



**"Government Finance Management Information
System" implementation project
Report of PHASE 2.2**

**GFMIS Implementation Model
BUDGETING**

Contents:

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Abbreviations:

BSC	Chief organizer of budget allocations
BSC:	Subordinate orderer of budget allocations
PES	Budget process organization department
GMA:	CPV
POAC:	State non-profit organization
MUNICIPALITY:	Local authority
MDP	Medium-term expenditure plan
Finance Ministry	Ministry of Finance
FMSC:	Organizations receiving financial resources for the implementation of projects
TKE	Ministry of Territorial Administration and Infrastructure
MUNICIPALITY:	Local self-government bodies
SRC	State Revenue Committee
PB:	State Budget
H.E	Public sector accounting
MQV	Department of Macroeconomic Policy
NGO:	Public organization

Documents

1. Model of the implementation of the FCTC
2. Model of the implementation of the FCTC. Budgeting module
3. Model of the introduction of PFTC. Treasury module
4. Model of the implementation of PFTC. Shopping module
5. Model of the implementation of the FCTC. Regarding the state debt and the budget commitment management module
6. Model of the implementation of PFTC. Public sector accounting module
7. Model of the implementation of the FCTC. Internal audit module

Introduction:

This document describes the proposed structural and functional description of the Budgeting module within the Government Finance Management Information System (FMIS), as well as the module's interaction with other FMIS modules.

The basis for the formulation of the proposals was the joint work, discussions and recommendations of the employees of the Budget Process Organization Department (BPO) and the experts of the executing party.

The document consists of 3 chapters:

Chapter 1 - Summary of existing processes . The processes of formation of 3 main components of the budget: expenditure (output), income (input) and deficit are presented in detail.

Chapter 2 - Structural description of the budgeting module. The relationship between the Budgeting module (including 4 sub-modules) and other modules and the options for automating data exchange between each other are presented, based on the results of the discussions with the managers of the various modules .

Chapter 3: - Functional description of the budgeting module. Recommendations for automating the processes carried out with the help of the budgeting module (including 4 sub-modules) are described within the framework of the KFCTS .

Chapter 1: Summary of available processes

1 . 1 Cost part

The state budget is the Government's financial plan, drawn up for one calendar year. In RA, the budget year begins on January 1 of each year and ends on December 31 of the same year.

The state budget of the Republic of Armenia is based on the totality of two-level budgets: the first level is the **state budget** (presented in subchapters 1.1.1-1.1.4), the second level is **municipal budgets** (presented in chapter 1.1.5). The state budget and the budgets of the communities together form the **consolidated budget of the Republic of Armenia** .

1.1.1 State budget preparation stages

In order to start the process of drawing up the draft state budget, at the beginning of each year, the State Budget Office of the Ministry of Finance of the Republic of Armenia provides **methodological instructions to the Ministry of Finance of the Republic of Armenia for the preparation of the budget applications of the state bodies and their submission** to the Ministry of Finance of the Republic of Armenia within the framework of the development of the ¹State Medium-Term Expenditure Plan (MPSP) and the state budget projects of the coming year . For the preparation of the applications, the BGCs are guided by the **preliminary amounts provided by the Ministry of Finance of the Republic of Armenia** ².

¹ The provision of methodological instructions to the PES bodies is described in more detail in the business process "BM1-MPDS, including the development and provision of methodological instructions for the preparation of the state budget to the applicant bodies".

² The provision of preliminary amounts is described in more detail in the business process "Calculation of initial orientational amounts of allocations from the budgets of BM2-Coming years and presentation to the bodies of the Ministry of Internal Affairs and Communications".

The main purpose of the application for the MDP (including budget funding for the next year) is to present the spending strategy of the state body system (province) for the next three years and the financial assessment of spending programs and measures of the next year's state budget.

The application presents the calculations of the upcoming year's expenses for the programs and measures implemented by the state bodies and the estimates of the MDP expenses. At the same time, the information for the coming year is presented in detail, together with detailed calculations-justifications regarding the programs and measures to be implemented by the state body within the framework of the state budget, opened according to individual types of expenses.

Based on the submitted applications, the **Government of the Republic of Armenia adopts a decision on approving the medium-term state expenditure program (MSP)** every year in June-July and submits it to the National Assembly for its information.

After the adoption of the Government's decision, the bodies of the PES submit the **revised applications for the coming year (including the data distributed in quarterly (incremental) proportions)**, taking into account the legal regulations adopted after the approval of the National Development Plan, political commitments, as well as the recommendations of the deputies of the National Assembly received from the main committees of the National Assembly of the Republic of Armenia in terms of result indicators ³. After summarizing the applications, the next year's budget project is drawn up and presented to the National Assembly. **The National Assembly** adopts a **law** (usually in November-December) on the state budget for the coming year.

After the Law on the State Budget is approved by the National Assembly, the State Budget bodies submit the **quarterly distribution** of allocations approved by the State Budget to the RA Finance Ministry within **three days** . After summarizing the data, the RA Finance Ministry submits the data on quarterly proportions to the Government, on the basis of which the RA Government's decision on measures to ensure the implementation of the state budget is adopted.

Changes in the state budget approved in the current year are carried out through redistributions.

1.1.2 State budget hierarchy

Every year, as part of the development of the draft state budget, according to the schedule established by the decision of the Prime Minister of the Republic of Armenia, the state bodies (PSGs) submit budget applications to the Ministry of Finance of the Republic of Armenia (see sub-chapter 1.1.3). Each state body makes its budget funding application by collecting and summarizing financial information from other state bodies under its jurisdiction and responsibility, see diagram 1.1.

³The revised application submission process is described in more detail in the Business Process "Receiving and Approving Revised Applications for the Year 10-Next Year".

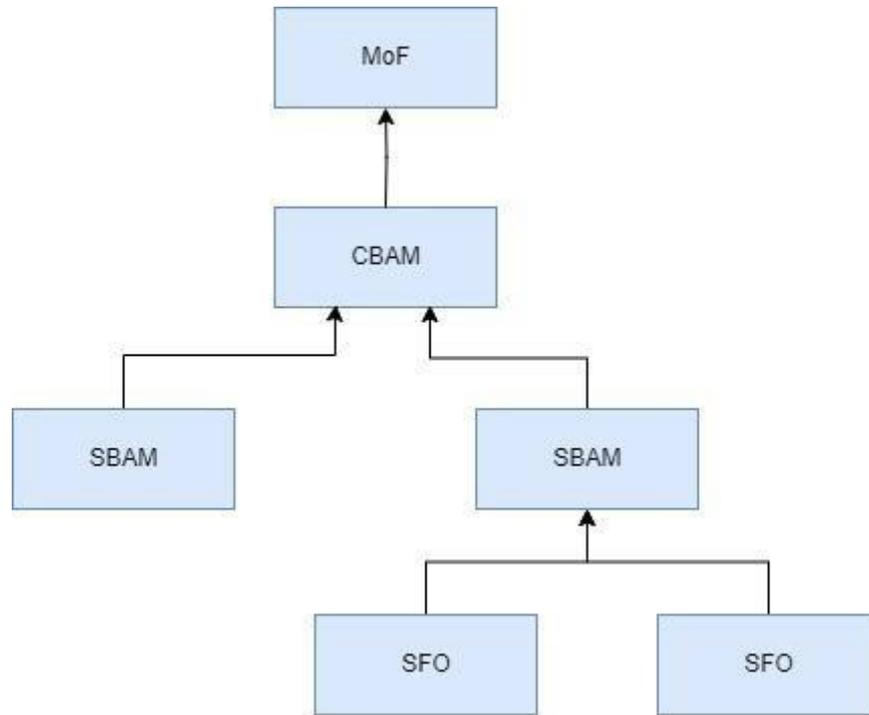


Figure 1.1. Hierarchy of budgeting

According to the diagram presented, the PES aggregates information from the lowest level to form a request for budgetary funding. At the lowest level, the required information is compiled and submitted to the superior (BSC) body. The BSC body verifies the received information and, summarizing the final approved data of all lower levels, sends it to the BSC body. The information received from all BSCs is summarized by the relevant BSC body and forms the final budget financing application, which is sent to the RA Ministry of Finance with the signature of the responsible person ⁴.

1.1.3 Application for budget funding

Budget requests of state bodies (SBOs) are a set of financial and non-financial data, which are presented based on the templates of the annexes and cost structures in the methodological instructions provided by the Ministry of Finance. It should be noted that both cost / output and income / input templates are presented in the methodological instructions.

The following are presented in the application:

Existing programs/events

state bodies, both the cost calculations for the coming year, and the cost estimates for the period of the **MDP** period. At the same time, the information for the **coming year** is presented in detail, together with detailed calculations-justifications (in the budget) regarding the programs and measures to be implemented by the state body within the state budget.

⁴The process of creating a request for budgetary financing of the Ministry of Internal Affairs and Communications is described in more detail in the business process "Formation and submission of applications for the Ministry of Finance of the Republic of Armenia by BM16-Ministry of Internal Affairs bodies (including the budget of the next year)".

New initiatives

According to the templates defined by the methodological instructions, the state bodies also present the new initiatives with calculation justifications.

to this year's methodological instructions, **13 are subject to submission to the RA Ministry of Finance applications** : The mentioned applications are dynamic and, taking into account the changes planned in the next budget process, as well as those causing financial consequences, they can be modified. New application templates can be added to already defined applications, or changes made to existing ones ⁵.

Each of the applications has its own structure, through which both financial and performance indicators of the given state body are presented. The principle of program budgeting (PB) is the basis of the formation of budget applications ⁶, which is a method of budgeting in which the budget process (strategic decisions, planning, execution, accountability and analysis, audit) is based on ensuring the results of the programs implemented within the budget.

program is a logical grouping of state policy implementation measures (program measures) aimed at achieving the same goal, aimed at increasing the efficiency of state budget expenditure management. Project-based budgeting requires, in addition to purely financial detailed information, to include programmatic information in the budget. That is, the goals and results intended for the implementation of any sectoral strategy should also be clearly stated in the budget.

Measures are state interventions implemented within the framework of the program for the purpose of implementing the state policy, which are especially aimed at the realization of the goal set for the given program.

Each PES submits its budget application to the RA Ministry of Finance for all the programs implemented by it. The same program cannot be carried out by several BSOs. Only one PES is responsible for the implementation of the project and the definition of its results. The programs in turn include one or more events, the same event cannot be included within the framework of another program. One event may be implemented by more than one BSC.

Events can include one or more **economic articles** ⁷. The same economic articles can be used in different events (with the exception of confidential articles, which are not displayed). Budgeting by bodies is carried out at the level of economic articles

⁵ The most detailed description of the appendices is provided in the business process "Development and provision of methodological instructions for the preparation of BM1-MPDP (including the state budget for the coming year) to the applicant bodies".

⁶In 2013, the RA National Assembly adopted the RA Law "On Amendments and Amendments to the RA Law on the RA Budget System", which for the first time established and made mandatory the implementation of "program budgeting" in Armenia.

⁷The economic and functional articles are defined by the Order 5-N of the RA Minister of Finance and Economy.

Depending on the nature of the event and the sector , the **forms of costing** are different, and there is no uniform approach to presenting cost calculations. An exception is the templates for the maintenance of state bodies, which are mostly coordinated and regulated by certain norms.

According to the established schedule, all the PESs submit their budget requests to the Budget Process Organization Department of the Ministry of Finance of RA through the **Mulberry** system.

The relevant employees of the department are checking the received applications and summarizing the agreed data ⁸. To compare the submitted data with the actual data of the previous year, employees use the **LS Finace** system.

The data are summarized in various xls format working documents, which are imported into **LS Budget** .

After entering all the required data, output summary applications are generated, which are subject to export, namely:

MDP applications ⁹,

appendices of the state budget project for the ¹⁰coming year ,

Appendices of the RA State Budget Law ¹¹,

Appendices of the budget message-explanation of the Government of RA ¹²,

Appendices to the decision on measures ensuring the implementation of the RA state budget (quarterly proportions of expenses) ¹³.

Applications are exported from the system in xls format. It should be noted that not all applications are exported from the system, some applications are prepared manually by the respective employees.

1.1.4 Actors

As the budgeting process is multi-level, the actors involved are also different. Each actor has different powers and responsibilities at different levels. The diagram below shows the actors involved in the formulation of the budget financing application.

⁸Details of receipt and summarization of applications by the Department are described in business processes BM1-BM16, BA1-BA12 and BE1-BE11.

⁹the description of the applications is presented in the business process "Design of BM13-MDP Applications".

¹⁰the description of the applications is presented in the business process "Design of BM13-MDP Applications".

