indicators indicate some scope for improvement with respect to transparency of fiscal and macroeconomic information, overall, the Armenian PFM system is characterised by high levels of transparency. For example, the draft budget (MTEF) presented to the legislature provides a high degree of transparency with respect to the government's budget plans, from explicit fiscal strategy intentions to planned expenditure at the programme level, together with planned performance indicators. More broadly, there is considerable transparency across a number of other elements of the PFM system, including debt management, budget execution reporting, procurement and revenue administration.

The revenue administration appears well organised and accurately records and reports revenues collected in a timely manner, supporting the government's ability to plan its budget strategy with reasonable confidence. In turn, a predictable revenue flow assists the ongoing allocation of resources to the government's highest expenditure priorities. The revenue administration continues to look to enhance its ability to collect the taxes legislated in Armenia and seeks support from development partners to do so.

Notwithstanding the clear strengths of many aspects of the Armenian PFM system, there remain significant areas of relative weakness. Public investment management is an area of focus in the current PFM reform agenda. There are significant institutional reforms to improve the economic appraisal of major investment projects and strengthen the prioritisation of potential investment, but there have been major shortcomings. There is also scope to improve the monitoring of investment projects and, more generally, to introduce a similar degree of transparency to public investment management that is seen in many other areas of the PFM system in Armenia.

There is scope to improve the implementation of programme budgeting in Armenia to enhance the efficient and effective allocation of resources. There are a large number of programmes and very many indicators, not all of which appear to be strongly connected to the measurement of the quality-of-service delivery or the outcomes achieved through government expenditure. The proliferation of indicators makes it much harder for key stakeholders, such as the legislature and general public, as well as the government itself, to understand if resources are being used wisely and well. It is understood that consideration is being given to improving the operation of programme budgeting as part of the ongoing PFM reform agenda.

Consolidating reporting arrangements with respect to financial reporting and public assets would underpin support for the key budgetary outcomes and improve the efficiency of current arrangements. There are plans to introduce whole-of-government financial reporting on an accrual accounting basis together with the implementation of a Government Financial Management Information System (GFMIS). Moving these reform plans into implementation would be a welcome step to enhance the quality of financial reporting and reduce the fragmentation of financial information, especially with respect to assets and liabilities. In parallel, increasing the Chamber of Audit's ability to obtain all necessary information to undertake the audit of the annual financial statements and ensuring that revenues, as well as expenditures, are audited by the Chamber would complement the credibility of moving to accrual accounting at a whole-of-government level.

Strengthening systematic evaluation of the effectiveness and efficiency of government spending emerges as a priority from the assessment. Evaluation by line ministries and the Ministry of Finance is currently undertaken sporadically. The Chamber of Audit has a limited capacity to undertake performance audits. Increased evaluation would provide the government with a higher level of assurance that government spending is aligned with its strategic priorities and is being undertaken in an efficient manner.



Internal audit arrangement changes made in recent years warrant a review to ensure that they remain fit for purpose. Armenia has moved from in-house internal audit functions to outsourced audits in the case of most budget entities. It is understood that the move was motivated by concerns around the lack of independence of in-house functions, together with an expectation that externally provided audits would be more economical. Differing views were offered around the effectiveness of the changes, and we are not in a position to offer a view on this issue. Internal audit is one component of the fabric of effective internal control, and therefore, a thorough evaluation of the change in internal audit arrangements appears desirable.

## 2.2. Effectiveness of the internal control framework

The existing legislative basis for financial management and internal control covers the Law on Budget System, Government Decree 708, dated 2016, prescribing the internal control relevant to the budget implementation process and the Law on Treasury System, Public Sector Accounting Law and Civil Service Law covering the control activities for financial management. There is no specific legal framework for public internal financial control even though Armenia received external financial support for technical assistance projects, namely “Strengthening the Regulatory and Institutional Framework of Public Internal Financial Control (PIFC) and Supporting the Central Harmonisation Unit in Its Role of Operationalizing the New Systems in the Republic of Armenia” (2014–2016).

There was a plan to adopt a law on financial management control in 2019, but it is still in progress.

There is no systematic and documented approach towards risk management. Department managers only report risks for the purpose of strategic audit planning. However, the approach applied to risk assessment is not clear, including whether it is formalised as a procedure. The established Central Harmonisation Unit (CHU) at MoF oversees the implementation of internal control through the annual receipt of the internal audit reports of all public entities and can exercise its judgement on the extent to which public bodies observe the internal control rules.

Financial control in the public sector of Armenia is not supported by a unified regulation, formalised and standardised system of internal control standards and guidance on risk management. The established CHU is supposed to enhance and oversee the application of the legal acts and provide methodological guidance. The operational framework for internal control should define the responsibilities and powers and their application by the budget organisations. The monitoring and reporting functions on the development of internal control are not comprehensive, as it is not clear if all budget organisations have introduced risk management.

### Risk Assessment

Operation and process-related risk is based rather on the Law on Budget System and Law on Treasury System and not on Internal Financial Control policy and supporting guidelines. They should provide a formalised risk assessment mechanism for budget organisations. The exception is the tax administration or the State Revenue Committee. The SRC possess a well-structured and formalised risk management approach, and management decisions are based on risk factors identified and assessed in good time. Risk assessment status at different stages of the PFM system is analysed as follows:

Pillar 1: Budget reliability: Budget composition amendments create the potential for a lack of short-term fiscal sustainability.

**Pillar 2: Transparency of public finances:** There are no inherent risks from the lower government level. All subnational governments report to the MoF monthly, but their annual financial statements are published unaudited. There are no risks related to off-budget revenue and expenditure as all operations of the SNCO are fully reported and monitored, having their financial data reported on regularly to MoF.

**Pillar 3: Management of assets and liabilities:** The legal framework contains requirements concerning monitoring and reporting of public enterprises, contingent liabilities and other fiscal risks (PI-10). There is little guarantee of value for money without a well-established and transparent economic analysis of investment proposals (PI-11), the cost of investment, and written procedures for monitoring the performance of public investments. There is a risk of poor accountability, having a fragmented register of assets, and a lack of transparency with partial disclosure on assets disposal. (PI-12). Debt management is the function that has a substantial impact on the government's capacity to maintain fiscal discipline (PI-13).

**Pillar 4: Policy-based fiscal strategy and budgeting:** There is a good macroeconomic perspective in budgeting expenditure, and the visibility of fiscal forecasts makes the budget less prone to various internal and external factors (PI-14). There is a good mid-term perspective (PI-16) limiting the risks to the budget of making more in-year amendments. The well-defined budget preparation process contributes to having less overall risk of having unrealistic plans in mobilising government resources.

**Pillar 5: Predictability and control in budget execution:** The revenue administration practice applies well-structured and documented risk management, which results in fewer risks of poor collection. The personnel database is linked to the payroll, thus reducing the risk of errors and possibly retroactive adjustment. There is a segregation of duties between salary and non-salary expenditures.

#### Control Activities

Control activities in PFM appear to be working well through the deployment of several software management and information systems such as Treasure-Client, AS Enterprise and AS Finance, providing for electronic treasury operations with various levels of control, authority and access. Payment rules for all budget performance operations are controlled, which enhances transparency and accountability.

#### Information and Communication

There is regular and published information on approved budgets, in-year budget execution reports, and the annual budget execution report. There is still no procedure to seek public participation with regard to budget formulation. There is clear and comprehensive information on revenue collection and administration regarding the right of obligation of the public (PI-19). The public procurement data shows that competitive procurement methods are predominant. All procurement information is publicly available, and this contributes to the transparency of the function (PI-24).

#### Monitoring

Monitoring in Committee of Sponsoring Organizations (COSO) terms means the process of assessing the quality of internal control performance over time. Performance monitoring in the PFM system is not yet well developed (PI-11). The main tools for monitoring PFM are ensuring that the in-year quarterly reports and the budget execution reports are consistently prepared. The internal control framework of the PFM system is well structured and operational through the deployment of an internal audit function and a structured, functional and independent external audit function. Both services ensure that key irregularities and errors are avoided.

The internal control elements, as described above, are in place. There is an overall awareness and competence of how they contribute to having sound management of public funds. Internal control contributes to budget discipline through rigid control activities and procedures in monitoring debt, recording expenditure commitments and preventing arrears. However, the fiscal risks presented by the lack of documented risk management procedures may expose the budget's reliability to incidental external threats.

The current internal control system supports clear and transparent transfer of funds that contribute to the strategic allocation of resources in these budget organisations where there is a regular and strong internal audit function.

The internal audit and the external oversight mechanisms are in place, and while they are well structured and contribute to efficient service delivery, they are not sufficiently embedded in the government's risk management function.

### 2.3. Performance changes since a previous assessment

The last PEFA assessment was conducted in 2013, using the 2011 methodology. In accordance with the PEFA Secretariat's Guidance Note on measurement of performance change, the 2011 Framework was used to assess the situation at the time of assessment in 2023. Annex 4 provides a detailed analysis of changes since 2013. Overall, this reveals a positive situation, mostly with improvement in performance and score. The performance change is summarised in Table 38.

**Table 38 Performance change since the previous PEFA assessment**

Performance change:	Number	Percentage
Improvement: PI-7,PI-9,PI-13,PI-14,PI-18, PI-19, PI-20,PI-25	8	29
Deterioration: PI-1, PI-3, PI-226	3	10
No change: PI-2, PI-4, PI-5, PI-6, PI-8, PI-10, PI-11, PI-12, PI-15, PI-16, PI-17, PI-21, PI-23, PI-24, PI-26, PI-27, PI-28	17	61

The table above shows that the majority (61%) of the PFM areas have not changed, and nearly one-third (29%) achieved higher PEFA scores in 2023. The processes and functions that declined are 10%.