¹¹The description of applications is presented in the business process "Designing BA12-next year applications".

¹²The description of applications is presented in the business process "Designing BA12-next year applications".

¹³the description of the applications is provided in the business process "Designing Applications for FY10-Quarterly Proportions".

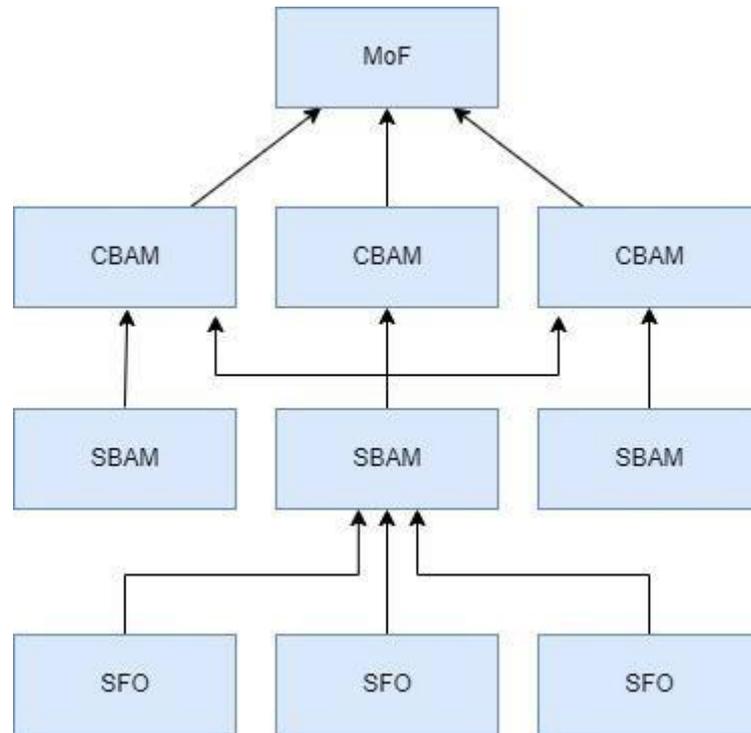


Figure 1.3 Actors involved in the budgeting process

BGC (the chief regulator of budget allocations) are the state administrative bodies provided for by the departmental classification of budget expenditures, which are responsible for the formation of the budget request and the implementation of programs. As of now, 46 budget applications are submitted EMS bodies and the Government of the Republic of Armenia.

BSC (budget allocation subordinate) are the state administrative bodies that carry out the implementation of the measures entrusted to them with powers. The BSC will act as the BSC during the event. Currently, there are 59 BSCs and the Government of the Republic of Armenia.

FMSC (organizations receiving financial resources for the implementation of programs) are those organizations that are not state administration bodies and are financed from the state budget to carry out their activities. State organizations include State Non-Commercial Organizations (NGOs), non -governmental organizations (NGOs), foundations and commercial organizations.

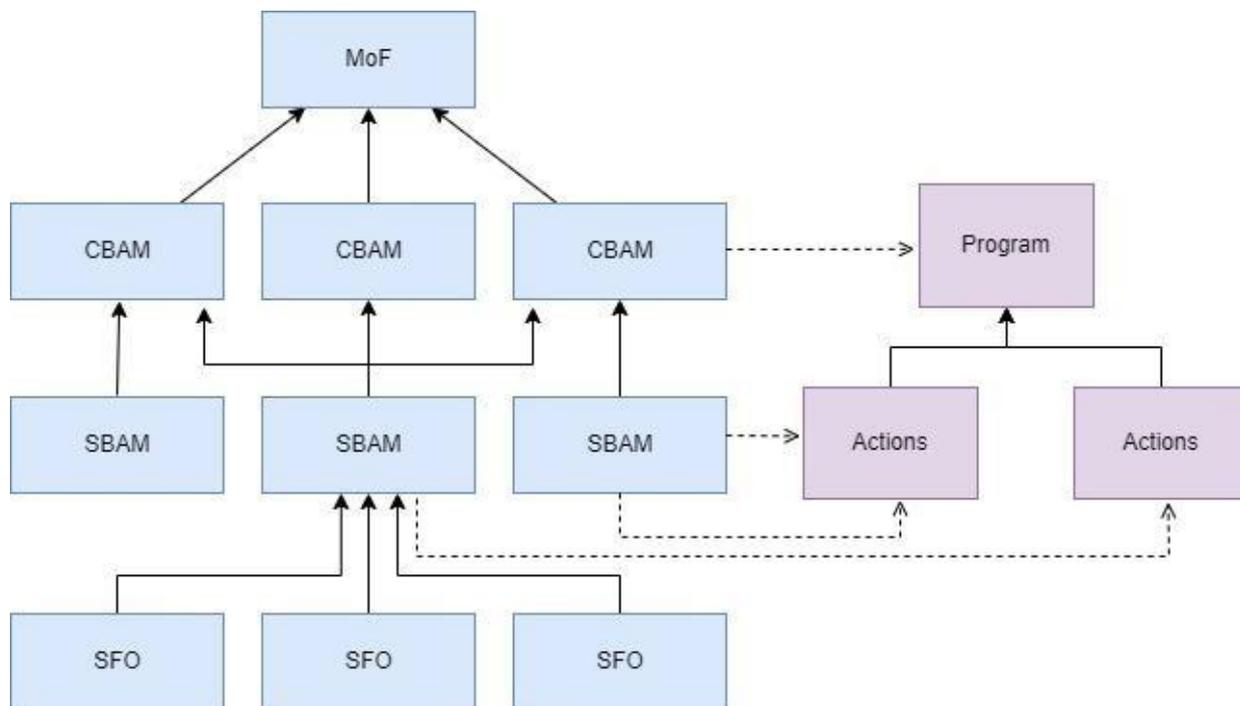


Figure 1.4 Relationship of actors to program-event

The scope of the same program may include measures of different nature, the implementers of which may be defined as other state management bodies (SMB).

The implementer of the same event can be one or more BSCs, for example, the "Scholarship for students receiving secondary vocational education" event of the "Primary (Vocational) and Secondary Vocational Education" program of the Ministry of Education and Culture of the Republic of Armenia, the Ministry of Emergency Situations and civil society under the Government of the Republic of Armenia are the implementers of the event. aviation headquarters. Also, the same BSC can be the implementer of different measures, for example, the Urban Development Committee is the BSC both for the "Modular" type kindergarten building provision of the "Public Education Program" program of the National Assembly of the Republic of Armenia, and for the "Ensurance of the Powers of the National Assembly" program of the National Assembly of the Republic of Armenia improvement of building conditions" event.

1.1.5 Municipal budget

The Department of Budget Process Organization, in addition to the methodological instructions provided to the BGUs, also prepares mandatory methodological instructions and advisory guidelines for the development of municipal budget projects. Methodological instructions are provided by the Ministry of Territorial Administration and Infrastructures of the RA Ministry of Finance of the Republic of Armenia for distribution to local governments ¹⁴.

¹⁴ The process is described in more detail in the business process "BM1.1-Development and provision of methodological guidelines for drafting community budgets".

Subsidies provided from the state budget to all RA communities in a given year on the principle of financial **equalization are also implemented** to provide the calculation of **the total amount** to TKEN.

the **community program** is also carried out by the EMS employee and according to the gap of the communities, it is provided to the TKEN for distribution to the communities. The total number of calculated losses is entered in LS Budget.

Conclusion

Currently, budgeting business processes from the lower levels to the upper level are carried out only in paper form. Only at the top level (RA: FIN) final results of summarized data are entered LS Budget system . There is no single system that will enable the entire process chain to be carried out automatically. The reliability of the main part of the data submitted cannot be verified or requires a time-consuming process to carry out the verification . :

The following electronic systems are used in budgeting implementation processes:

Mulberry - Electronic document circulation information system

LS Finance – treasury operating day

LS Budget - a system for drawing up the state budget and making changes to it

The use of different tools in different processes or in their different steps leads to non-optimal organization of processes, as well as non-centralized processing of data. These, in turn, can cause work process disruptions, unsafe use of sensitive data, data incompatibility, and so on.

In addition, the budget compile time is supposed to create a data structure that is fully usable by other modules as well. Since there is no unified system, it is necessary to create documents containing the same information several times. For example, the procurement plan or the budget plan (estimates), which are a direct result of the budget, are created separately from the budget. This results in the same information being generated in multiple places and requiring additional checks, making the process laborious and inefficient.

order to optimize the processes, it is important to introduce the budgeting module of the FCTC (as an electronic system), which will allow :

- * Centralize budgeting processes as much as possible in the domain of one electronic system,
- * Process and store data in a centralized manner,
- * Manage the sequence and order of processes,
- * Define appropriate operator authorizations for data and processes.

1.2 Revenue Part

Methodological instructions provided by the Ministry of Finance of the Republic of Armenia to the bodies of the Ministry of Internal Affairs and Communications also describe the approaches

to the implementation of forecasts of individual types of budget revenues and revenues from operations with non-financial assets.

Along with the specified methodological instructions, xls table formats are also provided to present actual or forecasted indicators for income types.

CSOs summarize and complete information on non-tax revenues according to the provided templates. The required documents, according to the schedule of the decision of the Prime Minister of the Republic of Armenia, are provided to the Ministry of Finance of the Republic of Armenia for income forecasts.

In particular, the BSOs submit information to the Ministry of Finance of the Republic of Armenia

- a) data on ¹⁵state duties ,
- b) data on ¹⁶official grants .
- c) data on ¹⁷other incomes ,
- d) data on income from operations with ¹⁸non- financial assets .

The data provision process is described in Figure 2.1

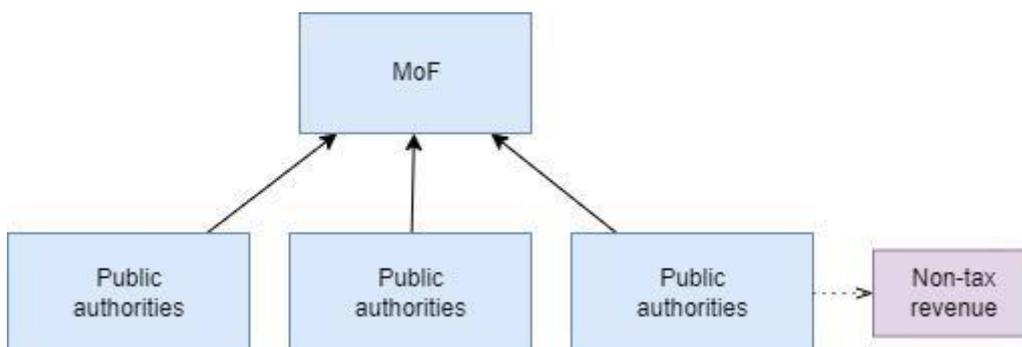


Figure 2.1 Hierarchy of non-tax revenue generation

The provided information is checked, analyzed and summarized in the relevant xls working documents by the employees of the Budget Process Organization Department of the RA FSA. To compare the submitted data with the actual data of the previous year, employees use the **LS Finance** system.

Aggregated data is the basis for forecasting **non-tax revenues** . Forecast data are provided to the Department of Macroeconomic Policy to forecast macroeconomic indicators and the fiscal

¹⁵Receipt and summarization of government duties is implemented in business processes BM5, BA5 and BE3.

¹⁶Receipt and summary of official grants is implemented in business processes BM15, BM11 and BM2.

¹⁷Receipt and summarization of other income is predefined in business processes BM3, BA3, BA1.

¹⁸Receipt and summary of receipts from operations with non-financial assets is implemented in business processes BM6, BA6, BE4.

framework. The Department of Macroeconomic Policy receives information on **tax revenues from the State Revenue Committee (SRC)**.

Conclusion

At present, information on non-tax income is received by the CSO authorities exclusively through the Mulberry document circulation system. The resulting data are summarized in a paper version, aggregated using an xls file, and the aggregated data are manually entered into the LS Budget system. The information provided to other departments of the Ministry of Finance of the Republic of Armenia is also provided in paper form.

For more efficient organization of the process, it is advisable to automate the non-tax revenue collection process as well, enabling data acquisition and automatic aggregation.

1.3 Budget balance (deficit balance)

The excess of expenditures over budget revenues constitutes the budget deficit. The attraction of funds for financing the budget deficit is carried out from both internal and external sources.

The calculation of the deficit balance contains both an input part and an output part.

The input part is data on financial resources drawn from domestic and external sources (shown by a + sign in the deficit balance sheet), for example, issued treasury bonds, receipts from the repayment of loans and advances, or loans and advances received from external sources. This data is not presented by program-events. The necessary information is obtained from the relevant department of the RA Ministry of Finance.

output part (in the balance sheet of the deficit is shown with the symbol -) is always represented by program-measures, for example, repayment of promissory notes, repayment of received loans and loans, provision of loans and loans. Information on the output part is provided by the relevant departments of the RA Finance Ministry.

Based on the received information, the balance of the budget deficit is carried out ¹⁹.

Having a balanced **deficit**, projected **expenditure** and projected **revenue** figures, the budget is balanced. The budget should always be balanced, guided by the following formula:

$$T = E + D$$

where? **T** - planned **expenses**, **E** - planned **incomes**, **D** - **deficit**

¹⁹Budget deficit balancing process is presented in BM9, BA9, BE8 business processes.

Conclusion

Currently, the deficit balancing process is carried out based on the information collected exclusively through xls. All the necessary information for the organization of the budget balancing process is available within various modules or sub-modules. Since there is no single system, it is necessary to collect data from different sources and summarize it manually. Considering the importance of the mentioned process, it is recommended to create a separate sub-module in the budgeting module to organize the balancing process more quickly, efficiently and accurately.

Chapter 2: Structural description of the budgeting module

The budgeting module is intended for the preparation of budget requests by state bodies, as well as the processes of revenue forecasting, budget balancing and receipt of approved budgets of municipalities.

This chapter presents a description of the structure of the proposed model of the budgeting module of the FCTC.

structure of the budget module shows the relationship of the budgeting module with other modules within the framework of the KFCTS system, shown by a UML component diagram.

The implementation of the budgeting module should be implemented according to the following principles:

- at least weak dependence on other modules and external systems of KFCTS ,
- possibly reuse of data that is processed in other modules of the FCTC or in external systems,
- as simple as possible and enough functionality to work in the domain of one module.

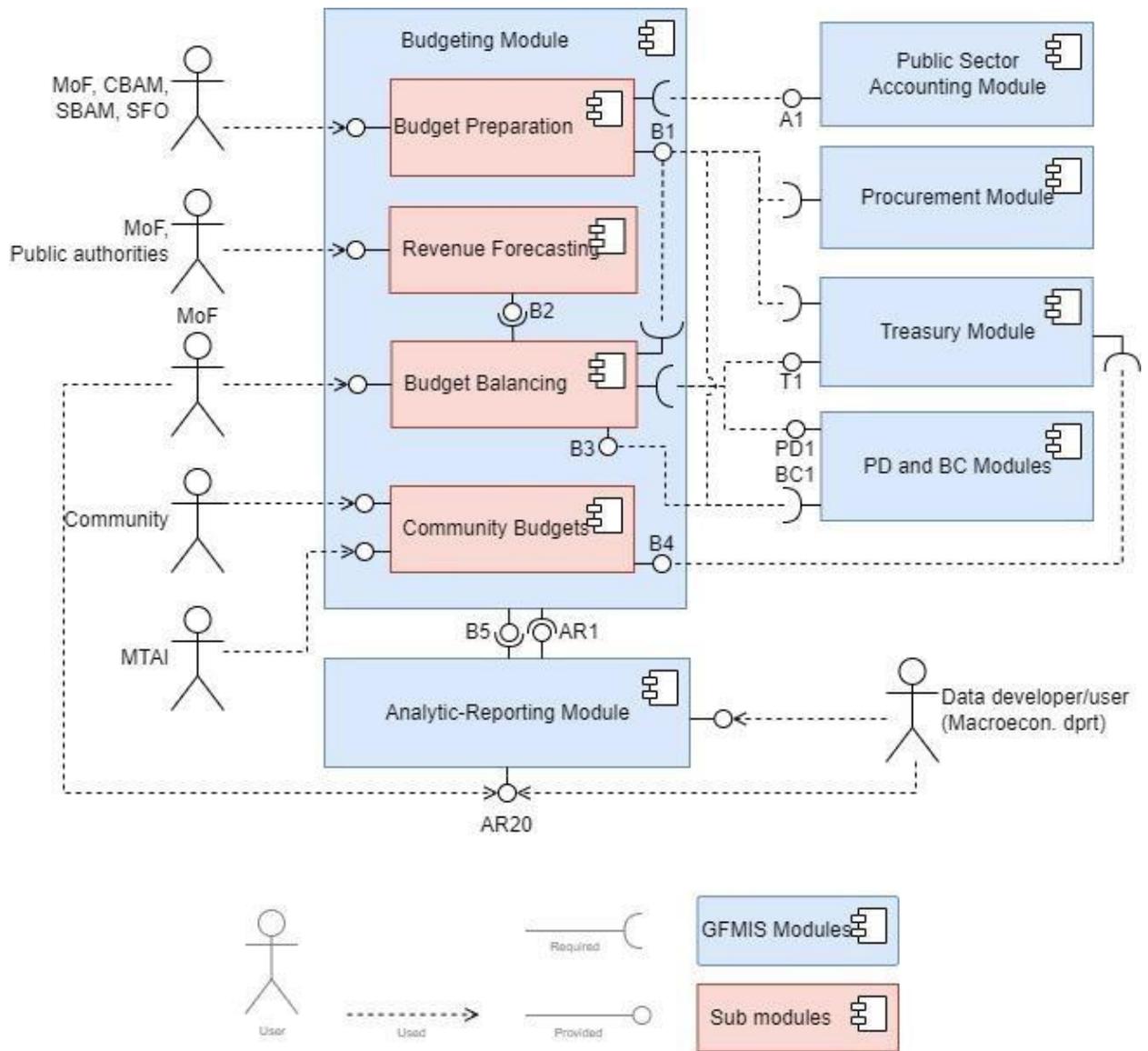


Figure 2.1 Structure diagram of the proposed Budgeting module concept

Figure 2 : Figure 2 shows the data flow of the budgeting module concept between internal sub-modules, other modules of the CFS, and external data.

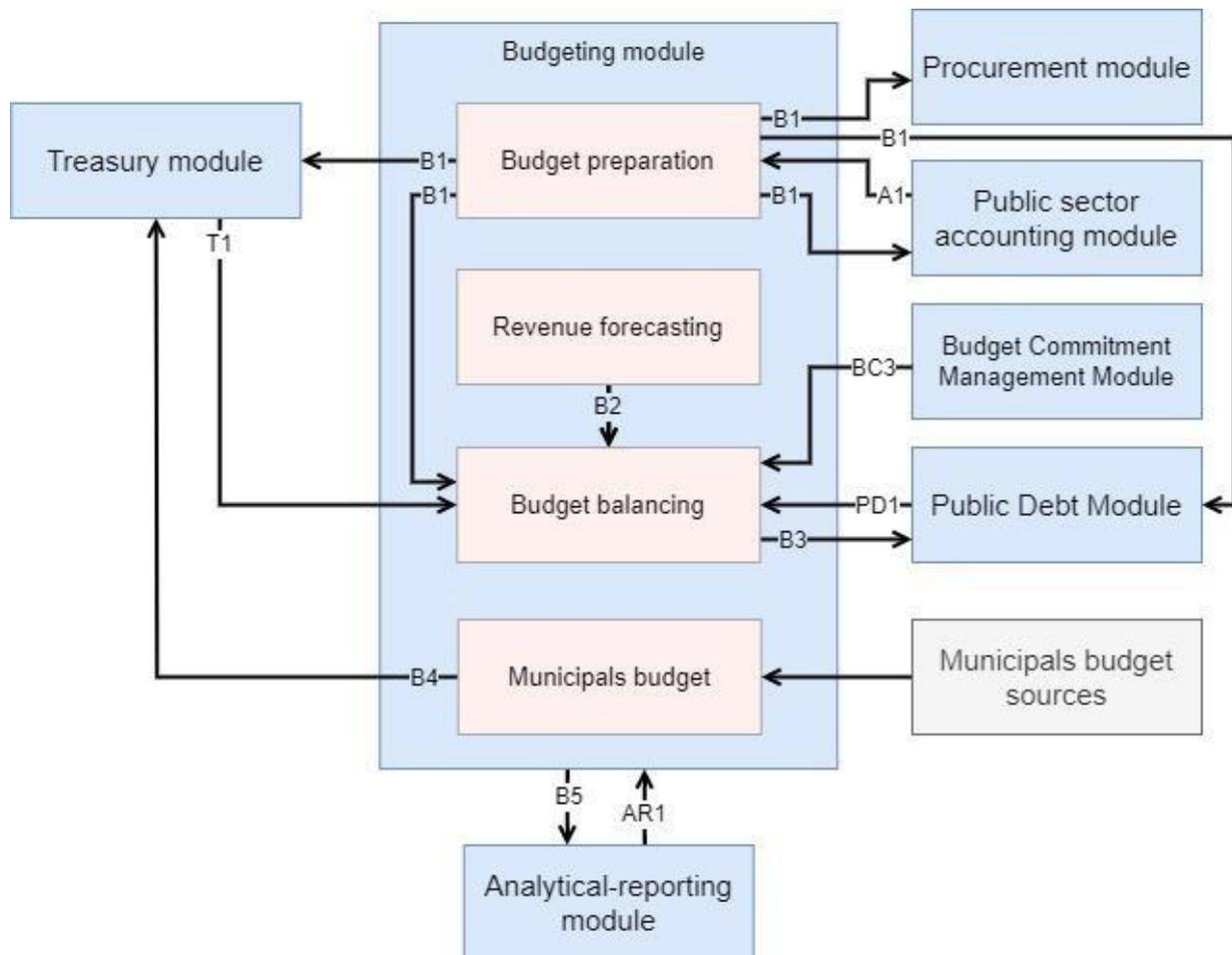


Figure 2.2 Data flow of the proposed Budgeting module concept

The next sub-chapters present the importance of individual interacting modules, sub-modules, those who play a role in them, as well as the data exchanged between them.

2.1 Budgeting sub-module

With the introduction of the budgeting sub-module, it is planned to automate the entire process of creating and redistributing budget applications submitted by the bodies to the Ministry of Finance of the Republic of Armenia (data formation, receipt, approval, aggregation, redistribution) from the lowest level to the highest level. It is in this submodule that the data with the most important applications in a number of modules originates.

In particular:

During the preparation of the budget, based on the data provided by the authorities, it will be possible to form the procurement plan (B1.1), which will be automatically accessible to the **procurement module**.

The Treasury module will be provided with data on the approved budget (BSC, BSC, program, event, article) (B1.2). **For the automatic generation of** expense accounts, the serial number of the program-measure of the new initiatives will be provided (B1.5), as well as any changes made as a

result of redistributions or opening of limits during the implementation of the budget (specified budget **B1.3**).

The public debt module will be provided with the amount of planned expenses from the targeted loans and grants presented by the bodies in the budget applications (**B1.6**).

will be provided with figures on expenditures (**B1.2 , B1.3**), as well as data on budget outputs (**B1.4**).

One of the most important sources for the formulation of budget requests is the data provided by the **Public Sector Accounting module** (**H1**) to present more transparent and reliable information.

The budgeting sub-module will also exchange data with the **Analytical-reporting module** (**B5 and PC1**).

2.2 Revenue Forecasting sub-module

The revenue forecasting sub-module is intended to collect forecasted data on non-tax revenues by public authorities , as well as tax revenue forecast data will be provided by the relevant department of the RA Ministry of Finance.

The data of non-tax revenues (**B2.1**) and tax revenues (**B2.2**) **formed in this sub-module** will be **used in the budget balancing sub-module** .

The Revenue Forecasting sub-module will also exchange data with the **Analytical-Reporting module** .

2.3 Budget balance (deficit balance) sub-module

With the help of the budget balancing (deficit balance) sub-module, it is planned to balance the budget, giving the ability to carry out checks on a daily basis and to identify discrepancies and their causes.

In order to ensure the normal operation of this sub-module, information will be received from several modules and sub-modules of KFCTS, namely:

From the budgeting sub-module, the budget balancing sub-module will be provided with data on both expenditures (B1.2 , **B1.3**) and budget outputs (**B1.4**) .

The revenue forecasting sub -module will provide data on non-tax revenues (**B2.1**) and tax revenues (**B2.2**).

From the Treasury module , you will receive data on free balances at the beginning of the year and stabilization deposit account (**GZ1**).

The public debt module will be provided with data on the size of the budget deficit (**B3**), and the mentioned module will receive data on the funds to be drawn (**PP1**).

From the budget commitment management module , data will be obtained on the receipts (domestic and external) from loans and transfers granted (**BP1**) .

Also, information exchange between **Analytical reporting modules will be carried out** .