The areas of improvement include the process of capturing all central government operations of budgetary and extra-budgetary (SNCOs) activities, allowing a complete picture of expenditure and revenue in the annual budget execution reporting. This contributes to more comprehensive budget reporting and better transparency (PI-7 scored A from B+). Comprehensiveness and transparency are further improved in the process of fiscal risk oversight (PI-9 scored C+ from D+) by adding to the government monitoring function the audited financial statements of SNCOs and public companies, even if not all of them are audited.

The other positive development is in the area of transparency of taxpayer obligations and liabilities (PI-13 scored A from B+) with clearer tax procedures and legislation on liabilities and a complete set-up of the Appeal Committee with electronic claims filing and timely feedback on resolution as a result of the latest amendments to the Tax Code (2018). The payroll control has become more rigorous, with monthly reconciliations between the staff list and the payroll, which results in a lack of retroactive adjustments (PI-18 scored B+ from C). Fiscal discipline is strengthened by having the personnel data and payroll data linked so that changes are reflected each month, even if this is still not fully automated and requires human involvement.

The trend of strengthening the internal control system is evidenced also in having more effective internal controls. This has been registered in the controls over non-salary expenditure, where all payments are made in compliance with rules for recording transactions, and the use of emergency procedures is justified. The improvement in the internal control system is corroborated by the enhanced functioning of the internal audit. The improved performance is due mostly to greater coverage of the internal audit function (PI-21 scored B from C). The recent transfer of the internal audit to the external service provider, however, is yet to be evaluated for efficiency and effectiveness. The final improvement refers to the quality of the annual financial statements where the achievement is the application of the majority of international accounting standards (PI-25 scored B from D+) adopted as APSAS. Most of the improved processes and functions, as described, have an overall contribution to the predictability and control of budget execution.

The three areas where the performance declined are: (i) PI-1 scored B from A for higher variance in aggregate expenditure out-turn compared to the approved budget; (ii) PI-3 scored C from A for higher variance in aggregate revenue out-turn compared to the approved budget; ( (iii) there are significant amounts of uncleared advance account balances at year-end that affects the timeliness and regularity of accounts reconciliation.

With regard to the three budgetary outcomes. Aggregate fiscal discipline is supported by sound operation procedures that forecast expenditure commitments and provide reliable information on the availability of funds that would maintain smooth resource allocation throughout the year. Good internal controls on expenditure commitments and compliance with payment rules would ensure that public funds are spent as planned. Reliable fiscal discipline with no incurred expenditure arrears and effective debt management. A detrimental practice to the fiscal risk reporting function continues to be the monitoring of public companies. These achievements, evidenced in the previous assessment, show sustainability and continue to contribute to good fiscal discipline.

The strategic allocation of resources is evidenced by (i) improved government's ability to predict and collect revenue, (ii) no unreported government operations, and (iii) monitoring of subnational governments with transparent financial information. The achievement to note is that the Government has gained better control over all funds by having a complete picture of revenue and expenditure across every category by merging the accounts of extra-budgetary funds with their respective line ministries and capturing the operations of the SNCOs in the internal financial reporting.

Efficient service delivery in the operations of the government finances is demonstrated by the improved public procurement practice of the prevailing competitive method, expanded coverage of internal audit, and better quality of the financial accounting statements, having integrated the majority of international accounting standards in APSAS. Nevertheless, the operations that still need to improve in order to contribute to efficient service delivery are to have more sustainable internal audit practices with sound management responses to internal audit recommendations. More government expenditure is to be covered in the external audit. The legislative oversight is limited, with no systemic follow-up and a lack of mandatory force with recommendations on the Executive.

### ANNEX 1: PERFORMANCE INDICATOR SUMMARY

This annexe provides a summary table of the performance at the indicator and dimension levels. The table specifies the scores with a brief explanation of the scoring for each indicator and dimension of the current assessment. This is the first assessment applying the PEFA 2016 framework.

COUNTRY NAME: ARMENIA			Current assessment	
Pillar	Indicator/Dimension		Score	Description of requirements met
Budget Reliability	PI-1	Aggregate expenditure out-turn	A	Variances were less than 5% in 2 of the three years
	PI-2	Expenditure composition outturn	C+	
		(i) Expenditure composition outturn by function	C	Variance greater than 10% in all 3 years
		(ii) Expenditure composition outturn by economic type	B	Variances were between 5% and 10% in all 3 years
	PI-3	(iii) Expenditure from contingency reserves	A	No expenditure was charged to Contingency
		Revenue outturn	C+	
		(i) Aggregate revenue outturn	B	Actual revenue was between 94% and 112% of the budget /in 2 of 3 years
	(ii) Revenue composition outturn	C	Variances were between 10-15% in all 3 years	
Management of assets and liabilities and Transparency of Public Finances	PI-4	Budget Classification	C	Types of tax revenue not shown in the budget submission
	PI-5	Budget Documentation	B	9 elements were included, including 3 of the 4 basic elements
	PI-6	Central government operations outside financial reports	A	
		(i) Expenditure outside financial reports	A	There is no expenditure outside of financial reports
		(ii) Revenue outside financial reports	A	There is no revenue outside of financial reports
	PI-7	(iii) Financial reports of extra-budgetary units	NA	There are no extrabudgetary units
		Transfers to subnational governments	A	
	PI-8	(i) System for allocating transfers	A	Almost all transfers are allocated based on transparent rules-based systems.
		(ii) Timeliness of information on transfers	A	Reliable information is provided several months before the year-end
		(i) Performance plans for service delivery	B	High compliance rate in planning but insufficient focus on outcomes
		(ii) Performance achieved for service delivery	B	Reporting focused largely on financial results
	PI-9	(iii) Resources received by service delivery units	A	Reports encompass resources received by SDUs
		(iv) Performance evaluation for service delivery	C	Most expenditure programmes are not subject to independent evaluation
PI-10	Public access to information	A	All 5 basic elements and 3 out of 4 additional elements accessible to the public	
Management of assets and liabilities	PI-10	Fiscal risk reporting	C+	
		(i) Monitoring of public corporations	C	Audited financial statements are prepared for some SOEs, and financial statements are provided to the Ministry of Finance no more than six months after the end of the financial year.

		(ii) Monitoring of sub-national government (SNG)	C	Unaudited financial information is published for sub-national governments.
		(iii) Contingent liabilities and other fiscal risks	B	Most but not all potential significant contingent liabilities are reported and published. In addition, the Ministry of Finance annually publishes a report on fiscal risks, which is published in the MTEF.
	<b>PI-11</b>	<b>Public investment management</b>	<b>D</b>	
		(i) Economic analysis of investment proposals	D	Administrative compliance checks were carried out on projects but not economic appraisal.
		(ii) Investment project selection	D	No objective process for the prioritisation of investment projects.
		(iii) Investment project costing	D	Capital costs of major projects for a three-year period of MTEF are included in the budget proposal. However, this may not always include the total capital costs of major projects.
		(iv) Investment project monitoring	C	Information on the performance of major investment projects is included in the annual budget execution report.
	<b>PI-12</b>	<b>Public asset management</b>	<b>C</b>	
		(i) Financial asset monitoring	C	There are gaps, for example, – advances and receivables - in the coverage of financial asset registers. Information on the annual performance of financial assets has not been published.
		(ii) Nonfinancial asset monitoring	C	There are gaps – machinery and equipment, inventories, valuables, intangible assets - in coverage of non-financial assets. Some information was collected on the usage and age of some non-financial assets.
		(iii) Transparency of asset disposal	C	All the information available is published on transfers and disposals of assets, but there are gaps in the information set (e.g. original cost, date of acquisition).
	<b>PI-13</b>	<b>Debt management</b>	<b>A</b>	
		(i) Recording and reporting of debt and guarantees	A	Systematic and comprehensive recording and reporting of debt management transactions and guarantees
	(ii) Approval of debt and guarantees	A	Clear legal framework and approval processes for issuance of debt and guarantees.	
	(iii) Debt management strategy	A	A three-year debt management strategy with quantitative indicators was published annually in MTEF and presented to the National Assembly together with the annual borrowing plan.	
Policy-based fiscal strategy and budgeting	<b>PI-14</b>	<b>Macroeconomic and fiscal forecasting</b>	<b>B</b>	
		(i) Macroeconomic forecasts	C	Macroeconomic forecasts are published but do not include two key macro indicators – interest rates and exchange rates.
		(ii) Fiscal forecasts	C	Fiscal forecasts that are published do not include a breakdown of revenue by tax type.
		(iii) Macro-fiscal sensitivity analysis	A	A range of fiscal scenarios based on alternative macro assumptions are published.
	<b>PI-15</b>	<b>Fiscal strategy</b>	<b>B+</b>	
		(i) Fiscal impact of policy proposals	C	Information provided on the costs of individual policy changes is provided for the budget year in the budget proposal.
	(ii) Fiscal strategy adoption	A	The government in MTEF outlines its fiscal strategy and quantitative goals for key fiscal indicators relating to government expenditure and debt for each year in the three-year fiscal planning period.	

		(iii) Reporting on fiscal outcomes	A	The government in MTEF reports on progress made towards previously set goals, any deviations from the intended track and intended actions to respond.
	<b>PI-16</b>	<b>Medium-term perspective in expenditure budgeting</b>	<b>B</b>	
		(i) Medium-term expenditure estimates	A	MTEF and the final budget proposal provide estimates of expenditure for a three-year period at the economic, administrative, and programme levels.
		(ii) Medium-term expenditure ceilings	A	Ceilings for the three-year fiscal planning period are agreed upon by the government and are allocated to ministries prior to the preparation of initial budget estimates.
		(iii) Alignment of strategic plans and medium-term budgets	C	While there are several sets of strategic plans, including strategic plans for line ministries, there is inconsistent and partial alignment between strategic plans and the budget.
		(iv) Consistency of budgets with previous year estimates	D	Budget documents do not outline the consistency of current budget year estimates with the previous second year of three-year estimates.
	<b>PI-17</b>	<b>Budget preparation process</b>	<b>A</b>	
		(i) Budget calendar	B	Ministries provided four weeks to prepare budget submissions, with knowledge of both budget methodology and entity ceilings. Submissions are largely made on time.
		(ii) Guidance on budget preparation	A	Budget circulars on ceilings reflect government-wide agreements on ceiling spending for each entity.
		(iii) Budget submission to the legislature	A	Budget submission is consistently provided to the National Assembly at least 90 days before the start of the new financial year.
	<b>PI-18</b>	<b>Legislative scrutiny of budgets</b>	<b>D+</b>	
		(i) Scope of budget scrutiny	D	No detail on tax revenue forecasts provided effectively limits revenue estimates scrutiny.
		(ii) Legislative procedures for budget scrutiny	C	Budget law and law for procedures of national assembly set out requirements for legislative review of the budget.
		(iii) Timing of budget approval	A	All budgets in the reference period are approved before the start of the financial year as required by law.
		(iv) Rules for budget adjustments by the executive	C	Rules permit both administrative reallocation of spending <b>and</b> expansion of total spending if revenue outturns are higher than forecast.
<b>Predictability and control in budget execution</b>	<b>PI-19</b>	<b>Revenue administration</b>	<b>B</b>	
		(i) Rights and obligations for revenue measures	A	There is complete information on tax rights and obligations and an appeal mechanism in place.
		(ii) Revenue risk management	B	Compliance risk is assessed and managed as a priority for large taxpayers
		(iii) Revenue audit and investigation	A	Audit and investigation are undertaken according to a Compliance Improvement Plan.
		(iv) Revenue arrears monitoring	D	There is a huge stock of aged (more than 12 months) arrears in the last completed fiscal year (2022), which is more than 75% of the total amount of revenue arrears for the same year.
	<b>PI-20</b>	<b>Accounting for revenues</b>	<b>A</b>	-
		(i) Information on revenue collections	A	There is daily information in TSA about revenue collection
		(ii) Transfer of revenue collections	A	Revenue is transferred to TSA daily
		(iii) Revenue accounts reconciliation	A	There is a daily reconciliation of revenue payments to the Treasury accounts.
	<b>PI-21</b>	<b>Predictability of in-year resource allocation</b>	<b>A</b>	-

	(i) Consolidation of cash balances	A	Consolidation of cash balances is daily.
	(ii) Cash forecasting and monitoring	A	The cash flow forecast is prepared for the year and updated weekly.
	(iii) Information on commitment ceilings	B	Information on commitment ceilings on a quarterly basis.
	(iv) Significance of in-year budget adjustments	A	There are no significant in-year adjustments. All adjustments are made within the stipulated limit of annual budget appropriations.
	<b>PI-22 Expenditure arrears</b>	<b>B+</b>	-
	(i) Stock of expenditure arrears	A	There are no expenditure arrears during the assessment period.
	(ii) Expenditure arrears monitoring	B	Age is not reported
	<b>PI-23 Payroll controls</b>	<b>B</b>	-
	(i) Integration of payroll and personnel records	B	Payroll is reconciled with personnel records every month; the process is manual.
	(ii) Management of payroll changes	B	The corrections in payroll are immaterial.
	(iii) Internal control of payroll	B	Data has high integrity but not full integrity due to manually operated processes.
	(iv) Payroll audit	B	There is an annual payroll audit where ghost workers are checked.
	<b>PI-24 Procurement</b>	<b>B+</b>	-
	(i) Procurement monitoring	D	There is no evidence of quality control or audit of procurement data.
	(ii) Procurement methods	A	The total value of contracts awarded through competitive methods in the last FY 2022 represents 83% of the total value of procurement contracts.
	(iii) Public access to procurement information	A	There is full access to all procurement data
	(iv) Procurement complaints management	A	There is an established procurement complaints mechanism meeting all six requirements.
	<b>PI-25 Internal controls on non-salary expenditure</b>	<b>B+</b>	-
	(i) Segregation of duties	B	There is no full integration of internal control activities into all duties and functions.
	(ii) Effectiveness of expenditure commitment controls	A	The rules and procedures of payment enforce a level of controls that limit the expenditure commitments to the appropriated budget allocations.
	(iii) Compliance with payment rules and procedures	B	Strict rules are prescribed and applied in the payment. Evidence provided for 75% of budget expenditure.
	<b>PI-26 Internal audit effectiveness</b>	<b>C+</b>	-
	(i) Coverage of internal audit	B	Internal audit is established in all budget organisations. The function was suspended only at MoF over the last two years.
	(ii) Nature of audits and standards applied	C	Focus on transactions and compliance rather than the internal control system.
	(iii) Implementation of internal audits and reporting	C	Planned audits are implemented for 75% of budget expenditure
	(iv) Response to internal audits	C	There is a management response to audit recommendations for 75% of budget expenditure.
Accounting and Reporting	<b>PI-27 Financial data integrity</b>	<b>B+</b>	-
	(i) Bank account reconciliation	A	Daily, real-time reconciliation of government bank balances
	(ii) Suspense accounts	A	Promptly cleared and low balances
	(iii) Advance accounts	C	Delays in clearing balances
	(iv) Financial data integrity processes	B	High level of safeguarding but no specific responsible body
	<b>PI-28 In-year budget reports</b>	<b>B+</b>	



		(i) Coverage and comparability of reports	A	Comprehensive reports produced
		(ii) Timing of in-year budget reports	B	Reports produced within one month of the end of the period
		(iii) Accuracy of in-year budget reports	B	Accurate reports but do not include commitments
	<b>PI-29</b>	<b>Annual financial reports</b>	<b>B</b>	
		(i) Completeness of annual financial reports	B	Annual financial reports are complete at the Ministry level and exclude only non-financial assets at the State level.
		(ii) Submission of reports for external audit	B	Reports submitted by following 1 May
		(iii) Accounting standards	B	Consistent reporting is based on disclosed APSAs.
<b>External scrutiny and audit</b>	<b>PI-30</b>	<b>External audit</b>	<b>C+</b>	
		(i) Audit coverage and standards	C	The majority of state expenditures and revenues are audited.
		(ii) Submission of audit reports to the legislature	A	Audit reports are submitted to the legislature within three months after receipt of financial reports by the Chamber of Audit.
		(iii) External audit follow-up	B	While there are timely and comprehensive responses to audits, there is no systematic follow-up to audit findings.
		(iv) Supreme Audit Institution (SAI) independence	C	Significant restrictions exist on the Chamber of Audit's access to information.
	<b>PI-31</b>	<b>Legislative scrutiny of audit reports</b>	<b>B</b>	
		(i) Timing of audit report scrutiny	A	The legal framework which is followed requires timely scrutiny of audit reports on budget execution reports.
		(ii) Hearings on audit findings	C	Hearings on audit findings are selective.
		(iii) Recommendations on audit by the legislature	C	Recommendations on the audit have not been followed up on by the legislature.
		(iv) Transparency of legislative scrutiny of audit reports	A	Hearings are largely undertaken in public, video is available on YouTube, and minutes are published.

## ANNEX 2: SUMMARY OF OBSERVATIONS ON THE INTERNAL CONTROL FRAMEWORK

Internal control components and elements	Summary of observations
<b>1. Control environment</b>	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	The regulatory framework in the government is stipulated in the key acts: Budget System Law, Treasury Law, and Tax Code. There is no unified regulation on internal control.
1.2 Commitment to competence	No information is available from the PEFA assessment. However, the general understanding of the assessment team is that staff possess the necessary academic and professional qualifications and experience.
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	Generally, the overall legal framework provides for proper management and control and accounting for the finances of the government in order to promote efficient and effective use of the budgetary resources. The tone at the top is hierarchical but professional and supportive of reform and capacity development. Internal audits are operational and cover more than 90% of the government budget organisations. They apply international standards, check systemic issues, and respond to audit recommendations, which is good.
1.4 Organisational structure	No information is available from the PEFA assessment. The organisational structure was not found on MoF's website.
1.5 Human resource policies and practices	The issues related to personal and professional integrity and ethical values are covered in the internal rules of the budget organisations.
<b>2. Risk assessment</b>	
2.1 Risk identification	Key risks are covered by preliminary control activities permeating the entire system of public finance; there is a formalised risk assessment mechanism in revenue collection. Risks of investment and asset management are not well covered.
2.2 Risk assessment (significance and likelihood)	Several PIs are related to risk assessment:
2.3 Risk evaluation	Economic analysis of investment proposals: there are no standard guidelines for project selection; Revenue risk management: there is a reasonable compliance improvement plan.
2.4 Risk appetite assessment	No information is available from the PEFA assessment.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	No information is available from the PEFA assessment.
<b>3. Control activities</b>	
3.1 Authorization and approval procedure	The Budget System Law is the crucial document authorising the accounting systems of authorisation, policies, standards, and accounting procedures and