2.4 Municipal budget sub-module

As a result of the implementation of the community budget sub-module, it will be possible to receive the approved budgets of communities through the system. As a result of the implementation of the system, it will be possible to check inter-budgetary transfers and obtain a consolidated budget at the state level.

The specified sub-module will provide data (B4) to the Treasury module to perform the necessary checks.

exchange data with the **Analytical - Reporting module** .

2.5 Treasury module

The treasury module is intended for accounting of state budget revenues in accordance with the budget classification, financing and accounting of expenses with preliminary control, management of state treasury and off-budget accounts and implementation of operations with general state resources.

2.6 Purchase Module

The procurement module is intended for procurement planning, implementation of the procurement process (depending on the form of procurement), management of procurement contracts, as well as conducting and training procurement coordinators qualification examination.

2.7 Public Sector Accounting Module

The public sector accounting module is designed for the centralized, single database accounting of RA public sector organizations. As a result, it will be possible to form consolidated financial, budget performance and CFI reports at the state level. Contract management will also be implemented in the public sector accounting module.

2.8 State debt and budget liability management modules

The public debt module is intended for the management of the RA public debt.

The state budget liability management module is intended for the provision of simple and transferable promissory notes, repayment, budget guarantees , loans , sub-loans, obligations arising from them, as well as ensuring the management processes of non-residents' debt to the Republic of Armenia.

2.9 Analytical-reporting module

It is planned to introduce an Analytical-reporting module in the FCTC, which will be applicable by all the modules of the FCTC, in order to implement the analytical-reporting functions in one domain ²⁰.

The analytical-reporting module is also intended to be used for analytical functions in the budgeting module. That is, the budgeting module does not contain a separate sub-module for analytical functions, instead similar functions will be performed by the employees of the PES in the Analytical-reporting module. The latter will allow the analytical data developed in the internal sub-modules of the budgeting module to be concentrated and used in the implementation of various analytical-reporting functions. In addition to the data of the budgeting module, the analytical-reporting module will also concentrate the analytical data of the other module of the PFKTS, which can also be used by the employees of the PES in case of appropriate authorization.

This approach will allow both the budgeting and other modules of the FCTC to implement the most comprehensive analytical and reporting functions. In this module, the applications mentioned in subsection 1.1.3 will be created.

A in the analytical-reporting module it is planned to introduce a Directory sub -module, which will summarize the directories used by different modules in K FCTS (for example, BGC, program, event, article, GMA codes, marzes, etc.).

2.10 Data Exchanged

Interface:	Data:	Provider module/submodule	Application module/submodule
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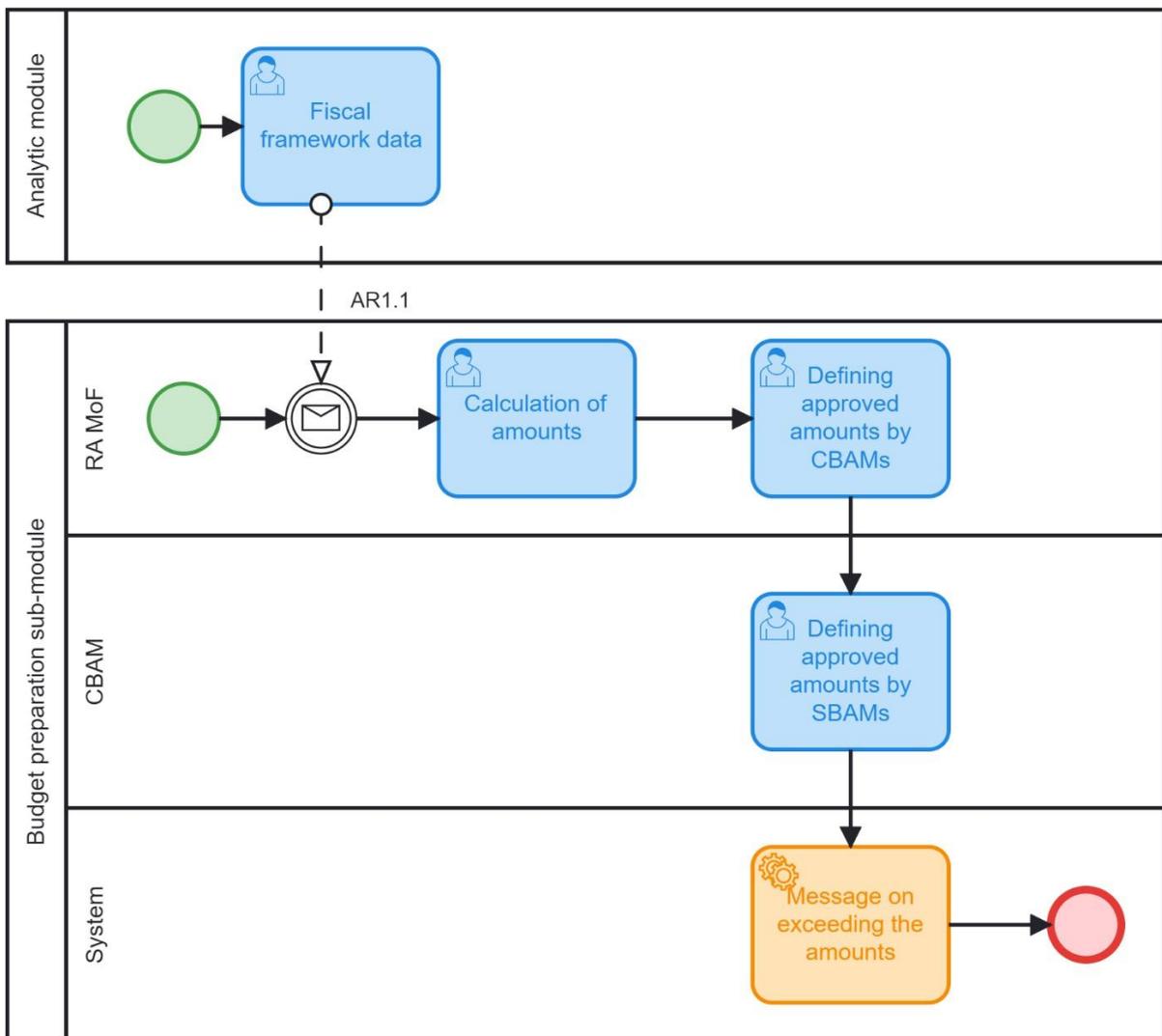
²⁰Details are provided in the relevant document

B1:	Data on budget expenditures and outputs 1 Purchase plan 2 Approved budget (BSC, BSC, program, event, article) 3 Adjusted budget 4 Budget outputs 5 Issuance of new program/event serial number 6 Projected costs from earmarked loans and grants	Budgeting/Budgeting	1 Shopping 2 Treasury, Budgeting/Balance of the Budget 3 Treasury, Budgeting/Balance of the Budget 4 Budgeting/Balancing the Budget 5 Treasury 6 PP and BNPK modules
B2:	Income data 1 Forecast of non-tax revenues 2 Forecasting tax revenues	Budgeting/Revenue Forecasting	Budgeting/Balancing the Budget
B3:	Deficit part of the budget	Budgeting/Balancing the Budget	State debt
B4:	Approved/revised municipal budget	Budgeting/Community Budget	Treasury
B5:	<i>Analytical data from all submodules</i>	Budgeting/ <i>All sub-modules</i>	Analytical-reporting module
H1:	Calculated data	Public Sector Accounting	Budgeting/Budgeting
GZ1:	Stabilization account balance, free balance at the beginning of the year	Treasury	Budgeting/Balancing the Budget
PP1:	Involved funds, their repayments and maintenance	State debt	Budgeting/Balancing the Budget
BP1:	Data on issued promissory notes, loans and debts, budgetary guarantees	Budget commitment management module	Budgeting/Balancing the Budget
PC1:	Analytical data processed in all modules 1 Fiscal framework	Analytical-reporting module Analytical-reporting module	Budgeting/ <i>Necessary sub-modules</i> Budget Compilation Sub-module, Budget Balancing Sub-module

Chapter 3: Functional description of the budgeting module

This chapter provides functional descriptions of the budgeting module. Both the relationship between the budgeting sub-modules and the relationship between the budgeting module and the other modules of the KFCTS, the data to be exchanged and the expected results, the processes that will be implemented in the budgeting module after the implementation of the system are presented in detail.

3.1 Definition of quantities



Purpose:	Determination of indicative amounts for the submission of budget requests by levels.
Description/ process	<p>Having performed the necessary analyses, the IMC will outline the fiscal framework for the coming year in the analytical sub-module, defining the amounts of expenditure, income and deficit.</p> <p>Based on the size of the defined cost, the indicative quantities will be calculated according to each BSC. The calculated data will be entered into the system after approval by the Prime Minister. The specified quantities will be indicative in nature and will not have hard limits. In case of submitting a budget request that exceeds the amount, the system will show a message about exceeding the amount and information about the amount of the excess amount.</p> <p>The system will carry out control so that the amounts set for the PES bodies do not exceed the scope of expenditure defined by the fiscal framework.</p> <p>The system will allow setting amounts at any level of budgeting: by the Ministry of Finance of the Republic of Armenia for PES, by PES for BSCs, etc. With the system, it will be possible to see the indicative quantities at each level to make a more accurate budget proposal.</p>
A link to an existing process	BM2-Calculation and presentation of the initial indicative amounts of allocations from the budgets of the coming years to the bodies of the Ministry of Education and Culture
Territory:	Analytical module, Budgeting sub-module
Actors:	RA Ministry of Finance, Ministry of Internal Affairs and Communications
Input data	PC1.1
Output data	

3.2 Budgeting

The budgeting sub-module of the budgeting module is designed to carry out the collection, consolidation and presentation of the data necessary for the formation of budget applications from the lowest level to the highest. Based on the current budget preparation processes (the process is described in more detail in Chapter 1 of this document), we have separated 4 levels, namely:

1st level - **Ministry of Finance of the Republic of Armenia**

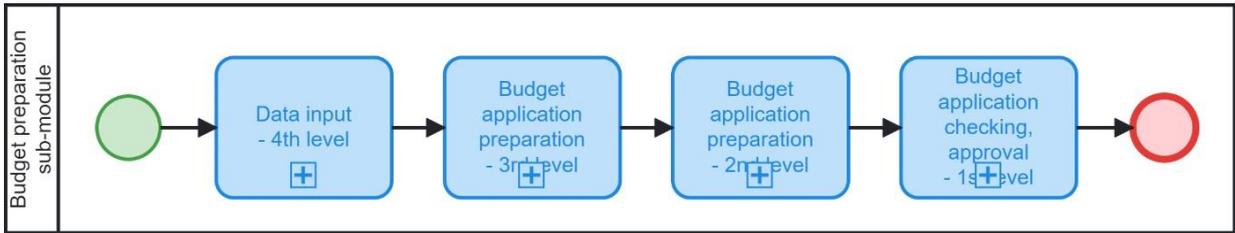
2nd level - **EMS**

3rd level - **BSC**

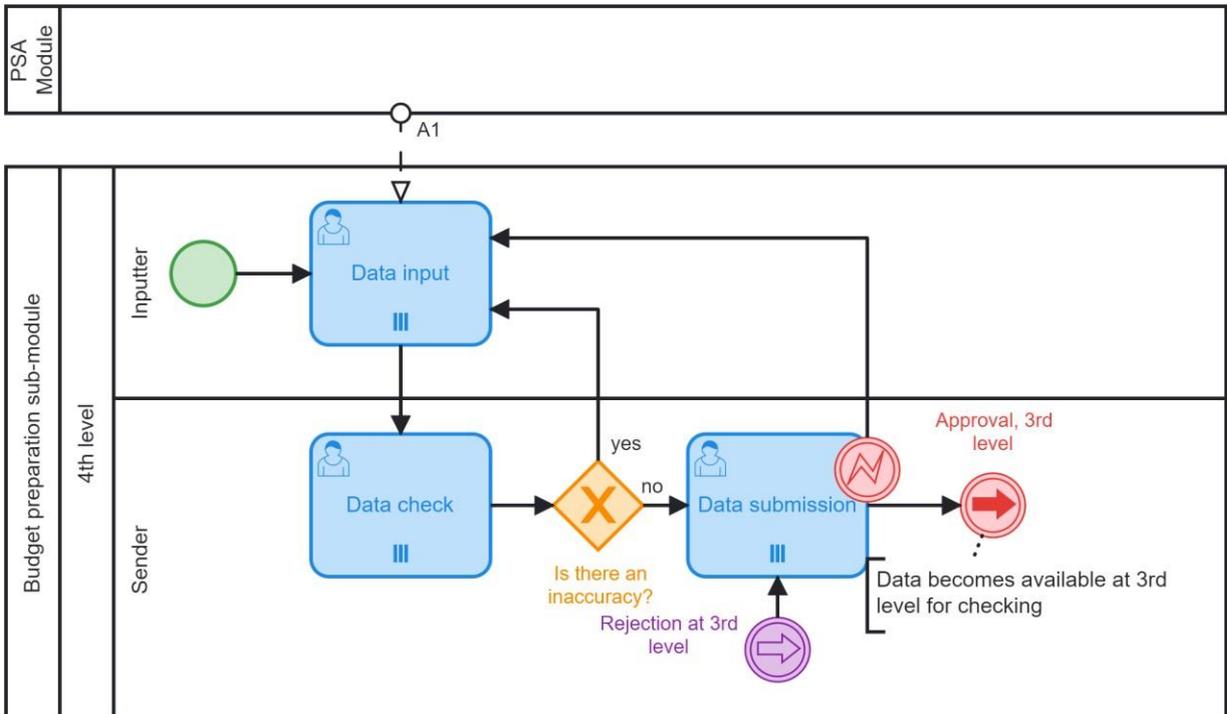
Level 4 - **FMSC** (Max detail look in subsection 1.1.4) .