	reports.
3.2 Segregation of duties (authorising, processing, recording, reviewing)	Regulations ensure that different individuals authorise commitments, approve contracts and execute payments.
3.3 Controls over access to resources and records	Compliance with payment rules and procedures ensures close control through the Treasury system, where operations can be reviewed, and access can be traced.
3.4 Verifications	Financial data integrity processes related to recording and processing budget data are handled at the Treasury, but they are not supported by a specialised unit on data integrity.
3.5 Reconciliations	There are daily reconciliations between tax collection and the Treasury system.
3.6 Reviews of operating performance	Mainly performed by the Treasury controls, processes and activities on an operational level. The system is annually monitored and reported on by the internal audit function (outsourced) that is operational on nearly all budget organisations.
3.7 Reviews of operations, processes and activities	As above
3.8 Supervision (assigning, reviewing and approving, guidance and training)	No information from the PEFA assessment is available.
<b>4. Information and communication</b>	
<b>5. Monitoring</b>	
5.1 Ongoing monitoring	There is good monitoring related to service delivery with subsequent planning and decision-making.
5.2 Evaluations	There are reports elaborating on the consistency of performance-planned outputs and achieved outcomes and explaining any deviation.
5.3 Management responses	The internal control system is subject to annual planned internal audit checks verifying comprehensive, extensive, and reliable activities to ensure that key irregularities and errors are avoided. The management response is good, but the follow-up may not be consistent.

## ANNEX 3: SOURCES OF INFORMATION

### Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date
1	MoF, GoA	STRATEGY ON PFM SYSTEM REFORMS 2019-2023	28 Nov 2019
2	IMF	Technical Assistance Report – Public Investment Management Assessment	January 2019
3	SIGMA	Baseline Management Report – Principles of Public Administration	March 2019
4	World Bank	FinHealth – Armenia: Reforming PFM to Improve Health Service Delivery	2020
5	Asian Development Bank	Country Public Financial Management System Assessment	June 2015
6	FitchRating	Fitch Revises Armenia's Outlook to Positive; Affirms at 'B+	February 2023

### Annex 3B: List of people interviewed

No	Department	Person	Position
<b>Ministry of Finance</b>			
1	Budget Process Coordination	Ruzanna Gabrielyan	Acting Head
2	Budget Process Coordination	Narine Gyoletsyan	Chief Specialist
3	Budget Process of Economic Programmes	Hrayr Yesayan	Acting Head
4	Budget Process of Economic Programmes	Vahe Asryan	Chief Specialist
5	Budget Process of Social Programmes	Araik Yesayan	Head of Dep.
6	Budget Process of Social Programmes	Susanna Sargsyan	Chief Specialist
7	Budget Process Methodology Analysis	Sveta Harosyan	Chief Specialist
8	International Cooperation	Argam Aramyan	Head of Dep.
9	International Cooperation	Suren Minasyan	Chief Specialist
10	Expenditure Financing	Hayk Ghalumyan	Head of Dep.
11	Expenditure Financing	Lusine Arakelyan	Chief Specialist
12	Operational Department	Zhirayr Titizyan	Head of Dep.
13	Operational Department	lilit Sargsyan	Advisor
14	Revenue Policy and Administration Methodology	Ori Alaverdyan	Head of Dep.
15	Revenue Policy and Administration Methodology	Arthur Aleksanyan	Head of Division
16	Budget execution Reporting	Gayane Zargaryan	Head of Dep.
17	Macroeconomic Policy	Garik Petrosyan	Acting Head
18	Macroeconomic Policy	Arshaluys Harutyunyan	Head of Division
19	Procurement Policy	Sergey Shahnazaryan	Head of Dep.
20	Fiscal Risks Management.	Ara Avetisyan	Head of Dep.
21	Accounting and Audit Regulation	Karen Alaverdyan	Head of Dep.
22	Financial-Budgetary Supervision	Vakhtang Sisakyan	Head of Dep.
23	Financial-Budgetary Supervision	Ruzanna Abgaryan	Acting Head of Division
24	Financial-Budgetary Supervision	Taguhi Chapanyan	Chief Supervisor
25	Public Debt Management Department	Artur Hambardzumyan	Head of Dep.
26	Public Debt Management Department	Samvel Khanvelyan	Head of Dev.
27	Public Debt Management Department	Marine Harutyunyan	Chief Specialist
28	Public Debt Management Department	Samuel Muradyan	General Secretary
29	Procurement Policy Department	Sergey Shanazryan	Head of Department
30		Hayk Muradyan	
31	International Cooperation	Argam Armyan	Head of Department
32	International Cooperation	Suren Minasyan	Chief Specialist
33	Procurement	Avag Avanesyan	Deputy Minister
34	PFM	Armen Gevorgyan	Adviser to the Minister
<b>State Revenue Committee</b>			
35	Financial and Accounting Department	Lala Ananikyan	Advisor of the Head of Dep
36	Development and Administrative Strategic Programmes	Arsen Sarikyan	Head of Department

No	Department	Person	Position
<b>State Property Management Committee</b>			
37		Davit Mkrtmyan	Deputy Secretary General
38		Bella Hakobyan	
39		Melanya Ghushchyan	
<b>Audit Chamber</b>			
40	Methodology Department	Zorayr Korapetyan	Head of Department
41	Methodology Department	Diana Muradyan	Expert
<b>Parliament</b>			
42	Budget and Finance Committee	Gevorg Papoyan	Chair of the Committee
43	Budget and Finance Committee	Ashot Yeghazaryan	Expert of Budget Office
<b>Ministry of Territorial Administration and Infrastructure</b>			
44	Investment Projects Department	Armen Manukyan	Head of Investment Project
45	PR	Narine Antonyan	Senior PR Specialist
46	Programmes Planning	Marine Vardayan	Head of Division
47		Aida Babujyan	
<b>Ministry of Economy</b>			
48	Macroeconomic Policy Department		Head of Department
<b>Civil Service Office</b>			
49	-	Vache Kaloshyan	Head of CSO
50	-	Seola Melkumyan	Deputy Head of CSO
51	Wage and Policy Department	Armine Matosyan	Head of Department
52	Project Development	Anna Garibyan	Head of Department
<b>Central Bank of Armenia</b>			
53	Deputy Governor	Armen Nurbekyan	
54		Karen Gasparyan	
<b>Chamber of Commerce and Industry of the Republic of Armenia</b>			
55	Executive Director	Andranik Aleksanyan	

**Annex 3C: Sources of information used to extract evidence for scoring each indicator**

Indicator/dimension	Data Sources
<b>Budget reliability</b>	
<p><b>PI-1. Aggregate expenditure outturn</b> 1.1. Aggregate expenditure outturn</p>	<ul style="list-style-type: none"> <li>• Interviews and data provided by the Budget Execution Reporting Department;</li> <li>• Budget Execution Reports 2020, 2021, 2022;</li> <li>• Annual Budget Law 2020, 2021,2022;</li> </ul> <p><a href="https://minfin.am/hy/page/petakan_byujei_h_ashvetvutyun_2019_t_tarekan">https://minfin.am/hy/page/petakan_byujei_h_ashvetvutyun_2019_t_tarekan</a></p> <p><a href="https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2020_t_tarekan">https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2020_t_tarekan</a></p> <p><a href="https://minfin.am/hy/page/petakan_byujei_h_ashvetvutyun_2021_t_tarekan">https://minfin.am/hy/page/petakan_byujei_h_ashvetvutyun_2021_t_tarekan</a></p>
<p><b>PI-2. Expenditure composition outturn</b> 2.1. Expenditure composition outturn by function 2.2. Expenditure composition outturn by economic type 2.3. Expenditure from contingency reserves</p>	<ul style="list-style-type: none"> <li>• Interviews and data provided by the Budget Execution Reporting Department;</li> <li>• Budget Execution Reports 2020, 2021, 2022;</li> <li>• Annual Budget Law 2020, 2021,2022;</li> </ul> <p><a href="https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2019_t_tarekan">https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2019_t_tarekan</a></p> <p><a href="https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2020_t_tarekan">https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2020_t_tarekan</a></p> <p><a href="https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2021_t_tarekan">https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2021_t_tarekan</a></p>
<p><b>PI-3. Revenue outturn</b> 3.1. Aggregate revenue outturn 3.2. Revenue composition outturn</p>	<ul style="list-style-type: none"> <li>• Interviews and data provided by the Budget Execution Reporting Department;</li> <li>• Budget Execution Reports 2020, 2021, 2022;</li> <li>• Annual Budget Law 2020, 2021,2022;</li> </ul> <p><a href="https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2019_t_tarekan">https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2019_t_tarekan</a></p> <p><a href="https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2020_t_tarekan">https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2020_t_tarekan</a></p> <p><a href="https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2021_t_tarekan">https://minfin.am/hy/page/petakan_byujei_hashvetvutyun_2021_t_tarekan</a></p>
<b>Transparency of public finances</b>	
<p><b>PI-4. Budget classification</b> 4.1 Budget classification</p>	<p>Interview with Budget Process Methodology Analysis Department</p> <p><a href="https://minfin.am/website/images/website/irav_akan_akter/hramanner/byujetayin/5-n.pdf">https://minfin.am/website/images/website/irav_akan_akter/hramanner/byujetayin/5-n.pdf</a></p> <p><a href="https://minfin.am/hy/page/petakan_byuje_2021t">https://minfin.am/hy/page/petakan_byuje_2021t</a></p>

	<a href="https://minfin.am/hy/page/petakan_byuje_2022t_nakhagits">https://minfin.am/hy/page/petakan_byuje_2022t_nakhagits</a>
	<p>Interview with the Acting Head of Macroeconomic Policy Department and Fiscal Risk Management Department</p> <p><a href="https://minfin.am/hy/page/petakan_byuje_2023t">https://minfin.am/hy/page/petakan_byuje_2023t</a></p> <p><a href="https://www.e-draft.am/projects/4797/about">https://www.e-draft.am/projects/4797/about</a></p> <p><a href="https://minfin.am/en/page/forecasts">https://minfin.am/en/page/forecasts</a></p> <p><a href="https://minfin.am/en/page/state_budge">https://minfin.am/en/page/state_budge</a></p>
<b>PI-5. Budget documentation</b>	
5.1 Budget documentation	
<b>PI-6. Central government operations outside financial reports</b>	
6.1. Expenditure outside financial reports	<ul style="list-style-type: none"> <li>•Data and information provided by the Accounting and Auditing Regulation Department;</li> <li>•SNCOs Aggregate information 2022</li> </ul>
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	
<b>PI-7. Transfers to subnational governments</b>	
7.1. System for allocating transfers	Information provided by the Budget Execution Reporting Department
7.2. Timeliness of information on transfers	<p><a href="https://www.arlis.am/documentview.aspx?docID=140926">https://www.arlis.am/documentview.aspx?docID=140926</a></p> <p><a href="https://www.arlis.am/documentview.aspx?docID=73271">https://www.arlis.am/documentview.aspx?docID=73271</a></p> <p><a href="https://www.arlis.am/documentview.aspx?docID=73271">https://www.arlis.am/documentview.aspx?docID=73271</a></p>
<b>PI-8. Performance information for service delivery</b>	
8.1. Performance plans for service delivery	<ul style="list-style-type: none"> <li>•Information provided by the Head of Budget Execution Reporting Department</li> </ul>
8.2. Performance achieved for service delivery	
8.3. Resources received by service delivery units	
8.4. Performance evaluation for service delivery	
<b>PI- 9. Public access to fiscal information</b>	
9.1. Public access to fiscal information	<ul style="list-style-type: none"> <li>•Information provided by the Head of Budget Execution Reporting Department</li> </ul> <p><a href="https://www.arlis.am/documentview.aspx/?docid=175050">https://www.arlis.am/documentview.aspx/?docid=175050</a></p> <p><a href="https://minfin.am/hy/page/petakan_mijnazham_ket_tsakhseri_tsragre/">https://minfin.am/hy/page/petakan_mijnazham_ket_tsakhseri_tsragre/</a></p> <p><a href="https://www.minfin.am/hy/page/petakan_byuje_hashvetvutyun_2022t_arajin_eramsyak">https://www.minfin.am/hy/page/petakan_byuje_hashvetvutyun_2022t_arajin_eramsyak</a></p> <p><a href="https://www.minfin.am/hy/page/qaghaqacu_byuje_1">https://www.minfin.am/hy/page/qaghaqacu_byuje_1</a></p>
<b>Management of assets and liabilities</b>	
<b>PI-10. Fiscal risk reporting</b>	
10.1. Monitoring of public corporations	<ul style="list-style-type: none"> <li>•Information provided by Ara Avetisyan and Hayk Ohanyan at the Fiscal Risk Management Department</li> </ul>
10.2. Monitoring of sub-national government	



10.3. Contingent liabilities and other fiscal risks	<p>(<a href="https://www.arlis.am/DocumentView.aspx?DocID=158335">https://www.arlis.am/DocumentView.aspx?DocID=158335</a>)</p> <p><a href="http://www.hven.am/en/Reports/">http://www.hven.am/en/Reports/</a></p> <p><a href="https://www.stateproperty.am/page/48/p/?year=2022">https://www.stateproperty.am/page/48/p/?year=2022</a></p> <ul style="list-style-type: none"> <li>• information on fiscal risks: <a href="https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/">https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/</a> - MTEF <a href="https://minfin.am/hy/page/petakan_byuje_2023t">https://minfin.am/hy/page/petakan_byuje_2023t</a></li> </ul>
<b>PI- 11. Public investment management</b>	<ul style="list-style-type: none"> <li>• PIM Decree;</li> <li>• Information on PIM projects provided by MoF</li> <li>• Appendix 9 from State Budget Execution Report 2022</li> <li>• Appendix 1, Table 3 from State Budget Execution Report 2022</li> </ul>
11.1. Economic analysis of investment proposals	
11.2. Investment project selection	
11.3. Investment project costing	
11.4. Investment project monitoring	
<b>PI-12. Public asset management</b>	<p>Financial asset information provided by the Central Bank of Armenia and the Ministry of Finance.</p> <p>Non-financial asset information provided by the Ministry of Territorial Administration and Infrastructure and State Property Management Committee.</p>
12.1. Financial asset monitoring	
12.2. Nonfinancial asset monitoring	
12.3. Transparency of asset disposal.	
<b>PI-13. Debt management</b>	<ul style="list-style-type: none"> <li>• Data and information provided by Artur Hambardzumyan, Head of the Public Debt Management Department at MoF.</li> <li>• Annual public debt report</li> </ul> <p><a href="https://minfin.am/en/page/annual_reports/">https://minfin.am/en/page/annual_reports/</a></p> <p><a href="https://minfin.am/en/page/monthly_statistical_bulletin/">https://minfin.am/en/page/monthly_statistical_bulletin/</a></p> <p><a href="https://minfin.am/en/page/operations_on_the_government_debt">https://minfin.am/en/page/operations_on_the_government_debt</a></p> <p><a href="https://minfin.am/en/page/strategy/">https://minfin.am/en/page/strategy/</a></p> <p><a href="https://minfin.am/en/page/annual_borrowing_plan/">https://minfin.am/en/page/annual_borrowing_plan/</a></p>
13.1. Recording and reporting of debt and guarantees	
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	
<b>Policy-based fiscal strategy and budgeting</b>	
<b>PI-14. Macroeconomic and fiscal forecasting</b>	<p><a href="https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/">https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/</a> (Analysis Section, Debt Sustainability analysis)</p>
14.1. Macroeconomic forecasts	
14.2. Fiscal forecasts	
14.3. Macro-fiscal sensitivity analysis	
<b>PI-15. Fiscal strategy</b>	<p><a href="https://www.minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/">https://www.minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/</a></p>
15.1. Fiscal impact of policy proposals	
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	<p><a href="https://www.arlis.am/DocumentView.aspx?docID=158031">https://www.arlis.am/DocumentView.aspx?docID=158031</a></p>
<b>PI-16. Medium-term perspective in expenditure budgeting</b>	<p><a href="https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/">https://minfin.am/hy/page/petakan_mijnazhamket_tsakhseri_tsragre/</a></p>

16.1. Medium-term expenditure estimates	<a href="https://minfin.am/hy/page/petakan_mijnazham_ket_tsakhseri_tsragre/">https://minfin.am/hy/page/petakan_mijnazham_ket_tsakhseri_tsragre/</a> <a href="https://minfin.am/hy/page/petakan_byuje_2023t">https://minfin.am/hy/page/petakan_byuje_2023t</a> <a href="https://minfin.am/hy/page/petakan_byuje_2022t_nakhagits">https://minfin.am/hy/page/petakan_byuje_2022t_nakhagits</a> <a href="https://minfin.am/hy/page/petakan_byuje_2021t">https://minfin.am/hy/page/petakan_byuje_2021t</a> <a href="https://minfin.am/hy/page/petakan_byuje_2020t_nakhagits">https://minfin.am/hy/page/petakan_byuje_2020t_nakhagits</a>
16.2. Medium-term expenditure ceilings	
16.3. Alignment of strategic plans and medium-term budgets	
16.4. Consistency of budgets with previous year's estimates	
<b>PI-17. Budget preparation process</b>	<ul style="list-style-type: none"> <li>Data and information provided by Sveta Harosyan Budget Process Methodology Analysis Department</li> </ul> <a href="https://www.minfin.am/hy/page/petakan_byuje_2023t">https://www.minfin.am/hy/page/petakan_byuje_2023t</a>
17.1. Budget calendar	
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	
<b>PI-18. Legislative scrutiny of budgets</b>	<a href="https://www.arlis.am/documentview.aspx?docID=140926">https://www.arlis.am/documentview.aspx?docID=140926</a> <a href="https://www.arlis.am/documentview.aspx?docID=140926">https://www.arlis.am/documentview.aspx?docID=140926</a>
18.1. Scope of budget scrutiny	
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
<b>Predictability and control in budget execution</b>	
<b>PI-19. Revenue administration</b>	<ul style="list-style-type: none"> <li>Interviews with officials at the State Revenue Committee;</li> <li>Compliance Improvement Plan;</li> <li>Discipline Improvement Strategy;</li> <li>Annual Reports for FY 2021 and FY 2022;</li> <li>Data on arrears and reconciliations provided by the State Revenue Committee;</li> <li>Tax Code, 2018;</li> <li>Revenue Administration Financial Reports;</li> <li><a href="https://www.petekamutner.am/">https://www.petekamutner.am/</a></li> </ul>
19.1. Rights and obligations for revenue measures	
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	
<b>PI-20. Accounting for revenues</b>	<ul style="list-style-type: none"> <li>Interviews with officials at the State Revenue Committee;</li> <li>Interviews at the Treasury Department at MoF;</li> </ul>
20.1. Information on revenue collections	
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
<b>PI-21. Predictability of in-year resource allocation</b>	<ul style="list-style-type: none"> <li>State Budget Expenditure for FY2020-2022</li> <li><a href="https://www.arlis.am/documentview.aspx?docID=140926">https://www.arlis.am/documentview.aspx?docID=140926</a></li> <li><a href="https://www.arlis.am/documentview.aspx/?docid=175050">https://www.arlis.am/documentview.aspx/?docid=175050</a></li> </ul>
21.1. Consolidation of cash balances	
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
<b>PI-22. Expenditure arrears</b>	<ul style="list-style-type: none"> <li>Information provided by Hayk Ghalumyan Head of Department of Expenditure Financing;</li> <li>N 1716-L of November 28, 2019, STATE FINANCE MANAGEMENT SYSTEM REFORM STRATEGY 2019-2023 AND STATE FINANCE MANAGEMENT SYSTEM REFORM ACTION PLAN 2019-2023, appendix 1, section 9.</li> </ul> <a href="https://minfin.am/hy/page/petakan_byujei_hashvetvutyun/">https://minfin.am/hy/page/petakan_byujei_hashvetvutyun/</a>
22.1. Stock of expenditure arrears	
22.2. Expenditure arrears monitoring	