Details on the processes, authorities and users at each level are provided below. It should be noted that any number of levels can be defined in the system as needed, defining authority and

user scope. User rights and obligations will be defined and managed in the **user management module**.



3.2.1 Data Entry: Level 4

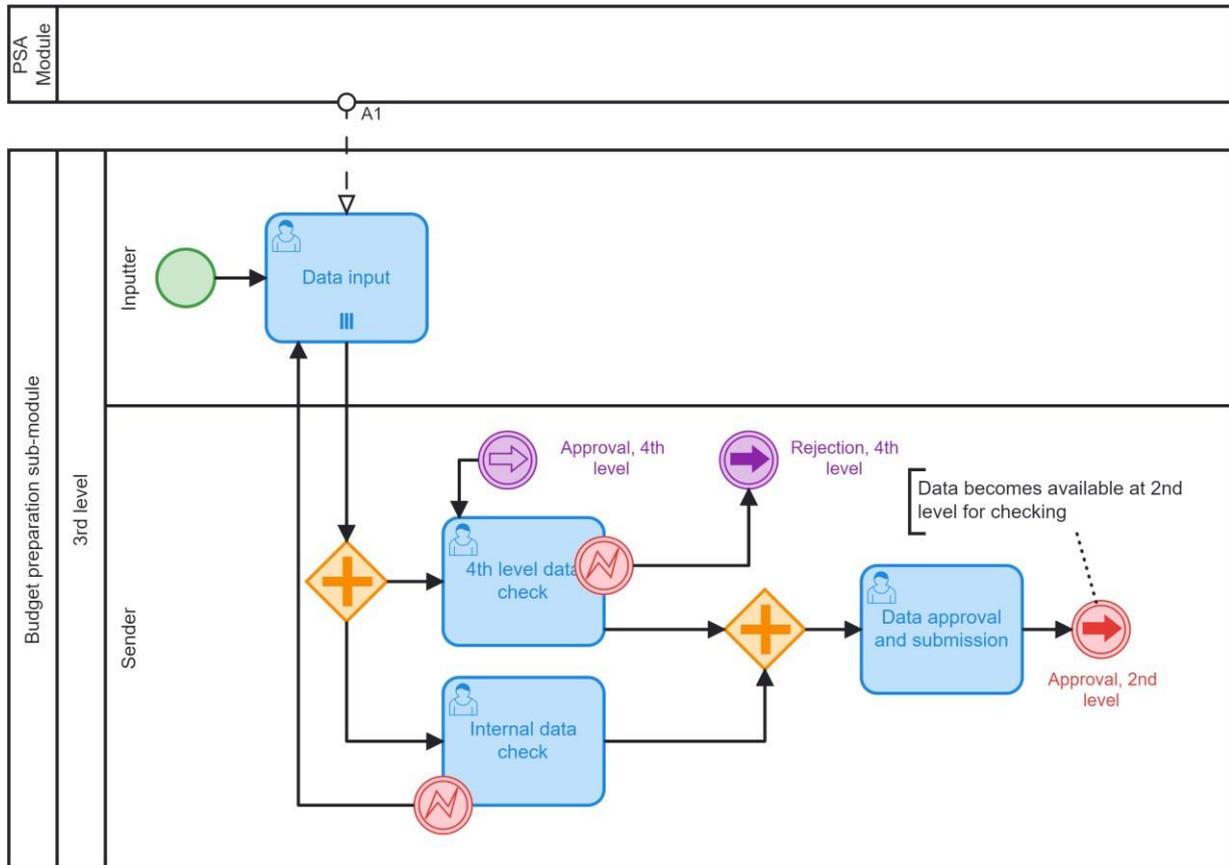


Purpose:	Defining the processes and participants' powers at level 4
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Description/ process	<p>In the system, the scope of powers assigned to the 4th level will be extended to FMSC (SOC, Foundation, NGO, commercial organizations and etc.) on Any number of users can be defined at this level as needed . Each user will have their own reserved powers implementation . For example, one user will be able to enter data into the system, the other user will be able to check and confirm the entered forms.</p> <p>Users will enter the required information and send to a higher level for approval. At a higher level, data can either be approved and sent forward, or rejected and sent back for editing. The following options for data formation will be provided for the formation of reliable cost data, namely:</p> <ol style="list-style-type: none"> 1. The data will be generated based on the accounting data obtained from the Public Sector Accounting module. 2. With the possibility of integration with other systems, data will be entered into the system through APIs to perform the necessary calculations. <p>Data will also be manually entered into the system by the authorities. Initially, manual entry will be unavoidable, but over time, it will be possible to replace data formatting with the previously mentioned options.</p> <p>At this level, 2 types of organizations will be distinguished:</p> <p>The 1st type , organizational rules that are implemented in the cost structure. To present their cost data based on the above data format options. Each expense line consists of the following data: program, event, item. If the expense is a purchase, then GMA code, purchase object, unit of measurement, unit price and purchase form are also added to the latter. Some restrictions will be applied in the system, depending on the selected economic article, the system will offer GMA codes specific to the given article .</p> <p>can be established when the data will be presented without GMA codes: program, event at the article level, with the possibility of adding GMA codes within a specified period (for example, after the approval of the state budget).</p> <p>The system will provide an opportunity to present the data with a three-year distribution, and the next year with a quarterly, monthly and weekly (if desired, also daily) distribution.</p> <p>2nd type : organizations that do not carry out cost accounting. They will provide baseline data to be implemented in costing by the BSC (Type 1). After the approval of the state budget, bodies of the 2nd type prepare the budget with the same data structure as the bodies of the 1st type.</p> <p>Based on the data provided, it will be possible to create a procurement plan for the purchasing module and estimates and schedules for the treasury module.</p>
A link to an existing process	
Territory:	Public Sector Accounting Module, Budgeting Sub-Module

Actors:	FMSK (entrant, approver)
Input data	H1:
Output data	

3.2.2 Level 3 Budget Request Compilation



Purpose:	Defining processes and participants' powers at level 3
Description/ process	<p>At this level, the powers and responsibilities typical of the BSC (Subordinate Appropriations Officers) will be exercised.</p> <p>Only public authorities (departments, governorates, ministries) will have access to this level.</p> <p>As needed, any number of users can be defined in the system, whose powers will be defined in the user management module.</p> <p>Data from level 4 is summarized at this level into a single item (usually a grant or subsidy). The received data will be checked by a user with the appropriate authority, in case of inaccuracies the data will not be approved and will be sent back to level 4 for editing. Collected and aggregated data after final approval will be sent to the next level (Level 2).</p>

At this level, the BSC body will also carry out budgeting in accordance with the process typical for type 1 organizations described in sub-chapter 3.2.1.

In addition to financial indicators, non-financial indicators (**result indicators**) will also be defined for the measures.

Based on the specifics of the services provided or the products provided, 4 main types are distinguished : quantity and volume (quantity indicators), coverage (which part of the total is "covered" or satisfied in the case of the volume of the service provided), (the indicators of this type can be considered as a variety of quantity) , quality (quality indicators) and timing or timeliness (timeliness indicators). The actual performance indicators will also be entered in this sub-module. Thus, we define that the source of the resulting indicators will be the sub-module of budgeting, where both the predicted and actual realized indicators should be recorded, enabling accurate and reliable analyses.

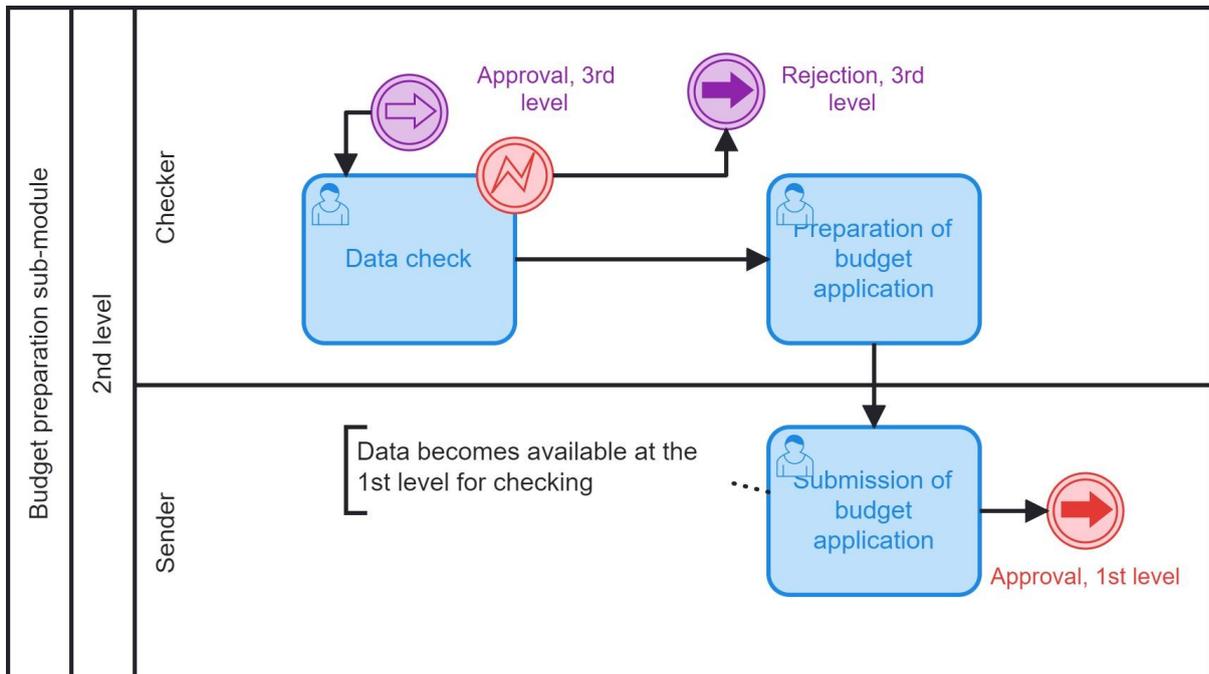
Tagging of events will also be carried out at this level . The purpose of notation is to separate (separate) data aimed at specific goals, targets, or outcomes. For example, with the help of the system at the activity level, by implementing the marking, it will be possible to separate the areas related to the Sustainable Development Goals (SDGs), such as climate, gender equality, poverty eradication and other areas.

annual indicator set in quarterly proportions cannot exceed the approved state budget indicator. Also, it will be checked that the estimates presented on a monthly basis do not exceed the approved quarterly proportions.