<b>PI-23. Payroll controls</b>	<ul style="list-style-type: none"> <li>•Data and information provided by sampled ministries;</li> </ul>
23.1. Integration of payroll and personnel records	
23.2. Management of payroll changes	<ul style="list-style-type: none"> <li>•Interview at SAI re payroll audit</li> </ul>
23.3. Internal control of payroll	<ul style="list-style-type: none"> <li>•Interview at A Civil Service Office under the Office of Prime Minister</li> </ul>
23.4. Payroll audit	
<b>PI-24. Procurement</b>	<ul style="list-style-type: none"> <li>• Information and data provided by Sergey Shanazryan, Head of the Procurement Policy Department</li> </ul>
24.1. Procurement monitoring	<ul style="list-style-type: none"> <li>• Activity Report 2022</li> </ul>
24.2. Procurement methods	<a href="https://gnumner.minfin.am/hy/page/2021_tvakani_hashvetvutyunner/">https://gnumner.minfin.am/hy/page/2021_tvakani_hashvetvutyunner/</a>
24.3. Public access to procurement information	<a href="https://gnumner.minfin.am/en/page/laws_international_contracts/">https://gnumner.minfin.am/en/page/laws_international_contracts/</a>
24.4. Procurement complaints management	<a href="https://gnumner.minfin.am/hy/page/boghoqarkman_khorhrdi_tarekan_hashvetvutyun/">https://gnumner.minfin.am/hy/page/boghoqarkman_khorhrdi_tarekan_hashvetvutyun/</a>

	<ul style="list-style-type: none"> <li>Information provided by Ori Alaverdyan, Head of Revenue Policy and Administration Methodology Department</li> </ul> <p>Law on Budget System of the Republic of Armenia, Article 25  <a href="https://www.arlis.am/documentview.aspx?docID=140926">https://www.arlis.am/documentview.aspx?docID=140926</a></p>
<b>External scrutiny and audit</b>	
<b>PI-30. External audit</b>	<ul style="list-style-type: none"> <li>Interviews with officials at SAI and Parliament</li> <li>Information provided by SAI on audit conclusions and coverage;</li> <li>Law on SAI</li> </ul>
30.1. Audit coverage and standards	
30.2. Submission of audit reports to the legislature	
30.3. External audit follow-up	
30.4. Supreme Audit Institution independence	<ul style="list-style-type: none"> <li>Interviews with officials at Parliament, Information regarding the sessions (joint sessions) of the standing committees for the purpose of discussing the current conclusions of the Audit Chamber</li> </ul>
<b>PI-31. Legislative scrutiny of audit reports</b>	
31.1. Timing of audit report scrutiny	
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the legislature	31.4. Transparency of legislative scrutiny of audit reports
31.4. Transparency of legislative scrutiny of audit reports	

## ANNEX 4: TRACKING CHANGE IN PERFORMANCE BASED ON PREVIOUS VERSIONS OF PEFA

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation of the scoring for each indicator and dimension of the current and previous assessment. This annex should present comparisons with previous assessments that used the 2005 or 2011 versions of the framework and should be prepared in compliance with the Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 at [www.pefa.org](http://www.pefa.org).

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
PI-1 Aggregate expenditure out-turn compared to the original approved budget	A	B	Variance was less than 10% in two out of three years, 2.8%, 10.6% and 5.2%	<b>Performance decline is largely attributable to several external shocks, including COVID.</b>
PI-2 Composition of expenditure out-turn compared to the original approved budget	B+	B	-	<b>No change</b>
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	B	C	Variance over 10% in all 3 years	No change
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	No actual expenditure was charged to the contingency vote	No change
PI-3 Aggregate revenue out-turn compared to the original approved budget	A	C	Revenue was between 92-116% of budget in 2 of 3 years	2011 framework considered domestic revenue only. <b>Performance decline.</b>
PI-4 Stock and monitoring of expenditure payment arrears	A	A	-	<b>No change</b> in performance
(i) Stock of expenditure payment arrears and a recent change in the stock	A	A	The expenditure arrears for the assessed period of time are nil. This has been the case for the last ten years or so. Invoices are paid within a week, and arrears are not incurred.	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
(ii) Availability of data for monitoring the stock of expenditure payment arrears	A	A	The information submitted in Form H-2 includes a column indicating age (exceeding 30 days).	No change
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>				
PI-5 Classification of the budget	A	A	Classification is in line with GFS/COFOG standards	No change
PI-6 Comprehensiveness of information included in budget documentation	A	A	.7 out of 9 elements are issued, the only exceptions being items 1 and 5 related to macroeconomic assumptions and financial assets	No change
PI-7 Extent of unreported government operations	B+	A	-	<b>Improvement of practice and score</b>
(i) Level of unreported government operations	B	A	Prior to 2019, the operational SNCOs qualifying as extrabudgetary funds and amounting to 4.5% of total annual government expenditure were not part of the annual financial reporting. Since 2019, the operation of SNCOs has been incorporated in the line ministries reporting to MoF.	All central government operations, including the SNCOs, are captured in the internal financial reporting and in the annual Budget Execution Report on the programme level.
(ii) Income/expenditure information on donor-funded projects	A	A	All donor-funded projects are captured in the annual government financial reporting except the technical assistance projects, whose volume is immaterial.	No change in performance
PI-8 Transparency of inter-governmental fiscal relations	A	A	-	<b>No change</b>
(i) Transparency and objectivity in the horizontal allocation amongst Sub-national Governments	A	A	Almost all transfers are allocated on the basis of transparent rules-based systems.	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
(ii) Timeliness and reliable information to SN Governments on their allocations	A	A	SNGs receive sufficient reliable information to prepare their budget several months before the year-end.	No change
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	A	Fiscal data for all SNs is collected quarterly and published by the Ministry of Territorial Administrations.	No change
PI-9 Oversight of aggregate fiscal risk from other public sector entities	<b>D+</b>	<b>C</b>	-	<b>Improvement</b>
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	C	Reporting of SNCOs and SOEs occurs, but external auditing occurs for some but not all entities.	No change
(ii) Extent of central government monitoring of SN government's fiscal position	D	C	Unaudited financial information is published for each SN government, but the consolidated overview has not been prepared.	Improvement.
PI-10 Public access to key fiscal information	<b>A</b>	<b>A</b>	-	<b>No change</b>
<b>C. BUDGET CYCLE</b>				
<b><i>C(i) Policy-Based Budgeting</i></b>				
PI-11 Orderliness and participation in the annual budget process	<b>A</b>	<b>A</b>	-	<b>No change</b>
(i) Existence of, and adherence to, a fixed budget calendar	A	B	A clear budget calendar exists, and a high degree of timely compliance from entities.	No change. Timeframes to complete estimates (around 4 weeks from receipt of budget circular, including ceilings) do not appear to have changed.
(ii) Guidance on the preparation of budget submissions	A	A	A budget circular communicates budget ceilings, approved by the government, to entities prior to the	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
			submission of budget estimates.	
(iii) Timely budget approval by the legislature	A	A	The budget is consistently approved by the legislature before the start of the financial year.	No change
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	<b>B</b>	<b>C+</b>	-	<b>No change</b>
(i) Multiyear fiscal forecasts and functional allocations	A	C	Three-year fiscal aggregate forecasts are regularly published and updated, but MTEF estimates are not well connected to future budget ceilings.	No change. There is an unclear basis for the previous rating.
(ii) Scope and frequency of debt sustainability analysis	A	A	Debt sustainability analysis is undertaken by MoF annually and published in MTEF.	No change
(iii) Existence of costed sector strategies	C	C	Costed strategies cover a number of sectors, but the strategies overlap (e.g., ministry and government programs) and are not consistent with the fiscal framework.	No change
(iv) Linkages between investment budgets and forward expenditure estimates	C	C	Limited alignment between sector strategies and major investment proposals.	No change
<b>C(ii) Predictability and Control in Budget Execution</b>				
PI-13 Transparency of taxpayer obligations and liabilities	<b>B+</b>	<b>A</b>	-	<b>Improvement</b> of access to information on tax liabilities and



Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
				functioning appeal mechanism.
(i) Clarity and comprehensiveness of tax liabilities	B	A	There is clear legislation and procedures for tax liabilities for all taxes. This is evidenced in legislation and public information on tax obligations and triangulated with the Chamber of Commerce.	Improvement
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	A	There is easy-to-reach information on tax liabilities. The SRC organises informative and educational events for taxpayers.	No change
(iii) Existence and functioning of a tax appeal mechanism	B	A	A tax appeals system of transparent administrative procedures is completely set up, and it functions electronically, allowing decisions to be acted upon.	Improvement of practice and score. There is an Appeal Committee, and claims are filed electronically with feedback on resolution in a timely manner in accordance with the Tax Code (2018).
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	<b>B</b>	<b>B+</b>	-	<b>Improvement of taxpayer registration.</b>
(i) Controls in the taxpayer registration system	B	A	Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems.	Improvement of performance and score. Tax registration can be traced to all financial sector entities by tax identification number.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	B	B	The penalties for not complying with the tax legislation are explicit. The application of penalties is not always	No change of performance. There is a high potential for businesses to

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
			effective due to legal loopholes.	evade tax and not pay penalties by entering into long insolvency proceedings.
(iii) Planning and monitoring of tax audit and fraud investigation programmes	B	B	Tax audits and fraud investigations are managed and reported according to a documented audit plan, and the risk assessment covers large taxpayers.	No change. The risk assessment criteria are mostly for large taxpayers.
PI-15 Effectiveness in collection of tax payments	<b>D+</b>	<b>D+</b>	-	<b>No change</b>
(i) Collection ratio for gross tax arrears	D	D	The debt collection ratio in the most recent year was 19%, and the total amount of tax arrears is significant – 16% of total annual revenue collections	No change
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	Revenue collection is transferred daily to the Treasury	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	A	The monthly revenue accounts of SRC and Treasury at MoF have been reconciled.	No change
PI-16 Predictability in the availability of funds for commitment of expenditures	<b>A</b>	<b>A</b>	-	<b>No change</b>
(i) The extent to which cash flows are forecasted and monitored	A	A	Cash flow forecasts are prepared for the fiscal year and are updated weekly.	No change
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	A	B	Commitment expenditures can be planned quarterly	No change in performance. The information on ceilings was consistent with the quarterly budget allocations.

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	A	Adjustments are made within the legal limit and are transparent	No change
PI-17 Recording and management of cash balances, debt and guarantees	A	A	-	No change
(i) Quality of debt data recording and reporting	A	A	High-integrity debt records are maintained with regular publication on debt levels and operations.	No change
(ii) Extent of consolidation of the government's cash balances (21.1)	A	A	All cash balances are calculated and consolidated daily	No change
(iii) Systems for contracting loans and issuance of guarantees	A	A	Clear legislative framework and implementation of approvals for debt issuance and guarantees.	No change
PI-18 Effectiveness of payroll controls	C	B	-	Improvement of score and performance
(i) Degree of integration and reconciliation between personnel records and payroll data	D	B	Payroll is reconciled with personnel records (staff list) every month; the process is manual, and it will be automated with GFMS.	Improvement. There has been no reconciliation between the payroll and personnel databases.
(ii) Timeliness of changes to personnel records and the payroll	B	B	no retroactive adjustments (corrections in payroll due to lack of timely coordination with the personnel records) in three out of five sampled ministries are below 1%	No change
(iii) Internal controls of changes to personnel records and the payroll	C	B	there is clear authority to change records and payroll, which is restricted and results in an audit trail.	Improvement: there is higher accuracy due to the fact that all changes can be traced in the functionality of

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
				the software systems applied.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	B	The payroll audit is annual, but there is limited access to details of the payroll in order to identify control weaknesses.	Improvement. Before, no payroll audit was conducted for the three years of assessment.
<b>PI-19 Competition, value for money and controls in procurement</b>	<b>B</b>	<b>A</b>	-	<b>Improvement</b> in the use of competitive procurement method as a default one
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	A	A	The legal and regulatory framework meets all 6 requirements of Framework 2011. There is no requirement for third-party verification of procurement data as, in Framework 2016; this makes the score different from that in 24.1 of the main assessment	No change
(ii) Use of competitive procurement methods	D	B	Data on methods used show that 83% of procurements are awarded through competitive processes.	Improvement. Data on all procurement methods is publicly available. In 2014, data was insufficient to assess this dimension.
(iii) Public access to complete, reliable and timely procurement information	B	A	In the previous assessment, 3 out of 4 elements were found to be comprehensively transparent. With the current assessment, all elements are provided as information to the public.	Improvement. Complete information about awarded contracts is provided.
(iv) Existence of an independent administrative	A	A	The appeal system was handled by a specially appointed Board by	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
procurement complaints system			mid-2022 when it was transferred to the court system.	
PI-20 Effectiveness of internal controls for non-salary expenditure	<b>C+</b>	<b>B+</b>	-	<b>Improvement.</b> More effective internal controls.
(i) Effectiveness of expenditure commitment controls	A	A	There are controls embedded in the Treasury-Client system that limit payment to the approved ceilings.	No change
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	B	There is a higher understanding of Internal control systems and rules. There is a set of controls in the Client Treasury system that would restrict payment only to contractually approved commitments.	Improvement
(iii) Degree of compliance with rules for processing and recording transactions	C	B	There is a higher level of compliance with rules (embedded in Client Treasury) for recording transactions, and the use of emergency procedures is justified.	Improvement. Previously, there were more frequently unjustified use of exceptional procedures.
PI-21 Effectiveness of internal audit	<b>C</b>	<b>C</b>	-	<b>No change in score but improvement in terms of</b> greater coverage of internal audit function. There is a comparability issue as sampling was applied in the current assessment and not in the previous one.
(i) Coverage and quality of the internal audit function	C	C	Internal audit is operational for most government entities but focuses rather on transactions and	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
			compliance than on systemic issues.	
(ii) Frequency and distribution of reports	C	C	Reports are distributed to all audited organisations but not to MoF and SAI.	No change
(iii) Extent of management response to internal audit function.	C	C	Most managers take action but often with delay.	No change
<b>C(iii) Accounting, Recording and Reporting</b>				
PI-22 Timeliness and regularity of accounts reconciliation	<b>A</b>	<b>B</b>	-	<b>Performance decline</b>
(i) Regularity of bank reconciliation	A	A	Undertaken on a daily, real-time basis	No change
(ii) Regularity and clearance of suspense accounts and advances	A	C	Significant amounts of uncleared advance account balances were not cleared at 31-12-22	Performance decline
PI-23 Availability of information on resources received by service delivery units	<b>A</b>	<b>A</b>	Information about the resources received by SNCO is produced and reported by automated systems.	<b>No change</b>
PI-24 Quality and timeliness of in-year budget reports	<b>B+</b>	<b>B</b>	Undertaken on a daily, real-time basis	<b>No change</b>
(i) Scope of reports in terms of coverage and compatibility with budget estimates	A	C	Reporting does not include commitments	No change
(ii) Timeliness of the issue of reports	A	A	Reports are produced no later than one month after the reporting period.	No change
(iii) Quality of information	B	B	There are no concerns about data accuracy.	Improvement due to wider use of automated accounting systems
PI-25 Quality and timeliness of annual financial statements	<b>D+</b>	<b>B</b>		<b>Improvement - the majority of international accounting standards are applied in APSAS.</b>

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
(i) Completeness of the financial statements	B	B	The annual published financial statements contain most of the required information.	No change
(ii) Timeliness of submissions of the financial statements	A	A	The latest annual budget execution report for the year ended 31 December 20122 was submitted to the Audit Chamber by 1 May 2023.	No change
(iii) Accounting standards used	D	B	The annual financial statements are consistent from one year to the next, and the majority of international accounting standards are applied and disclosed in the form of APSAS.	Performance improvement
<b>C(iv) External Scrutiny and Audit</b>				
<b>PI-26 Scope, nature and follow-up of external audit</b>	<b>C+</b>	<b>C+</b>	-	
(i) Scope/nature of audit performed (including adherence to auditing standards)	C	C	Most expenditures are audited.	No change
(ii) Timeliness of submission of audit reports to the Legislature	A	B	Audit opinions are submitted to the legislature within one month of the Chamber of Audit's receipt of the annual budget execution report (i.e. over 4 months after the end of the financial year).	No Change. No change in practice since the previous assessment, so it is the basis for the last rating.
(iii) Evidence of follow-up on audit recommendations	B	B	Formal responses were made to audit opinions but no systematic follow-up.	No change.
<b>PI-27 Legislative scrutiny of the annual budget law</b>	<b>C+</b>	<b>C+</b>	-	<b>No change</b>
(i) Scope of the legislature scrutiny	A	A	Comprehensive legislative scrutiny, including priorities, fiscal strategy and forecasts, as well as	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
			estimates of revenue and expenditure.	
(ii) The extent to which the legislature’s procedures are well-established and respected	A	B	A clear legislative framework for budget scrutiny but limited detail on aspects of procedures.	No change. There is an unclear basis for the previous rating.
(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)	A	A	The government provides a budget to the legislature by 1 October each year.	No change.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	C	Rules for in-year allocation followed but permit significant increases in overall expenditure if revenue outturns exceed the budget.	No change
<b>PI-28 Legislative scrutiny of external audit reports</b>	<b>D+</b>	<b>C+</b>		<b>No change</b>
(i) Timeliness of examination of audit reports by the legislature	A	A	The examination of the audit opinion is consistently completed within around one month of opinion submission.	No change
(ii) Extent of hearing on key findings undertaken by the legislature	A	C	Limited and occasional number of hearings into adverse audit opinions.	Performance decline in the current period, evidence suggested that hearings were only held occasionally into adverse audit findings
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	C	Legislature makes recommendations, but these have no mandatory force on the Executive, and	No performance change. Difference in interpretation. The previous assessments



Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in the current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
			there is no systematic follow-up.	considered that the absence of mandatory force on the recommendation was equivalent to the recommendation not being issued. The current assessment takes the view that the issue of mandatory force is a separate issue from the question of whether a recommendation is made.

## ANNEX 5: CALCULATIONS FOR PI-1, PI-2 AND PI-3

### Calculation Sheet for Dimensions PI-1.1, PI-2.1 and PI-2.3

**Table 1 - Fiscal years for assessment**

Year 1 =	2020
Year 2 =	2021
Year 3 =	2022

**Table 2**

<b>Data for year =</b>	<b>2020</b>					
administrative or functional head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
General Public Services	194	180	199.7	-19.7	19.7	9.8%
Defence	308	388	317.0	71.0	71.0	22.4%
Public order	152	151	156.4	-5.4	5.4	3.5%
Economic Issues	195	126	200.7	-74.7	74.7	37.2%
Environment	12	4	12.3	-8.3	8.3	67.6%
Housing etc.	23	9	23.7	-14.7	14.7	62.0%
Health	114	148	117.3	30.7	30.7	26.1%
Recreation etc.	31	34	31.9	2.1	2.1	6.6%
Education	161	144	165.7	-21.7	21.7	13.1%
Social Protection	492	547	506.3	40.7	40.7	8.0%
allocated expenditure	1682	1731	1,731.0	0.0	288.9	
interests	168	165				
contingency	5					
total expenditure	1855	1896				
aggregate outturn (PI-1)						102.2%
composition (PI-2) variance						16.7%
contingency share of the budget						0.0%

**Table 3**

<b>Data for year =</b>	<b>2021</b>					
administrative or functional head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
General Public Services	202	200	222.8	-22.8	22.8	0.10218
Defence	312	336	344.1	-8.1	8.1	0.023448
Public order	157	160	173.1	-13.1	13.1	0.075874
Economic Issues	149	152	164.3	-12.3	12.3	0.074944
Environment	11	6	12.1	-6.1	6.1	0.505383
Housing etc.	15	10	16.5	-6.5	6.5	0.395468
Health	118	161	130.1	30.9	30.9	0.237242
Recreation etc.	31	30	34.2	-4.2	4.2	0.122453
Education	154	149	169.8	-20.8	20.8	0.122643
Social Protection	505	620	556.9	63.1	63.1	0.113297
allocated expenditure	1654	1824	1,824.0	0.0	187.9	
interests	195	181				
contingency	4	0				
total expenditure	1853	2005				
aggregate outturn (PI-1)						108.2%
composition (PI-2) variance						10.3%
contingency share of the budget						0.0%

**Table 4**

Data for year =	2022		adjusted		absolute	
	budget	actual	budget	deviation	deviation	percent
administrative or functional head						
General Public Services	216	209	232.1	-23.1	23.1	0.099628
Defence	347	480	372.9	107.1	107.1	0.287186
Public order	172	197	184.8	12.2	12.2	0.06578
Economic Issues	212	176	227.8	-51.8	51.8	0.227486
Environment	10	7	10.7	-3.7	3.7	0.34863
Housing etc.	16	9	17.2	-8.2	8.2	0.476578
Health	122	142	131.1	10.9	10.9	0.083074
Recreation etc.	33	44	35.5	8.5	8.5	0.240705
Education	193	165	207.4	-42.4	42.4	0.204471
Social Protection	581	614	624.4	-10.4	10.4	0.016619
allocated expenditure	1902	2,044.0	2,044.0	-1.0	278.4	
interests	214	198.0				
contingency	68	0				
total expenditure	2184	2242				
aggregate outturn (PI-1)						102.7%
composition (PI-2) variance						13.6%
contingency share of the budget						0.0%

**Table 5 - Results Matrix**

year	for PI-1.1	for PI-2.1	for PI-2.3
	total exp. Outturn	composition variance	contingency share
2020	102.2%	16.7%	
2021	108.2%	10.3%	0.0%
2022	102.7%	13.6%	

## Calculation Sheet for Expenditure by Economic Classification Variance PI-2.2

**Table 1 - Fiscal years for assessment**

Year 1 =	2020
Year 2 =	2021
Year 3 =	2022

**Table 2**

Data for year =		2020				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	178	176	181.6	-5.6	5.6	3.1%
Use of goods and services	180	179	183.7	-4.7	4.7	2.6%
Consumption of fixed capital	288	226	293.9	-67.9	67.9	23.1%
Interest	168	165	171.4	-6.4	6.4	3.8%
Subsidies	115	119	117.4	1.6	1.6	1.4%
Grants	159	187	162.3	24.7	24.7	15.3%
Social benefits	502	559	512.3	46.7	46.7	9.1%
Other expenses	266	283	271.4	11.6	11.6	4.3%
<b>Total expenditure</b>	<b>1856</b>	<b>1894</b>	<b>1,894.0</b>	<b>0.0</b>	<b>169.3</b>	
composition variance						8.9%

**Table 3**

Data for year =		2021				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	183	181	198.2	-17.2	17.2	8.7%
Use of goods and services	200	198	216.6	-18.6	18.6	8.6%
Consumption of fixed capital	216	216	234.0	-18.0	18.0	7.7%
Interest	195	181	211.2	-30.2	30.2	14.3%
Subsidies	125	137	135.4	1.6	1.6	1.2%
Grants	165	205	178.7	26.3	26.3	14.7%
Social benefits	528	621	572.0	49.0	49.0	8.6%
Other expenses	238	265	257.8	7.2	7.2	2.8%
<b>Total expenditure</b>	<b>1850</b>	<b>2004</b>	<b>2,004.0</b>	<b>0.0</b>	<b>168.2</b>	
composition variance						8.4%

**Table 4**

Data for year =		2022				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	185	194	189.7	4.3	4.3	2.2%
Use of goods and services	196	205	201.0	4.0	4.0	2.0%
Consumption of fixed capital	342	380	350.8	29.2	29.2	8.3%
Interest	214	198	219.5	-21.5	21.5	9.8%
Subsidies	143	151	146.7	4.3	4.3	3.0%
Grants	227	239	232.8	6.2	6.2	2.7%
Social benefits	574	613	588.7	24.3	24.3	4.1%
Other expenses	305	262	312.8	-50.8	50.8	16.2%
<b>Total expenditure</b>	<b>2186</b>	<b>2242</b>	<b>2,242.0</b>	<b>0.0</b>	<b>144.6</b>	

composition variance

6.4%

**Table 5 - Results Matrix**

year	composition variance
2020	8.9%
2021	8.4%
2022	6.4%

## Annex 5 Calculation Sheet for Revenue outturn PI-3

**Table 1 - Fiscal years for assessment**

Year 1 =	2020
Year 2 =	2021
Year 3 =	2022

**Table 2**

Data for year =		2020				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	651	586	599.5	-13.5	13.5	2.3%
Taxes on goods and services	708	596	652.0	-56.0	56.0	8.6%
Taxes on international trade and transactions	89	68	82.0	-14.0	14.0	17.0%
Other taxes	154	135	141.8	-6.8	6.8	4.8%
Grants						
Grants from foreign governments			0.0	0.0	0.0	#DIV/0!
Grants from international organisations			0.0	0.0	0.0	#DIV/0!
Grants from other government units	35	53	32.2	20.8	20.8	64.4%
Other revenue						
Other	57	122	52.5	69.5	69.5	132.4%
<b>Total revenue</b>	<u>1694</u>	<u>1560</u>	1,560.0	0.0	180.6	
overall variance						92.1%
composition variance						11.6%

**Table 3**

Data for year =		2021				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	593	585	661.4	-76.4	76.4	11.5%
Taxes on goods and services	639	702	712.7	-10.7	10.7	1.5%
Taxes on international trade and transactions	74	84	82.5	1.5	1.5	1.8%
Other taxes	134	216	149.5	66.5	66.5	44.5%
Grants						
Grants from other government units	24	12	26.8	-14.8	14.8	55.2%
Other revenue						
Other revenue	45	84	50.2	33.8	33.8	67.4%
<b>Total revenue</b>	<u>1509</u>	<u>1683</u>	1,683.0	0.0	203.7	
overall variance						111.5%
composition variance						12.1%

**Table 4**

Data for year =		2022				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	673	738	712.8	25.2	25.2	3.5%

Taxes on goods and services	805	806	852.6	-46.6	46.6	5.5%
Taxes on international trade and transactions	104	57	110.1	-53.1	53.1	48.3%
Other taxes	260	323	275.4	47.6	47.6	17.3%
Grants						
Grants from other government units	42	15	44.5	-29.5	29.5	66.3%
Other revenue						
Other revenue	62	122	65.7	56.3	56.3	85.8%
<b>Total revenue</b>	<u>1946</u>	<u>2061</u>	2,061.0	0.0	258.4	
overall variance						105.9%
composition variance						12.5%

**Table 5 - Results Matrix**

year	total revenue deviation	composition variance
2020	92.1%	11.6%
2021	111.5%	12.1%
2022	105.9%	12.5%