After approval of the quarterly proportions ensuring the execution of the national budget , the bodies will present the payment schedule on a weekly basis. The system will monitor the amounts requested in the submitted weekly schedule, preventing you from receiving more funding than the amount submitted. The system will also monitor the amounts planned for the given quarter. In case of **underperformance of the** budget for the reporting quarter , the system will send a warning to the body one week before the end of the quarter, giving an opportunity to justify the expenditure of the requested amount. If the justification is acceptable by the RA Finance Ministry, it will be moved to the next quarter. In case the justification is not acceptable by the Ministry of Finance of the Republic of Armenia or if the warning is not responded to, the planned amount will be automatically transferred to the account of the reserve fund. Corresponding changes in the resulting indicators will also be implemented by the Marines :

A link to an existing process	
Territory:	Public Sector Accounting Module, Budgeting Sub-Module
Actors:	BSC (entering, sending)
Input data	H1:
Output data	B1:

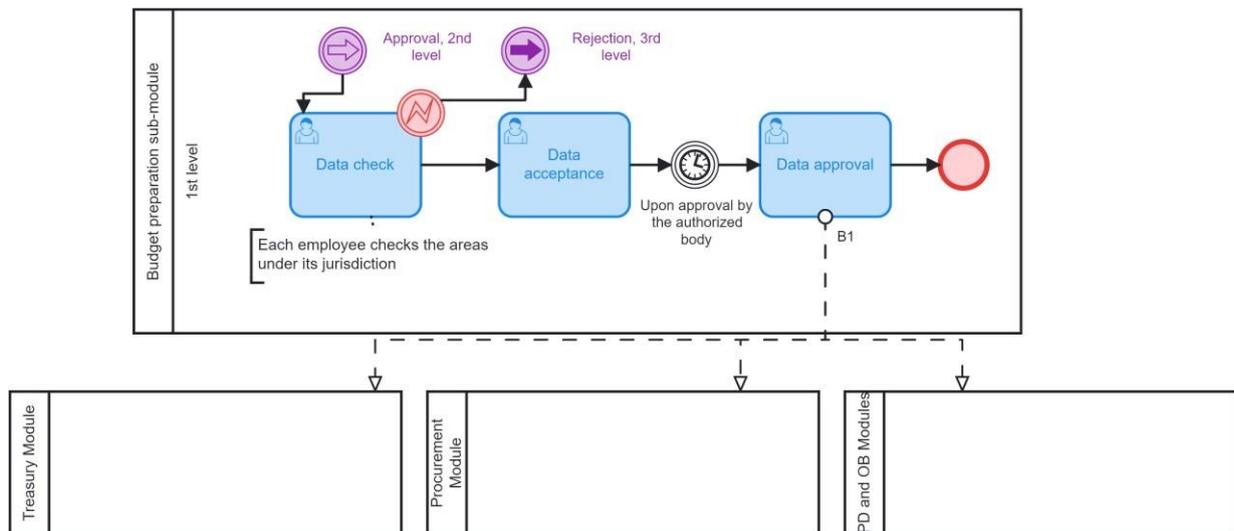
3.2.3 Level 2 Budget Request Compilation



Purpose:	Defining the processes and participants' powers at level 2
Description/ process	<p>In the system, the 2nd level will be assigned a range of powers typical of the CFO (Chief Appropriator of Budgetary Allocations). At this level, the process of completing budget applications will be carried out. Information received from level 3 will be verified by an authorized user. The system will also provide an opportunity to see the actual financial indicators of the previous years of the presented data for comparisons, analysis and decision-making.</p> <p>In case of inaccuracies, the data will be rejected and sent back to Level 3 for necessary corrections. After the final approval of the data obtained from the previous levels, the final financial data of the PES project /s will be formed. In addition to the financial data, the PES will also define the indicators of the final result of the given project (there should be clear and measurable indicators), the target dates, as well as the connection with the policy targets defined by the RA Government plan.</p> <p>As in the previous level, marking will be applied here as well according to the necessary grouping.</p>

	<p>Those bodies that are both the EOC and the EOC for an event will be granted access to 2 levels (Level 3 and Level 2) powers.</p> <p>The completed budget applications will be sent to the RA Finance Ministry by the authorized user.</p> <p>At this level , data on budget outputs will also be presented : (BSE, program, event, article).</p>
A link to an existing process	
Territory:	A sub-module in budgeting
Actors:	BGC (checker, sender)
Input data	
Output data	

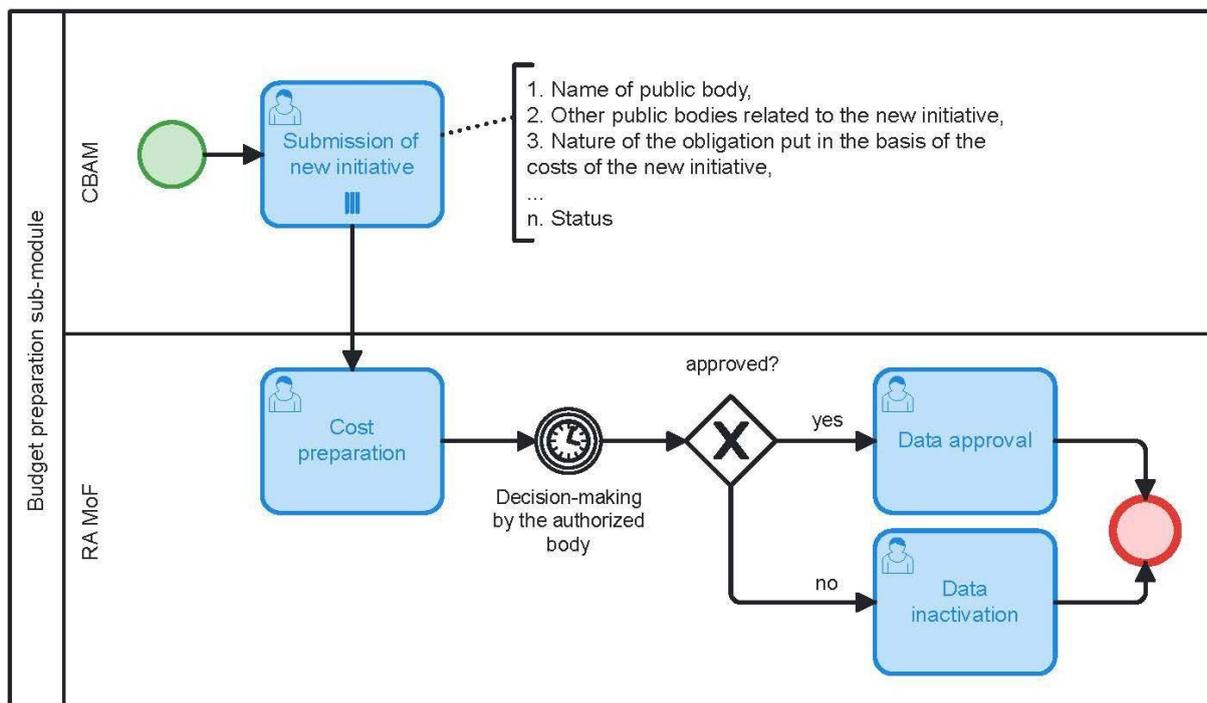
3.2.4 Review and Approval of Budget Requests - Level 1



Purpose:	Defining the processes and participants' powers at level 1
Description/ process	<p>In the system, level 1 will be assigned a range of powers typical of the RA Treasury.</p> <p>At this level, each user will check the information received from the areas under his responsibility. The system will also provide an opportunity to see the actual expenses incurred in the previous years of the submitted data, if any</p>

	<p>inaccuracies are found, the data will not be accepted and will be sent to the previous level for editing.</p> <p>After receiving and summarizing the final verified data from all BSOs, the data will be ready for submission to the RA NA. After the RA NA approves the budget for the coming year, the data will be confirmed in the system as well, forming the approved budget data.</p> <p>Any changes after the approved budget will be implemented through reallocations (the process is described in sub-chapter 3.4 of this document), resulting in a new revised budget data .</p>
A link to an existing process	<p>Summary of the expenditure part of grants of BM4-MDSP (including the next year's state budget).</p> <p>Forecast of the expenditure part of the state budget, credit programs received from external sources for the purpose of forecasting the macroeconomic indicators that are the basis of the BM7-MPDP project (including the next year's state budget)</p> <p>BM8-MPDP Providing sub-loans at the expense of internal and external sources</p> <p>Receiving, examining, discussing and submitting applications for BM10-MPDP (including the next year's state budget)</p> <p>BM11 - Mandatory and continuous discretionary expenses</p> <p>Forming and submission of MDP applications (including the upcoming year's budget) to the Ministry of Finance of the Republic of Armenia</p> <p>BA4-Summary of expenditure part of next year's state budget grants</p> <p>BA7-Forecasting of the expenditure part of the state budget, loan programs received from external sources, in order to forecast the macroeconomic indicators that are the basis of the state budget project for the coming year.</p> <p>BA8- Disbursement of sub-loans of the next year's state budget</p> <p>BA10 - Receipt and approval of revised applications for the coming year</p> <p>BE5- Implementation of forecasts of quarterly (incremental) proportions of grants</p> <p>BE6-Implementation of quarterly (incremental) ratio forecasts for loans</p> <p>BE6-Implementation of quarterly (incremental) ratio forecasts for loans</p> <p>Approval of the three-year proportions ensuring the performance of BE9-PB</p>
Territory:	A sub-module in budgeting
Actors:	Ministry of Finance, Ministry of Finance of the Republic of Armenia
Input data	
Output data	B1:

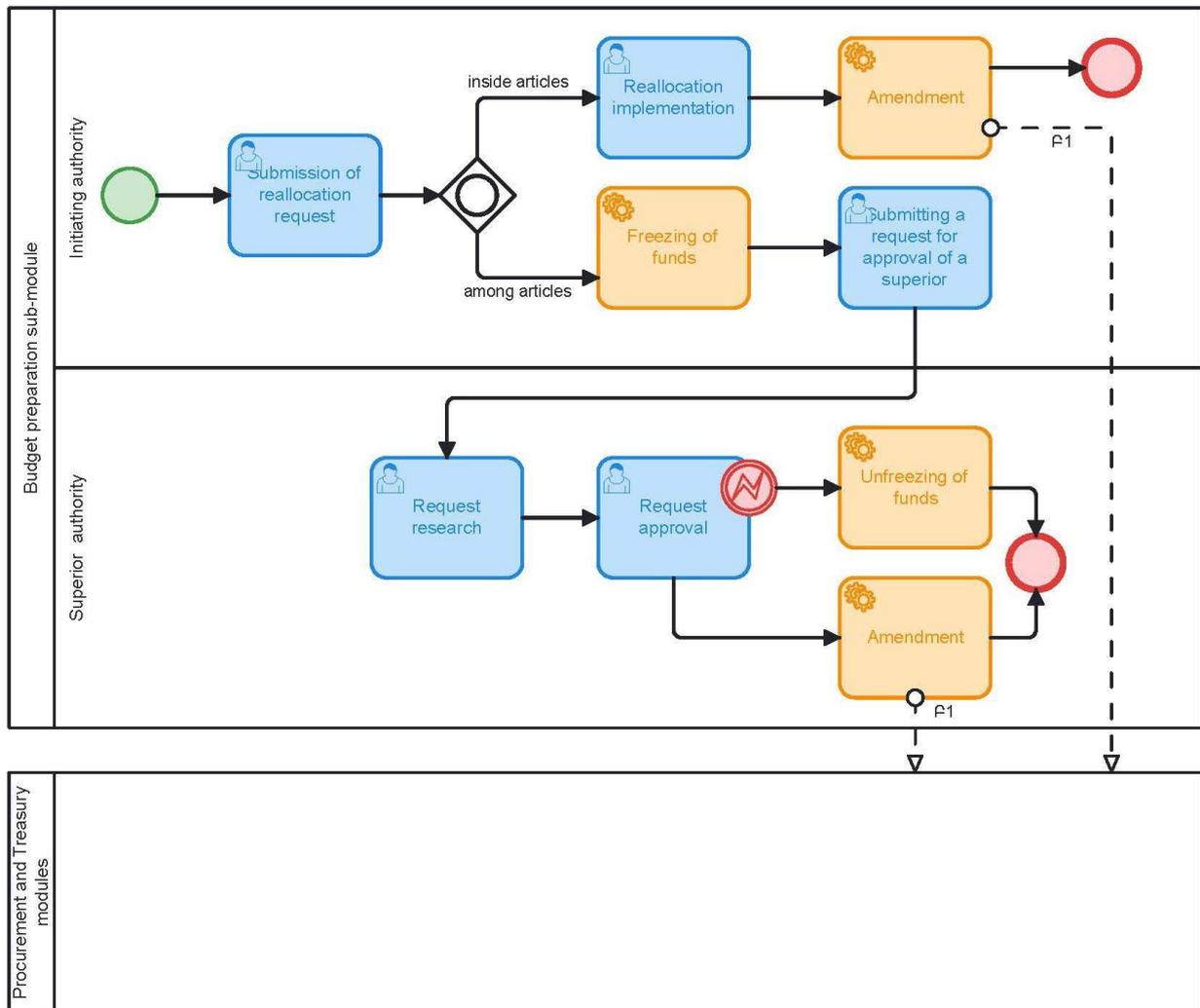
3.3 New Initiatives



Purpose:	Submission of new initiative proposals
Description/ process	<p>In addition to existing programs and activities, new initiatives may also be included in budget requests.</p> <p>The process of submission of new initiatives will also be carried out through the budgeting sub-module by the BSC body. Both financial and non-financial indicators will also be presented for each new initiative. Implementation of the costing of financial indicators will be in accordance with the process described in sub-chapter 3.2. The presented new initiatives will have the status of "subject to consideration" in the system. After receiving final approval from the RA Prime Minister, only the program-event will receive the next available code. Registering a new code in the system will automatically generate a treasury expense account.</p> <p>In case of rejection of new initiatives, the project will receive a status of "rejected", deactivating all data entered under the given initiative. Deactivated data will be stored in the draft status in the BMS system with the possibility of editing and resubmission later.</p>
A link to an existing process	BM12-New initiatives
Territory:	Budgeting sub-module,
Actors:	RA Ministry of Finance, Ministry of Internal Affairs and Communications
Input data	H1:
Output data	B1.5:

3.4 Redistribution

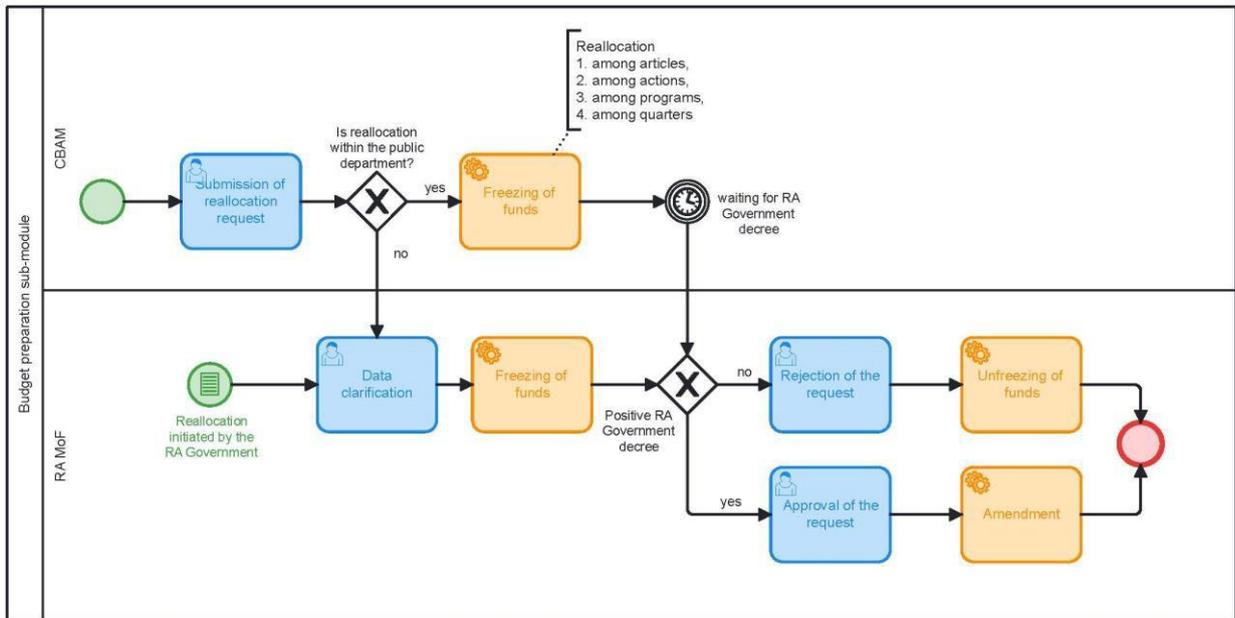
3.4.1 Redistribution without RA Government approval



Purpose:	Realization of redistributions in the approved budget without the approval of the RA Government
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Description/ process	<p>After the RA National Assembly approves the state budget for the coming year, the planned changes in the budget take place through redistribution.</p> <p>Redistributions are planned to be implemented with the help of the Budgeting sub-module. Redistributions that do not require the approval of the RA Government will be carried out by the following process.</p> <p>If the body initiating redistribution plans to carry out intra-article redistribution, it will carry out the process independently with the system without the approval of the superior. The system will automatically not allow redistribution for the lines for which a procurement process has been initiated in the procurement module.</p> <p>If redistribution is planned between different items of the same event (between items of the same nature, for example, from one current expense item to another current expense item), then by indicating the outgoing and incoming items and the amount of money, the system automatically freezes funds in the amount of the specified amount. It should be noted that the freezing of funds is carried out only in the amount of the amount presented on free funds available at the moment. If the deductible item has a purchase process initiated in the purchasing module, the system will not allow redistribution.</p> <p>Upon approval of a reassignment request by a higher authority, reassignment changes will be implemented in the system. If the request is rejected, the system will unfreeze the funds.</p> <p>The data changed as a result of redeployment will be available to the Procurement and Treasury module.</p>
A link to an existing process	BE11-State budget redistributions
Territory:	Budgeting sub-module
Actors:	Initiating body, superior body
Input data	
Output data	B1.3:

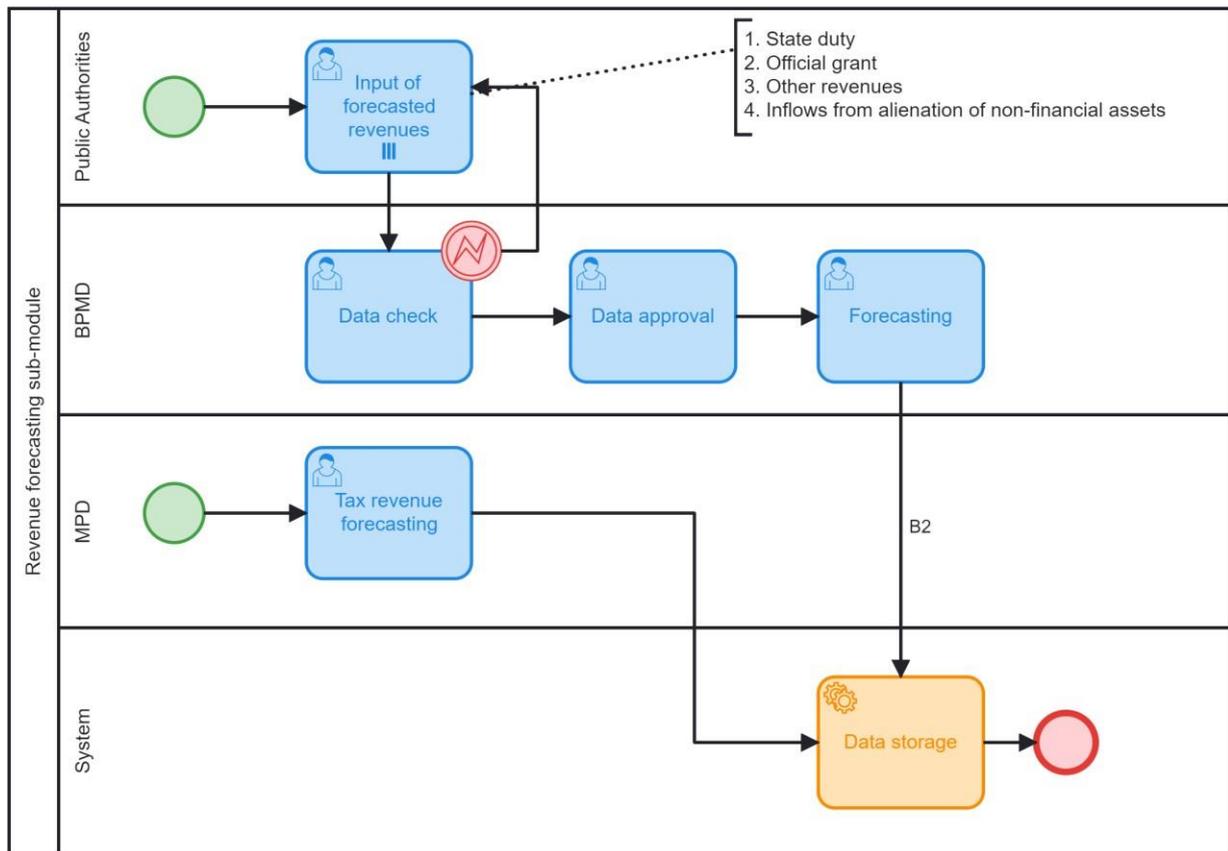
3.4.2. Redistribution by the RA Government's decision



Purpose:	Realization of redistributions in the approved budget with the approval of the RA Government
Description/ process	<p>The authority can initiate redistribution between programs owned by it, between activities, between articles (between articles of different nature, for example, transfer from a current expenditure article to a capital expenditure article) and between quarters. In this case, by filling in the necessary input and output data (program, event, article, amount), the system will automatically freeze funds in the amount specified. If the deductible item has a purchase process initiated in the purchasing module, the system will not allow redistribution.</p> <p>Freezing of funds will be carried out only in the amount of the amount presented on free funds available at the moment. In parallel with the process carried out by the system, the body will also submit the appropriate redistribution project for the approval of the Government of the Republic of Armenia. If the Government of the Republic of Armenia approves the project, the Ministry of Finance of the Republic of Armenia must also approve the redistribution request in the system, after which the planned changes will be made in the system. If the Government of the Republic of Armenia rejects the project, the Ministry of Finance of the Republic of Armenia must systemically reject the request for redistribution, as a result of which the system will automatically freeze the funds.</p>

	<p>Redistribution can also be initiated by the Government of the Republic of Armenia, transferring the program belonging to one body under the responsibility of another body. In this case, the RA Ministry of Finance will fill in the required data (bodies, output/input program, event, article, amount). Once entered, the system will automatically freeze the deductible item funds. In case of a positive decision of the Government of the Republic of Armenia, the Ministry of Finance of the Republic of Armenia will approve the request for redistribution, and in case of refusal, the funds will be frozen.</p> <p>In addition to changes in financial indicators, reallocations can also have changes in non-financial indicators. Changes in performance indicators will also be entered into the system.</p> <p>Realization of redistributions with the help of the described process with the help of the system will have a number of advantages, namely:</p> <ul style="list-style-type: none"> * it will not be possible to redistribute in the purchase module to the lines that have started the purchase process. * the freezing of funds will be carried out on free funds, * it will be possible to control the balances of funds, not allowing to redistribute more than the limit of funds, * the most optimal organization of the redistribution process, * the system will generate all applications that have undergone changes as a result of redistribution. <p>process of opening the limit for financing with special programs will be carried out through the budgeting sub-module. The process is described in more detail in subsection 3.3.2 of the Treasury module document.</p>
A link to an existing process	BE11-State budget redistributions
Territory:	Budgeting sub-module
Actors:	Ministry of Finance, Ministry of Finance of the Republic of Armenia
Input data	
Output data	B1.3:

3.5 Projection of Non-Tax Revenues

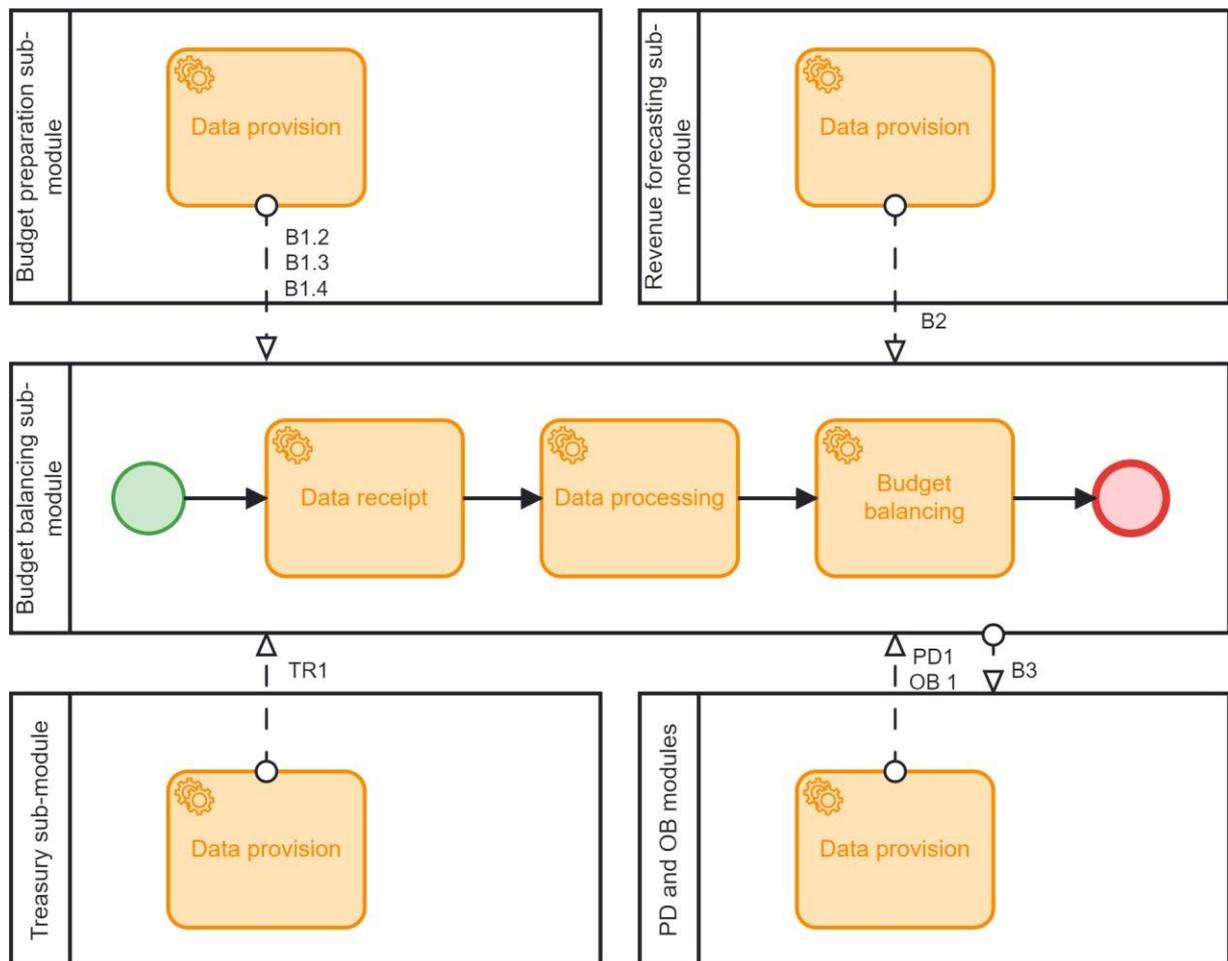


Purpose:	Submission of forecasts of non-tax revenues by public authorities to the RA Treasury
Description/ process	<p>In the process of forecasting non-tax income (hereinafter referred to as income), there can be an unlimited number of both users and levels, whose powers and capabilities will be defined in the user management module.</p> <p>From the point of view of gradation of the provision of information, the RA Finance Ministry will receive the information directly from the public authorities (departments, governorates, ministries). The information on the income will be formed and presented by the public authority bodies with appropriate calculations, as well as explanations justifying the calculations. With this process, there is no separation of BSC and BSC or program and event. Each body will provide its own non- tax revenue forecasts to the relevant department of the RA Finance Ministry, where the collected information will be verified and analyzed to make revenue forecasts at the state budget level.</p> <p>The projected number of non-tax revenues is one of the important pieces of information for the IAC to forecast and set the fiscal framework for a given year.</p>

	<p>As a result of the automation of the mentioned process, it will be possible to collect information very quickly and efficiently. You will no longer need to perform time-consuming manual work (for example, consolidating data with xls versions received from different bodies into one working xls, checking missing data, logging into another system to see previous year's data, manually entering data received into the system, etc.).</p> <p>The system will automatically show the authorities that have not yet sent the required information, giving you the opportunity to send reminders. The information obtained will be able to be grouped according to different parameters, making more efficient work and accurate predictions.</p> <p>Revenue forecasting sub-module will also include tax revenue forecasts made by the IMC. As a result, revenue information will have a single source, and as a result of complete data entry, state revenue data will be available within a single system.</p>
<p>A link to an existing process</p>	<p>Implementation of forecasts of other revenues of the revenue part of the state budget for the purpose of forecasting the BM3-MPDP (including the next year's state budget)</p> <p>BM5-MPDP (including the next year's state budget) recording of state duty requests for the revenue part of the state budget</p> <p>BM6- budgetary receipts from operations with non-financial assets of the MDP (including the next year's state budget)</p> <p>Implementation of forecasts of official grants (EU budget support) of the revenue part of the state budget for the purpose of forecasting the macroeconomic indicators that are the basis of the BM15-MPDP project (including the state budget for the coming year)</p> <p>BA3-Implementation of other income forecasts of the income part of the state budget in order to forecast the macroeconomic indicators that are the basis of the next year's state budget draft</p> <p>BA5-Implementation of forecasts of the income part of the next year's state budget - state taxes</p> <p>BA6-Budgetary receipts from operations with non-financial assets of the next year's state budget</p> <p>BA11-Implementation of forecasts of official grants of the income part of the state budget in order to forecast the macroeconomic indicators that are the basis of the state budget project for the next year</p> <p>BE1-Other income Quarterly (incremental) proportions of forecasts implementation</p> <p>BE2-Official Grants Quarterly (Incremental) Proportions Realization of Forecasts</p> <p>BE3-Implementation of forecasts of Quarterly (incremental) proportions of state duty</p>

	BE4- Implementation of forecasts of quarterly (incremental) proportions of income from operations with non-financial assets
Territory:	Revenue Forecasting Submodule
Actors:	Bodies of public authority, State Security Service of Ukraine, Security Service of Ukraine
Input data	
Output data	B2:

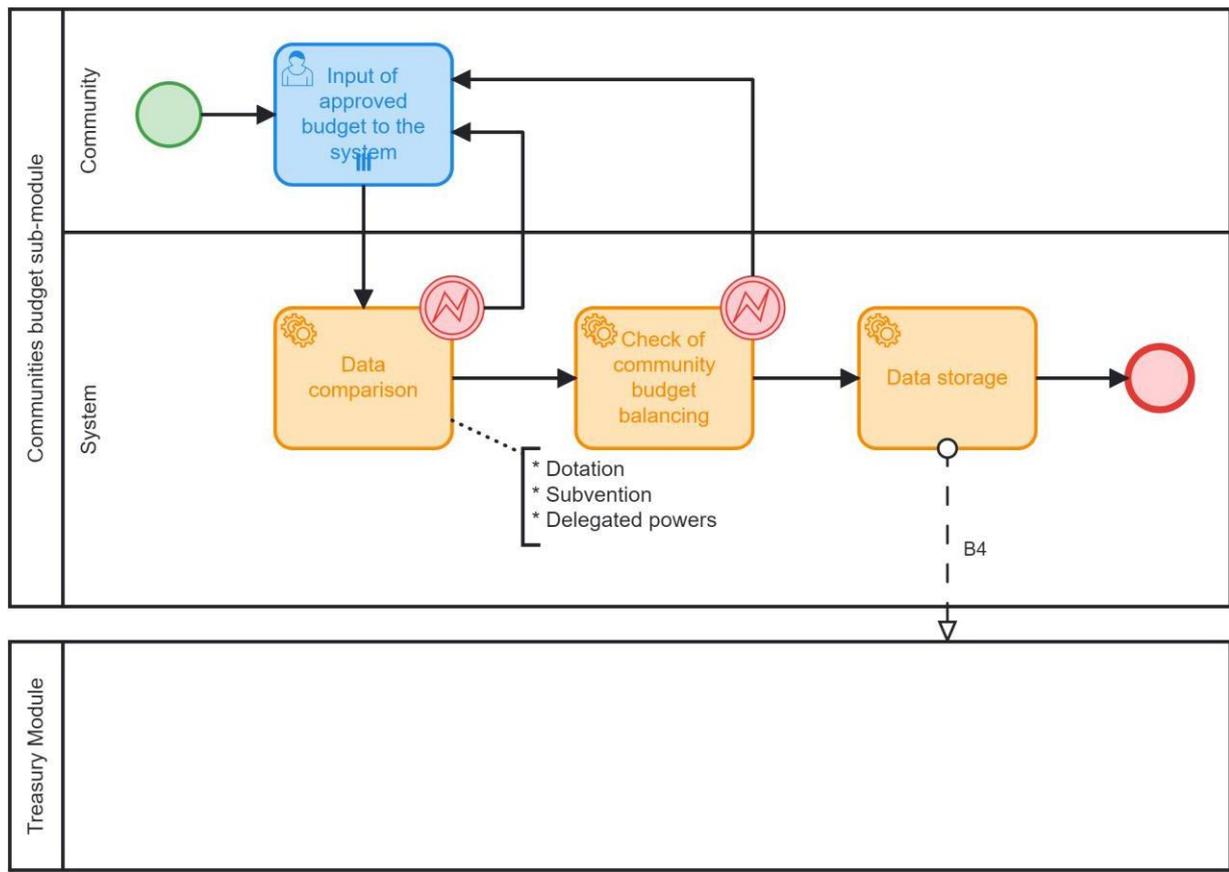
3.6 Budget balance (deficit balance)



Purpose:	Implementation of budget balancing (including deficit balancing) as a result of receiving data from various modules
Description/ process	<p>The budget balancing process will be carried out with the help of the mentioned sub-module. The necessary funds for budget balancing will be obtained from various modules and sub-modules, namely:</p> <p>Budgeting sub-module - This sub-module will capture both PA expenditure data (eg approved budget data, revised budget data) and PA output data. It will</p>

	<p>be possible to receive the data both in an open version, for example, a program with events, and aggregated into a single number.</p> <p>Revenue forecasting sub-module - This sub-module will provide data on the total revenue (tax and non-tax) of the PB.</p> <p>Treasury Module - This module will provide data on the beginning of the year free balances and stabilization deposit account.</p> <p>Public Debt and Liabilities Modules - These modules will capture the receipts (domestic and external) from the repayment of loans and advances, as well as data on funds involved.</p> <p>With the help of the budget balancing sub-module system, it will be possible to optimize the currently implemented process, as all the necessary data will be received and processed in one system. This tool can also be used as a tool for checking the performed works, with the help of which it will be possible to find out the existence of deviations and the reasons for their occurrence (details of the process are presented in sub-chapter 1.3).</p> <p>The system , receiving the necessary data , will find out the extent of the excess of expenditures over revenues (Budget deficit) and will provide the obtained information to the PP module to find unnecessary internal and external sources for the settlement of the deficit .</p>
A link to an existing process	<p>BM9-budget deficit in the balance of MDP</p> <p>BA9-Budget deficit in the coming year</p> <p>BE8-Quarterly distribution of budget deficit balance</p>
Territory:	Budget balancing sub-module, Budgeting sub-module, Revenue forecasting sub-module, Treasury module, PPP module,
Actors:	
Input data	B1.2, B1.3, B1.4, B2.1, B2.2, PP1.1-PP1.5
Output data	B3:

3.7 Community budgets



Purpose:	Receipt of approved budgets of communities by councilors
Description/ process	<p>With the help of the community budget sub-module, it is planned to receive the budgets of the communities approved by the council.</p> <p>The system will enable municipalities to enter council-approved budgets into the system, or, where possible, integration with other systems will be implemented to automatically receive the necessary data.</p> <p>The data of the municipal budgets will be presented in the following structure: functional classifier, income and economic expenditure items, amount distributed by month. Items containing a purchase expense will be presented with a GMA code, purchase item, unit of measure, unit price, and purchase form.</p> <p>In the future, in case of being identical to the data structure of the budgeting sub-module (communities will present expenses according to the program-event when switching to program budgeting), communities will also be able to form budget data in the budgeting sub-module.</p> <p>This submodule will also reflect the data on grants, subsidies and delegated powers from the PA to the communities.</p>

	<p>The system will perform the following checks:</p> <p><i>subsidies</i> calculated by the RA Ministry of Finance (this figure also includes the amounts of compensation for the losses of the municipalities' budgets as a result of the implementation of the adopted laws) <i>not less than 4 percent of the total actual revenues of the RA consolidated budget in the second budget year preceding the given year</i>).</p> <p>* The system will check the compliance of grants, subsidies and delegated powers from the state budget to the communities with the data reflected in the revenues in the approved budgets provided by the communities.</p> <p>* The system will also check the balance of the budget submitted by the community.</p> <p>The final approved data will be available to the Treasury module to carry out appropriate transfers and checks (budget execution control).</p> <p>Based on the information available in this sub-module and other sub-modules of the budgeting module, it will be possible to obtain the consolidated budget figure at the state level.</p>
A link to an existing process	<p>BA1-Prediction of consolidated budget indicators</p> <p>BA2- Ensuring the implementation of the state budget process of the next year of the implementation of the RA law "On the procedure for compensating the losses of the community budget revenues by the state as a result of the implementation of the laws of the Republic of Armenia reducing the revenues of the community budget".</p>
Territory:	Community Budgets sub-module
Actors:	TKE, Communities, RA Ministry of Finance
Input data	
Output data	B4: