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| Annex N 1  To the decision N 1716-L of the RA Government  dated 28 Nov 2019 |
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| STRATEGY  ON PUBLIC FINANCE MANAGEMENT SYSTEM REFORMS 2019-2023 |
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| LIST OF ABBREVIATIONS |
| |  |  | | --- | --- | | **ARMEPS** | Armenian Electronic Procurement System | | **NA** | National Assembly of the RA | | **IMF** | International Monetary Fund | | **MoHTI** | Ministry of High-Tech Industry of the RA | | **GIZ** | German International Cooperation | | **EU** | European Union | | **EEU** | Eurasian Economic Union | | **MoE** | Ministry of Economy of the RA | | **DP** | Development Partners | | **PB** | Program Budgeting | | **PI** | Performance Indicator | | **GFMIS**  **WB** | Government Finance Management Information System  World Bank | | **NGO** | Non-Governmental Organization | | **AC** | Audit Chamber of the RA | | **RA** | The Republic of Armenia | | **PSA** | Public Sector Accounting | | **GDP** | Gross Domestic Product | |  |  | | **PIM**  **MTEF**  **MoEnv** | Public Investment Management  Medium Term Expenditure Framework  Ministry of Environment of the RA | | **PEFA** | Public Expenditure and Financial Accountability | | **SRC** | State Revenue Committee of the RA | | **SA** | State Governance Authority(ies) | | **PIFC** | Public Internal Financial Control | | **SNCO** | State Non-Commercial Organization | | **PFM** | Public Finance Management | | **PFMS** | Public Finance Management System | | **PFMSR** | Public Finance Management System Reforms | | **SIGMA** | Support to Public Administration and Governance Reforms | | **EBRD** | European Bank for Reconstruction and Development | | **TA** | Technical Assistance | | **LSGB** | Local Self-Government Body | | **MTAI** | Ministry of Territorial Administration and Infrastructure of the RA | | **IT**  **CSO** | Information Technology  Civil society organization | | **MoF** | Ministry of Finance | |  |  | |

## INTRODUCTION

1. Historically, the Public Expenditure and Financial Accountability (PEFA) Assessments have been the benchmarks for evaluating PFMS and implementing reforms in Armenia. It was first implemented in 2008 with WB support. A similar assessment, in the narrowest sense - of public expenditure management, was carried out back in 2002 with the support of the WB in Armenia, the results of which were used in the process of reforming the budgeting process. As a result, the first PFMS Reforms Strategy and the Action Plan 2010-2014 to be implemented within the reforms were approved by the decision No. 42 of the Government of the Republic of Armenia, dated 28 October 2010.
2. The second PEFA assessment was carried out in 2013, which aimed to present developments and changes in the PFM system in the Republic of Armenia since the first assessment. As evidenced by PEFA Assessment Report 2013, ongoing reforms in the PFM system have contributed to improving the effectiveness of the PFM system.[[1]](#footnote-1) A number of international organizations, including the European Union, the German International Cooperation (GIZ) and the WB, have provided methodical and technical support to PEFA evaluation and reporting conducted in 2013, which gave the opportunity to provide a more accurate and objective PEFA assessment. This is also evidenced by the PEFA CHECK provided by PEFA Secretariat on the PEFA Assessment Report.
3. In the framework of technical assistance provided by the European Union in 2014, the activities, carried out under the PEFA Reforms Strategy 2011-2014, were evaluated, and based on the assessment results, as well as the new PEFA-2016 Framework adopted by PEFA Secretariat in February 2016, the revised PEFA Reforms Strategy 2016-2020 (the second strategy of PEFAR) was developed and approved by protocol decision adopted by paragraph 15 of No.6 protocol of the Government of the Republic of Armenia, dated 18 February 2016.
4. This third strategy sets out the key indicators for assessing the vision, goals, implementation measures and results of the PEFA Reforms 2019-2023. The strategy has been developed on the basis of commitments undertaken by the Government of the Republic of Armenia for the period 2019-2023, the results of the self-assessment of the PFM system by the Ministry of Finance and the following key publications:

1) “Baseline Assessment Report on the Public Sector of Armenia” (Report) SIGMA, March 2019;

2) “Assessment of Public Investment Management in the Republic of Armenia. Technical Assistance Report” International Monetary Fund (IMF) No. 19/33, January 2019;

3) Report on Public Expenditure and Financial Accountability (PEFA) Assessment of 2013 implemented in the Republic of Armenia.

1. The actions/measures undertaken in the framework of PEFA reforms and their implementation periods are set out in Annex 2 of the present decision (hereinafter-Annex 2).

## THE VISION AND GOALS

## The vision of PFM reforms is to ensure fair distribution of the public good. Therefore, it is necessary to ensure:

1. adequacy of adjustments, forecasts and decisions;
2. targeted, efficient and cost-effective use of the public good;
3. integrity of transparency, accountability and control.
4. The goals of PEFA reforms are to:
5. enhance fiscal discipline and increase the predictability of the budget system by creating guarantees for ensuring macroeconomic stability;
6. ensure the implementation of fiscal policy in line with the policies planned on the basis of macroeconomic and fiscal rules, taking into account that deviations can cause both fiscal and general macroeconomic risks, endangering macroeconomic stability, reducing the confidence in public administration, as well as have negative impact on the RA rating and attraction of foreign investments;
7. minimize deviations between the planned and actual figures by establishing mechanisms to identify causes of deviations from the planned budgeting process and to take steps towards preventing them in future;
8. ensure that resources are linked to the key policies and that they are consistent with the priorities and policy targets;
9. ensure the accountability and transparency of the use of public good.
10. One of the most urgent and important tasks of PEFA reforms is the digitization and application of modern information technology tools. The Government Finance Management Information System (GFMIS) built on a unified database will ensure the unity and integrity of the public finance management system.
11. The Government of the Republic of Armenia is responsible for implementing the vision and goals, and the Ministry of Finance is responsible for leading and organizing this process.

## COMMITMENTS OF THE GOVERNMENT

1. The following are the commitments of the Republic of Armenia Government envisaged by the Program 2019-2023 in the field of PFM:
2. Cost-effective management of credit and grant programs;
3. Development and improvement of the use directions of the involved borrowed funds aimed at the formation and development of human resources and value-added infrastructures, which will further increase the export volumes and promote greater inclusion of economic growth;
4. Improvement of tax policy and modernization of tax administration aimed at reducing the shadow economy and forming a competitive business environment. It is envisaged to develop and introduce a unified tax potential and actual tax gap assessment methodology, based on the results of which a program of tax abatement actions will be implemented, which will provide an adequate level of tax-to-GDP ratio;
5. Purposeful, cost-effective and efficient use of public finances. To achieve this, a "surplus value" creation toolkit will be introduced, that will allow the transition from the methodology of setting program quantitative indicators in public financial management system to a target budgeting system based on qualitative indicators;
6. A shift to strategic planning will be made to ensure increase in purposefulness of expenditures. The existing strategies, the latter and all strategic documents to be developed will be reviewed in combination with the Government's five-year programs, medium-term expenditure plan and annual state budget;
7. Improvement of financial discipline. In order to evaluate the quantitative and qualitative output indicators of the programs financed from the state budget of the Republic of Armenia, mechanisms of accountability will be established, and a cost-result logical system will be introduced in the budget process;
8. Optimization of public administration system. In order to increase the efficiency of the use of human and material resources, recurring functions will be disclosed, the functions of state authorities and organizations subject to them will be clarified, which will increase the efficiency and effectiveness of state authorities. The logic of spending policies will gradually change: by optimizing the public administration system, the state budget will be transformed from a **“payroll”** budget into a **“pay for public service”** budget;
9. Increasing the share of expenditures on human capital and infrastructure. Continuous development of human resources, continuous organization of and ensuring participation in trainings, courses and seminars aimed at improvement of professional knowledge and working skills;
10. Increasing the share of capital expenditures in the state budget;
11. Introducing a fair and transparent system of public procurement. A new e-procurement system will be introduced, which will also allow to expand the range of customers operating the system. Also, the supply of goods and services in a timely manner, with prescribed quality and order will be monitored electronically. In case of deviations, the legislative field will be continuously improved on the basis of the problems identified, reflecting the necessary changes in the electronic procurement system as well; [[2]](#footnote-2)
12. Through implementation of information technology systems, a single electronic PFM system will be introduced, which will ensure the efficiency of PFM system, increase the level of reliability of data and information needed for decision-making at the expense of ensuring possible interoperability with other operating information systems, also. In turn, it will reduce the likelihood of significant errors due to human factor;
13. Introduction of the public investment management system;
14. Actions aimed at controlling the causes of corruption in the field of public finance management and eliminating or neutralizing them.

## THE FRAMEWORK OF REFORMS

1. The reform framework of PEFA covers the following areas:
   * + 1. Forecast of key macroeconomic and budget indicators, tax risk reporting;
       2. State revenue policy, tax administration;
       3. Strategic planning, drafting of medium-term expenditure plans and state budget, program budgeting;
       4. Supervision over the budget execution process, treasury system;
       5. Public debt;
       6. Public sector accounting;
       7. Corporate accounting and auditing;
       8. Financial Management and Control of State Organizations - State Non-Commercial Organizations (SNCO);
       9. Public procurement;
       10. Public internal financial control and financial-budgetary control;
       11. Management of public assets and public investment;
       12. Financial management of local self-government bodies;
       13. External control and audit;
       14. Introduction of GFMIS. Taking into account, that introduction of GFMIS is one of the fundamental and key PFM reforms, therefore its introduction will require revision and harmonization not only in almost all areas of PFM, but also its synchronization with all electronic systems in the RA. Taking into consideration the importance of introduction of GFMIS, it is presented as a separate area/component in this strategy.

## OBJECTIVES OF THE AREA, STRATEGIC GOALS, TARGETS AND MEASURES AIMED AT THEIR IMPLEMENTATION

1. This strategy reveals issues in each area of PFM and outlines the objectives, targets and measures to be taken to address them in 2019-2023. In order to ensure the strategic targets in PFM areas, the Strategic Action Plan identifies responsible bodies/units set for each target, output evaluation indicators, risks related to the measures’ implementation and actions to address those risks.

## FORECAST OF BASIC MACROECONOMIC AND BUDGET INDICATORS, FISCAL RISKS REPORTING

1. Forecast of macroeconomic and budget indicators

**Description of the current situation and related issues**

Well-founded and reliable macroeconomic and fiscal frameworks allow for the development of targeted fiscal policy by enhancing its effectiveness and public confidence in public policy (government), with a number of institutional and economic positive consequences.

From this point of view, an up-to-date toolkit of forecasting and analysis based on the theories of the modern world and accepted internationally, should play an important role in the development of the macroeconomic policy. In this regard, in addition to the existing and periodically improving sectoral models at theMoF , there is a need to introduce a new and comprehensive toolkit for assessment of medium-term and long-term fiscal policy impacts and medium-term forecasts, which will complement the existing toolkit and give a new quality to the system of forecasts and analysis of the MoF.

To introduce a new toolkit of forecasting and fiscal policy analysis, in recent years, development and introduction of DSGE (Dynamic Stochastic General Equilibrium) models have been carried out with the assistance of the IMF and the Ministry of Finance of the Russian Federation.

Continuous upgrading and application of this toolkit requires highly qualified personnel, teamwork and investments targeting continuous professional development. However, shortage of qualified personnel, difficulty in recruiting a new qualified staff and outflow of existing staff and due to non-competitive remuneration cause risks associated with the loss of gained experience and knowledge and effective implementation of the above-mentioned tasks.

**The objective**

***Improving fiscal policy effectiveness and quality of macroeconomic forecasts*** ***and scenario analysis***

**Final performance output indicators**

1. Availability of an up-to-date toolkit for fiscal policy analysis and medium-term macroeconomic forecasts;
2. Introduction and use of a new toolkit in the budget process;
3. More comprehensive and precise assessments and analysis of the impact of fiscal policy on the economy;
4. Improved assessment of fiscal risks at macroeconomic level;
5. Estimates of the impacts of deviations from the planned fiscal policies on the economy;
6. Availability of personnel with relevant qualification and skills.
7. Development of the final version of the model(s), introduction to the MoF and full implementation

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator (s)** |
| 1․ Development of the final version of DSGE model (s) | * Workshops * Organization of seminars (IMF, MoF of the RF) * Development and testing of the model (s) | Availability of an up-to-date toolkit for fiscal policy analysis and medium-term macroeconomic forecasts |
| 2․ Introduction and full implementation of DSGE model (s) | * Implementation of a new model in the development stages of the state budget and MTEF * Assessment of the impact of the envisaged fiscal policy changes by the new toolkit | Introduction and use of a new toolkit in the budget process More comprehensive and precise  assessments and analysis of fiscal policy impacts on the economy |

1. Assessment of the impacts of deviations between the planned and actually implemented fiscal policy based on macroeconomic and fiscal rules

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Identification of deviations between the planned and actually implemented fiscal policy and impact assessment | * Monitoring of the implemented policy * Comparative analysis of the planned and actually implemented fiscal policies * Assessment of the implemented policy impacts on the economy | * Improved assessment of fiscal risks at macroeconomic level * Estimates of the impacts of deviations from the planned fiscal policy on the economy |

1. Ensuring personnel with relevant qualification and skills

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| **Measure** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Implementation of measures aimed at enhancing qualification of the personnel | * Continuous development of professional skills and capacities as well as continuous development of a [knowledge base](https://context.reverso.net/%D0%BF%D0%B5%D1%80%D0%B5%D0%B2%D0%BE%D0%B4/%D0%B0%D0%BD%D0%B3%D0%BB%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D0%B9-%D1%80%D1%83%D1%81%D1%81%D0%BA%D0%B8%D0%B9/knowledge+base) | * Availability of personnel with relevant qualification and skil |

1. Accountability of fiscal risks

Description of the current situation and related issues

The function of the fiscal risk assessment relates to periodic analysis of fiscal consequences as a result of activities by state-owned enterprises, regulated public service companies, companies receiving loans (sub-loans), guarantees or subsidies from the RA state budget, as well as companies[[3]](#footnote-3) involved in state-private partnership programs by the RA Government in the above-mentioned areas.

Current fiscal risk assessment process does not provide the full coverage of fiscal risk sources, and there are no mechanisms for response actions based on fiscal risk assessment (submitting appropriate recommendations on procedures for restraining the probability of risks’ materialization or mitigating their consequences, and taking appropriate actions by the competent authority) [[4]](#footnote-4). Moreover, according to the analysis and assessments of a number of international organizations (Sigma Report, IMF, ADB, etc.) [[5]](#footnote-5), it is necessary to strengthen the role and powers of the Fiscal Risk Assessment Unit of the Ministry of Finance.

**The objective**

* Early detection of individual fiscal risks in the economy, ensuring fiscal predictability

**Final performance output indicators**

1. Effective implementation of fiscal risk monitoring process:

* availability of framework for fiscal risk assessment and improved methodology (toolkit);
* availability of mechanisms for response actions (recommendations on procedures for mitigation/restraint actions) based on fiscal risk assessment;

1. Development of analytical capacity of fiscal risk assessment specialists.
2. Improving the fiscal risk assessment function

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Expanding the scope of fiscal risk assessment, improving methodology | * Expanding the coverage of fiscal risk assessment * Improvement of methodology in line with the international best practice * Elaboration of mechanisms for making recommendations on restraining the probability of risks’ materialization or mitigating their consequences * Implementation of relevant activities based on the results of fiscal risk assessment | * Fiscal risk assessments cover an expanded range of sources of fiscal risks * Improved fiscal risk assessment methodology y |

1. Development of the analytical capacity of fiscal risk assessment specialists

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Capacity building | * Capacity building * Development and approval of a capacity building program * Development of capacities in line with the approved programme | Specialists with improved analytical skills in assessing fiscal risks |

## STATE REVENUE POLICY, TAX ADMINISTRATION

1. The Revenue Policy

**Description of the current situation and related issues**

The Government has set out in its plan that the tax policy of the state should be aimed at reducing the shadow economy and creating a competitive business environment. According to the estimation of the RA Statistical Committee, the unobserved economy accounts for approximately 22% of GDP.[[6]](#footnote-6) In addition, further reforms of the tax system should be largely based on the priorities of the national economic development and should be oriented towards increasing the investment attractiveness and economic activity of the sectors considered to be the most important from the point of view of economic development.

At the same time, the existing tax legislation provides for numerous tax privileges and it is necessary to evaluate the effectiveness and targetability of the existing tax privileges, after which the low efficiency and non-targeted tax privileges should be eliminated.

The next issue relates to the differences in the tax burden created within different tax systems. Thus, the tax burden created in the general taxation system is substantially higher than the tax burden created in the turnover tax system, as a result of which business entities seek to operate in the turnover tax system. The turnover tax system should be transformed into/perceived not as a reduced tax burden privileged system, but as a "temporary" taxation system for business entities with sales below a certain threshold of sales turnover, which should result in lowering the tax burden and therefore be economically profitable. At the same time, the approach of setting a relatively high tax burden on the turnover tax is also substantiated by the economics of the resources spent on tax accounting. At the same time, the approach of setting a relatively high tax burden on the turnover tax is also substantiated by saving of the resources spent on tax accounting by business entities.

Also, it is important to address the issues related to documentation of transactions. Under current legislation, the practice of documenting agricultural sales’ transactions is actually non-existent. In this regard, new practically feasible opportunities for documenting agricultural sales’ transactions should be created.

Property tax potential is not successfully used in the Republic of Armenia. This refers particularly to real estate tax, where the tax base is severely underestimated, which does not allow for full taxation of the real estate units. In this regard, the property tax system needs to be revised to provide economically sound, reasonablе tax burden for property units that are considered of high value and/or luxury, based on prices approximated to their market values ​​as tax bases.

**The objective**

* Contribute to development of national economy, increase investment attractiveness, as well as efficiency of income redistribution.

**Final performance output indicators**

1. There is tax environment consistent with priorities and opportunities of economic development;
2. The scope of the existing tax privileges is reduced;
3. As a result of revision of the tax burden on turnover tax, an adequate tax burden is established for the turnover tax system;
4. The issues related to proper documentation of sales’ transactions of agricultural products are settled;
5. Adequate tax on visible wealth or property. For high-value and/or luxury units, economically justified, reasonable tax burden is established based on prices approximated to their market values as tax bases;
6. There is an income declaration system based on economic incentives.
7. Assessment of tax needs based on economic development priorities and opportunities

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Outline directions for further reforms of the tax system based on economic development priorities and opportunities | * Conducting studies on assessment of needs in the tax environment * Submitting research-based recommendations for further directions of reforms of the tax system | Directions for further tax reforms are outlined |

1. Reducing the scope of application of tax privileges

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Development of the RA Draft Law "On Amendments and Supplements to the RA Tax Code" | * Evaluating the effectiveness and targetability of the current basic tax privileges * Submitting recommendations for elimination of low efficiency and non-targeted tax privileges based on the assessment results * Development of the draft in accordance with the procedures set out by the RA Legislation * Presentation to the RA National Assembly for discussion | Low efficiency and non-targeted tax privileges are eliminated |

1. Revision of the tax burden on turnover tax

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Development of the RA Draft Law "On Amendments and Supplements to the RA Tax Code" | * Conducting studies on increasing the tax burden on turnover tax * Submitting recommendations for increasing the tax burden on turnover tax based on the results of studies * Development of the draft in accordance with the procedures set out in RA Legislation * Submission to the RA National Assembly for discussion | The turnover tax burden is revised as a result of the studies carried out |

1. Resolving issues related to documentation of sales’ transactions of agricultural products

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Development of the RA Draft Law "On Amendments and Supplements to the RA Tax Code" | * Conducting studies on documentation of sales’ transactions of agricultural products * Submitting recommendations for documentation of sales’ transactions of agricultural products * Development of the draft in accordance with the procedures set out in the RA Legislation * Submission to the RA National Assembly for discussion | Issues related to documentation of transactions are resolved |

1. Relevant tax on visible wealth or property

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Development of the RA Draft Law "On Amendments and Supplements to the RA Tax Code" | * Conducting studies on the review of property tax system * Submitting recommendations for review of the property tax system * Development of the draft in accordance with the procedures set out in the RA Legislation * Submission to the RA National Assembly for discussion | Visible wealth or property is taxed accordingly |

1. Introduction of an income declaration system operating on the basis of economic incentives

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| 1. Development of the RA Draft Law “On Amendments and Supplements to the RA Tax Code” | * Conducting studies on introduction of an income declaration system (tax deductions) operating on the basis of tax incentives * Submitting recommendations for making studies on introduction of an income declaration system (tax deductions) operating on the basis of tax incentives * Development of the draft in accordance with the RA Legislation * Presentation to the RA National Assembly for discussion | The legal framework for introduction of an income declaration system, operating on the basis of economic incentives, is provided . |

1. Transparency and compliance of the revenue administration

Description of the current situation and related issues

The tax authority will have a consistent and ongoing fight against the shadow economy. In addition, the tax administration should be non-discriminatory, thereby guaranteeing the exclusion of taxpayers with privileged status and creating an equal tax environment for all taxpayers.

Data on tax refunds from the state budget are currently not published. Taxpayers do not have access to taxpayers’ information on amounts refunded to taxpayers from the state budget. Along with information published by the Ministry of Finance on income and/or expenditure, it is also necessary to publish information on tax refunds from the state budget to ensure the integrity and transparency of budget processes. The tax authority receives information that is important for taxation from other state authorities in the periods following the transaction, and in some cases does not receive separate information that is significant from a tax perspective.

**The objective**

Increasing the efficiency of tax administration and reducing the volumes of shadow economy, ensuring sustainable growth in public revenues

**Final performance output indicators**

15) Estimates of the tax potential and gap for the three major tax types (VAT, profit tax, income tax); 16) Ensuring transparency of the budget revenue collection processes;

17) Continued reduction in the volumes of shadow economy, exclusion of preferential taxpayers;

18) Ensuring full and timely declaration and execution of tax liabilities by taxpayers;

1. Assessment of the tax potential and gap

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| **Measures** | **Description of steps addressed to implementation of measures** | **Expected output indicator(s)** |
| Assessment of the tax potential and gap for the three major tax types (VAT, profit tax, income tax) | * Development of methodology on assessment of tax gaps in three major tax types (VAT, profit tax, income tax) * Compilation of necessary information * Improvement of methodology * Conduction of assessments | * Availability of methodology for assessment of tax potential and gap for the three major types of tax (VAT, profit tax, income tax) * Estimates of the tax potential and gap for the three major tax types (VAT, profit tax, income tax) |

1. Publication of information on tax refunds to ensure public finance transparency

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| 1. Publication of information on state tax refunds on quarterly basis | * Collection of necessary information * Summary and publication | Relevant information published |

1. Continuous reduction in the volumes of shadow economy, exclusion of preferential taxpayers

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| 1. Expanding opportunities to gathering information from the third parties and their effective use | Performing activities towards the effective cooperation with state authorities of the Republic of Armenia, which will contribute to increasing the efficiency of sector control based on the exchange of information. | * Reduction of the tax shadow * Excluding taxpayers with preferential status and creating an equal tax environment for all taxpayers |

1. Ensuring full and timely declaration and execution of tax liabilities by taxpayers

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| **Measures** | **Description of steps addressed to implementation of the measure** | **Expected output indicator(s)** |
| Capacity building and upgrading of the analytical control toolkit of the tax authority | Regularly review of performing procedures of analytical and control functions to meet the current tax control conditions | * The tax administration staff has the capacity to enforce tax legislation * There is a revised and constantly improving tax control toolkit |

## **Strategic Planning; Drafting of Medium Term Expenditure Frameworks and State budget**

Component 5. Program budgeting and strategic planning

**Description and challenges of current situation**

Despite the fact that the state budget for 2019 has been drafted and approved according to PB requirements; however, the linkage and harmonization of budget programs with the strategic planning system is not fully ensured.. This applies especially to identification of budget programme targets and corresponding output indicators as well as to their harmonization with the strategic planning system.

The mechanisms for coordination of strategic planning process and its harmonization with budgeting process are set out in the RA government protocol decree N 42-45 of October 5, 2017,which regulates the process of development, submission and control of the strategic documents influencing the state revenues and expenditures. The latter defines the common procedures ,the hierarchy and structures focusing mostly on ensuring the link between the strategic documents and budget programmes, this being based on the logic of PB reforms.

In this context the state governance agencies of the Republic of Armenia have rolled out, in accordance with the RA Government action plan for 2019-2023, activities aimed at review and elaboration of sector-specific strategies , which are built on the approaches set out by the above-mentioned decree, entailing the need for review of existing budgetary programmes and their harmonization with revised (in terms of their content) strategic documents.

The budget programs assessment shall assume a coordinated way of information receipt; analysis and use, the objective of which shall be to answer the questions about the efficiency and effectiveness of program. Currently budget programs regular assessment procedures are not introduced, which restricts the possibilities of the RA government to evaluate the impact and results of budget programs. An important step following the revision of budget programs and their alignment with the strategic planning system within the PB reforms is the introduction of a regular and periodic procedure for evaluation of the impact and effectiveness of budget programmes.

Although the RA state budget is drafted and approved in accordance with the PB requirements, however, the professional capacities of public authorities are still insufficient for effective budgeting and results-based planning in the PB context.

**Objectives**

* Compliance of budget programs with policies implemented with existing strategic documents;
* A regular process of evaluating the efficiency and effectiveness of budget programs is in place

**Final outcome indicators of performance**

19) The objectives and outputs of budget programs are derived from existing sectoral strategies and cover strategies that impact budget revenues and expenditures. 20) The budgeting process includes regular procedures for evaluating the effectiveness and efficiency of budget programs.

Target 16. The goals and output indicators of budget programmes included in the RA state budget for 2023 are aligned with the current sectoral strategies and cover all the strategies that impact the budget revenues and expenditures

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| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicators** |
| 1. Revision/elaboration of budget programs – according to the policies implemented by strategic documents | * Study of existing budget programs, assessment of their compliance with the strategic documents and review of the content and structure of budget programmes as needed. * Development and introduction of official procedures for elaboration of budget programme passports; * Review/development of passports for new/revised budget programmes | * Compliance assessment; * All programs included in the budget for 2023 are aligned with the current strategies; * The budget programmes for 2023 cover fully all strategies that have an influence on the budget revenues and expenditures;   All the programmes included in the state budget for 2023 (except for the programmes of administrative format) have programme passports, which, along with the draft state budget for 2023 are submitted to the RA NA; |
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| 1. Identification and settlement of practical problems related to the current PB methodology and its application; | * Conduct a study with the aim of identification of gaps and issues related to the PB methodology and its application; * Development of an action plan and timetable of activities to address the identified issues; * Implementation of measures aimed at improvement of the PB methodology in compliance with the action plan and the timetable | * A report on the study of the gaps and issues related to the PB methodology and its application is in place;   ;   * The action plan and the timetable for improvement of the PB methodology and its application is in place; * The measures aimed at improvement of the PB methodology are implemented in compliance with the action plan and the timetable; |
| 1. Measures aimed at the human resources development | * Regular assessment of existing institutional capacities (with respect to human resources) adequate to the requirements of the introduced PB system; * Review of the existing capacity building programme as deemed necessary; * Implementation of capacity building measures in line with the developed/revised action plan | * Availability of reports on assessment of existing institutional capacities (with respect to human resources) adequate to the requirements of the introduced PB system; * Availability of an up-to-date capacity building program * The measures aimed at capacity building are implemented in compliance with the approved programme |

Target 17. As of the end of the fiscal year for 2023, regular process of budget programme evaluation is in place in all government agencies responsible for budget programs.

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․ Development and approval of budget program | * Conducting a study and development of a concept paper for introduction of budget programmes’ evaluation function within the frame of the RA budget process * Development of budget programs evaluation guidelines based on the concept paper | * The concept paper of budget programs evaluation is available; * The guidelines for budget programmes evaluation are developed; |
| 2․ Introduction of a regular process of evaluation of budget programmes | * Development of the timetable and action plan for introduction of budget programs evaluation function * Implementation of measures aimed at introduction of budget programs evaluation function * Evaluation of budget programmes in compliance with the evaluation guidelines developed; | * The timetable and action plan for introduction of budget programs evaluation function evaluation function is available * As of the end of the fiscal year for 2023 , regular process of budget programme evaluation is in place in all government agencies responsible for budget programs..   As of the end of the fiscal year for 2023 at least one budget program implemented by each of the state agencies responsible for the budget programs is assessed in accordance with approved guidelines as a pilot initiative |

Component 6. MTEF Process, Budget discipline and transparency

**Description and challenges of current situation**

Within the RA state budget process for 2020 the RA state bodies have been required to cost separately the bids to be submitted to the RA MoF for 2020-2022 MTEF Process (including 2020 State Budget of the Republic of Armenia).according to the type of the expenditure commitments underlying the budget expenditures (mandatory and discretionary commitments)and priorities for their implementation. . However, this approach for 2020 budgeting process was pilot-based and currently, the procedures for separating the mandatory and discretionary costs incurring within the budget programmes as well as those for defining the size and scope of mandatory commitments in the budget related documents are not yet regulated. The Government of the Republic of Armenia has also reviewed the milestones, timeframes and approaches for the 2020 budgeting process, establishing unified procedures for drafting of the MTEF and annual budget, focusing on enhancement of effectiveness of the overall procedure and excluding the inconsistencies and duplications. Moreover, in the scope of the mentioned process, activities were planned and implemented targeting the promotion of effective involvement of civil society organization in MTEF and annual budget development processes and extension of the period provided for the discussion of budget documents in the RA NA. In this context, the RA Government will continue to implement the reforms aimed at improvement of the budget process.

State budget is a complex financial document , reading of which requires certain professional knowledge, and without further efforts, it can not be easily comprehended by the general public. To this end, along with the main state budget document it is necessary to circulate also the simplified version of the budget (Citizens’ Budget) which will be more easy to understand for the general public.

**Objectives**

* Identification of programs/measures related to mandatory and discretionary commitments of the government;

* Introduction of a unified procedure for MTEF and annual budget development

Enhancement of the role of civil society organizations in the budgetary process,

Availability of budget related information, and public awareness

1. Final result indicators of the performance

21 Programs / measures

*related to mandatory and discretionary commitments of the government are identified and documented;*

22) Availability of a unified procedure for MTEF and annual budget development

**23) Simplified budget and simplified budget execution reports are publicly available;**

24) The civil society organizations are more actively engaged in the budgeting process.

**Target 18.The programmes/measures stemming from the mandatory *commitments of the government are identified and documented***

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicators** |
| 1․ Identification/mapping of programmes/measures stemming from the mandatory commitments of the government | * Development of a relevant methodology * Development of a procedure for registering the mandatory commitments and introduction of changes thereon * Study, identification and registration of mandatory commitments of the government in compliance with the methodology. | * The relevant methodology is in place * The procedures are developed * The mandatory commitments of the government within the frame of the budgetary process for 2022 are identified and registered |

**Target 19. Introduction of a unified procedure for MTEF and annual budget development**

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicators** |
| 1 Establishment of legal framework and elaboration of a methodology for ensuring a unified procedure of MTEF and annual budget development | * Development of a timetable for the budgetary process and elaboration of methodological guidelines for budget bids preparation in view of the unified process for MTEF and annual budget development | * The MTEF and annual budget development activities are implemented through the unified procedure |

**Target 20. The Simplified Versions of State Budget and Budget Execution Reports are Available and Accessible to the General Public**

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicators** |
| 1. Development and publication of simplified versions of state budget and budget execution reports | * Development and allocation of simplified version of state budget and budget execution report for the year concerned on the official webpage of the RA MoF - [www.minfin.am](http://www.minfin.am). Publication of the simplified version of budget execution report for the previous year on the official web-page of the RA MoF- [www.minfin.am](http://www.minfin.am). Submission of the simplified version of state budget and budget execution report to CSOs and discussion of the mentioned documents (at least one public discussion on each of the documents) | * The simplified versions of state budget for 2021 and the report on budget execution are published on the official webpage of the RA MoF * Discussions on simplified version of the state and budget execution reports are held with the CSOS (at least 2 discussion annually) |

Target 21. More Efficient Involvement of Civil Society Organizations in Budgetary Process

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicators** |
| 1. Publication of information related to budget bids | * Publication of state agencies budget bids on their official web-sites, in a section accessible for CSOs | The state agencies budget bids are allocated on their web-sites, and are accessible for CSOs |
| 2. Establishment of platforms for discussion of budget bids with the CSOs | * Establishment of platforms within the RA state agencies, where they launch an active discussion on budget bids, their linkage with sector –related strategies and financial as well as non-financial indicators with the CSOs * Incorporation of results of discussions on budget bids held with the CSOs in the budget bids of the RA state agencies | * The RA State agencies have platforms for discussing the budget bids with CSOs * The budget bids of the RA state agencies contain the results of discussions held with the CSOs |

Component 7. Automation of budget programs’ costing process

**Current situation description and challenges**

Budget programme cost estimation and financial planning activities rolled out within the budgetary process are organized by relevant government agencies on the basis of numerous baseline data, including individual government-approved expenditure calculations of normative indicators. However, currently many of these functions included in the above-presented process of budget programme cost estimation are not adequately automated, as a result of which budgeting resources consumption is increased at the stage of budget programme cost estimation , with the likelihood of errors and deviations increasing, this leading to decrease of effectiveness of public finance management. In this regard, the RA MoF has initiated activities aimed at design of an automated system of budgeting programs cost estimation, which are currently under way. It is expected that the automated system for budget program cost estimation will be further integrated into the GFMIS.

**Objectives**

Application of a unified mechanism for estimating the costs related to budget programmes/measures

**Final result indicators of the performance**

24) Availability of a unified automated system for budget program cost estimation

**Target 22. The budget programme’s/measure’s cost estimation, in the frame of the budgetary process for 2023, is carried out through the unified automated system**

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicators** |
| 1. Gradual introduction of an automated system for budget programmes cost estimation | * Testing of the automated system for estimation of budget programme costs * Full-fledged introduction of an automated system for estimation of budget programme costs | * The automated system for estimation of budget programme costs is tested and ready to be implemented * Within the frame of the budgeting process for 2023 the estimation of budget programmes costs has been carried out through the automated system |

## Control Over Budget Execution Process; Treasury System

Component 8. Budget execution reports

**Current situation description and challenges**

The electronic system of budget execution reports has been introduced during 2011-2015, which has considerably reduced time spent on drafting the reports; increased the reports quality, as well as increased responsibility degree of public administration bodies – in regard of timely and reliably submitting the reports. Taking into account that since 2019 the reports pertaining the execution of the budgets must be submitted also in the program format, it was needed to make changes in the general conditions of drafting, submission and summarizing the reports of the budget execution, as well as reports pertaining to the financial activities of public and local self-governing bodies and entities thereof, as well as instruction of specificities of drafting and submission of individual types of reports (adopted by RA Minister of Finance Order No 264-N dated March 13, 2019). However, the issue of receiving and submitting budgetary reports by electronic system consistent with the program budgeting requirements is solved yet.

**Objective**

Preparation of reports about RA state budget execution by program classification by means of electronic system starting 2019

**Final result indicators of the performance**

25) Availability of RA state budget execution reports by program classification by means of electronic system

Target 23. Preparation of reports about RA state budget execution by program classification

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Alignment of electronic budget reporting system with program budgeting requirements | • System testing  • Organizing training for Chief Accounting Officers (OAGs): i.e. professionals preparing the reports   * Identification of problems during system operation and submission of suggestions for their solution | Availability of Reports on State Budget execution by Program Classification |

Component 9. Monitoring and management of expenditure arrears

Expenditure arrears are overdue debts, liabilities and obligations, which, in fact, are considered as incomplete financing. Payments from the state budget of the Republic of Armenia are made by the legislation of the Republic of Armenia (for example: salary, pensions, allowances, etc.), as defined by procurement and grant contracts and debt service and periods envisaged by servicing thereof. ***The unpaid claim or liability becomes arrear, if the payments have not been made within the timeframe set forth in the contracts, RA legislation, or other financial regulations.***

The delays in payments or transfers to each other at different levels of the public sector shall not be considered as expenditure arrears.

**Current situation description and challenges**

Efficient Public Finance Management implies also availability of an effective system of expenditure arrears management designed to make sure that all transactions and related liabilities (including overdue) are accounted. Although the RA MoF receives and registers the information on overdue debts of the state bodies, it is not included in the reports on the RA state budget execution and is not officially published[[7]](#footnote-7). In this respect, it is important that regular monitoring and oversight of expenditure arrears is carried out and the information on the latter is made publicly available. ..[[8]](#footnote-8)

**Objective**

Expenditure arrears monitoring and ensuring accountability

**Final result indicators of the performance**

26) RA public administration and local self-governing bodies regularly exert control over the terms of payments from RA state budget

27) Information on expenditure arrears is available

Target 24. Monitoring of expenditure arrears

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Expenditure arrears estimates and monitoring | * Calculating the period of payments made from the state budget of the Republic of Armenia * Submission of reports on arrears to the RA MoF on a quarterly basis * Incorporation of information on arrears in the RA state budget execution reports | RA public and local self-The public agencies as well as the local-governance bodies register the expenditure arrears;   * The information on arrears is incorporated in the RA state budget execution reports |

Component 10. Payroll control

PEFA-2016 requires compliance of salary payment, management, changes for public servants, personnel management date processing and their interrelatedness.

According to the PEFA assessment carried out in 2013, PI -23 Salary Fund Controls received a “D +” rating due to the lack of timely comparisons between sectoral salaries data and personnel registrations, as well as non-electronic connections between the two, due to which the process of comparison becomes very time consuming.

As mentioned in PEFA-2013 evaluation report (PI -18. Salary Fund Control Effectiveness) – effective control of salary fund - the main expenditure component – is one of the crucial indicators of reliable financial management.[[9]](#footnote-9)

Out of 1,648,089,778.9 thousand dram amount envisaged by 2019 RA state budget the salary fund makes 168,077,058.6 thousand dram[[10]](#footnote-10), which makes approximately ***10.2 percent*** of expenditures envisaged by the state budget of the given year. This is a high indicator and in parallel with the current RA public administration optimization and efficiency increase process one should perform regular control over the payments made from the salary fund.

According to the PEFA assessment carried out in 2013 “K-18. Salary Fund Control Effectiveness” component effectiveness the changes of personnel registration in personnel management units (PMU) of some RA public administration bodies are provided to accounting unit only in the form of documents about staff changes (example: employment; dismissal; position advancement; orders of head of institution/secretary general about annual leaves; etc.), based on which changes are made in the personal files of the staff. The samples of the aforementioned documents are posted in special fields of internal computer networks of the public administration body – enabling the accounting unit to check and download them and then manually make relevant changes in “Armenian Software” system (AS). In case of such approach the significance of the human factor increases – generating possible risks for integrity of changes in AS and timely execution thereof. As a rule, there are no annual comprehensive and regular salary comparisons in the personal registrations and account units of PMUs. The checks are made by random selection method by identifying the mistakes or as a result of examining the issues or complaints raised by the staff Whatever, such works are not properly regulated and not a comprehensive synthesis. It can be said that there are no significant obstacles to comprehensive periodic comparisons in reality, but in practice the absence of direct electronic communication between personnel records and accounting units in PMUs can be time-consuming.[[11]](#footnote-11)

Effective internal control should limit the possibility of making changes in the staff and salary data. Any changes to the personnel database should be timely and well documented, as well as be in the focus of internal audit control - to exclude "ghost" employees. That is to say, payroll audits should be conducted on a regular basis to detect "ghosts", fill data gaps and identify weaknesses in control.

In this regard there are certain achievements for example in MoF. In particular, in recent years they have implemented AS modernization and PMU used personnel data management modules system connection activities, as a result of which a direct software link has been ensured between personnel records and payrolls. In particular, since 2014 PMU transfers to the accounting unit the data of MoF staff employment, dismissal and promotion by downloading the data to AS system and since 2018 January the data on annual leaves, business trips, inability to work sheets, pregnancy and delivery, as well as for care of children under 3 are also input and transferred to accounting department via AS system. However, no system of recording and notifying the salaries and payments equal to it of the staff has been introduced, by means of which the staff of public administration bodies will receive notices about the salaries transferred to them and estimates thereof>

**Objective**

Ensuring efficiency of control over the salary fund

**Final result indicators of the performance**

28) Personnel records and salary fund data are combined through the accounting information system;

29) Any changes to the personnel database are made on time by means of accounting information system;

30) There are mechanisms for monitoring staff records and salary fund changes;

31) At least once in three years they audit the salaries.

Target 25. Implementation of comparison and changes in the personnel records and salary fund by means of accounting information system

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| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Developing of integration system of human resources database/data with accounting electronic software modules | * Inventory of the current situation of transferring personnel data to accounting in all government agencies, where the transfer of human resources data is not carried out through the accounting information program * Developing a plan for program implementation in each state agency, developing and approving a detailed technical task * System design and development | Human resources database / accounting information system integration module terms of reference assignment designed and approved |
| 2. System introduction and servicing | * Budgeting based on approved terms of reference * Implementation of training * System introduction * Continuous servicing of system | System is introduced and personnel records and salary fund data processes are performed by means of the system |

Target 26. Payroll audit

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Payroll audit by internal audit | * Internal audit units of all public administration bodies will carry out reviews on the current status of data transfer by the personnel management to the accounting departments. * Identification of weaknesses in data transfer, comparing gaps and controls * Presentation of recommendations, reports | * Defects in data transmission and comparison are identified * The reports provide recommendations for implementing payroll control |

Target 27. Ensuring accountability of calculations of salary and payments equal to it

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| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Notice to employees about the calculation of their salaries and payouts and the income they receive | * Provide employees with accounting and payment information of the previous month on earnings estimated and payable each month through the current accounting program/software through e-mail | * Every month the employees receive information about earnings estimated and payable of the previous month |

## Public Debt

Component 11. Public debt management

**Current situation description and challenges**

The RA Law on Public Debt was adopted in 2008, and over the years there have been some inconsistencies between the definitions used in international law and the documents adopted by international financial institutions in parallel with the application of the law. In particular, the SIGMA report states that it is necessary to revise the definitions of the Law on State Debt to bring them into line with the 2008 National Accounts System definitions. In particular, there is need to clarify the notions of "public debt" and "government debt" in the RA Law on Public Debt and to approximate them to the definitions used in international practice.

The results of the expenditure and risk analysis of the debt portfolio of the Government of the Republic of Armenia show that the debt portfolio is most subject to the impact of exchange rate risk. For this reason, the continuous development of the government treasury bond market and the increase in the volume of borrowing from the domestic market are of primary importance.

**Objectives**

* By the end of 2022 put the RA Law on State Debt in line with the standards applied by international financial institutions.
* Mitigate the risk of the RA Government debt portfolio exchange rate until 2023 financing of the state budget at the expense of net domestic borrowed funds, increasing the share of deficit financing to at least 50.0%.

**Final result indicators of the performance**

32) Revised Law on Public Debt, which will ensure comparability of data on RA public debt with internationally accepted standards.

33) The share of deficit financing at the expense of net domestic borrowing in the state budget is at least 50.0% and it mitigates the exchange rate risk of the RA Government debt portfolio.

Target 28. Improvement of RA Law on Public Debt

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Compliance of the RA Law on Public Debt with the standards applied by International Financial Institutions: | * Developing draft RA Law on Making Amendments in RA Law on Public Debt * Submission of draft to RA National Assembly | Improvement of debt statistics by clarifying the definitions used in the RA Law on Public Debt (“Public Debt” and “Government Debt”) |

Target 29. RA Government debt portfolio exchange risk mitigation

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Increase in the deficit financing weight at the expense of net domestic borrowing in the state budget of each year | Increase of state treasury bills placement volume | Deficit financing at the expense of net domestic borrowing in the state budget makes at least 50.0% |

## Public Sector Accounting

Component 12. Efficiency of public sector accounting

**Current situation description and challenges**

According to the schedule of transferring to the new accounting system by the public sector organizations approved by RA Government decision, during 2016-2018 63 public administration bodies, urban and rural communities and SNCOs and MNCOs thereof have made a transition to the new public sector account system[[12]](#footnote-12) (New system). The challenges emerged as a result of introducing the latter in the organizations that adopted the new system in 2016-2017 have been reviewed, for the solution of which the public sector organizations have been provided with 7 issues of “Professional directory” magazine. Currently there is need to support the monitoring of the annual reports of all the public sector organizations - to improve the quality of the latter. After the full introduction of the new system in the organizations preparation of consolidated financial statements at the ministry level will be conducted. For that purpose, there is need to teach and train the specialists in charge of preparing the financial statements, as well as to develop or obtain relevant unified accounting software, develop methodology, with the help of which it will be possible to prepare interim consolidated financial statements at the ministry level.

According to Article 9 (5) of the RA Law on Accounting for Public Sector Organizations, a person having the qualification of a public sector accountant may work in the organizations designated by the RA Government in accordance with the RA legislation. Section 6 of the same Article provides that: Qualification of a Public Sector Accountant is a procedure for checking the professional knowledge of a natural person applying to the MoF to meet the requirements set by the Authorized Body (MoF), based on the results of which a certificate of accountant qualification is issued. The qualification of the accountant is carried out through examinations in accordance with the procedure established by the MoF. The exams are organized and conducted by the Ministry of Finance within the framework of its approved qualification exams program. The certificate shall be issued for a period defined by the Authorized Body, which may not be less than 5 years. Due to this, it is necessary to establish procedures for qualification of public sector accountants.

**Objectives**

* Quality improvement of public sector organizations’ annual financial statements Preparation of interim consolidated financial statements on ministry level

**Final result indicators of the performance**

34) Annual financial statements are comprehensive and submitted within established period

35) On the ministry level interim consolidated financial statements are prepared according to the established methodology36) Chief accountants with qualification work in the public sector organizations

Target30. Monitoring of annual financial statements of public sector organizations

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․Monitoring of public sector organizations financial statements by the RA MoF | * Visits to public sector organizations, * Monitoring activities of public sector organizations’ financial statements, * Provision of methodology support | Financial statements in compliance with RA public sector accounting standards (RAPSAS) |
| 2․Methodology revision (as needed) | Introduction of necessary changes in legal acts based on the challenges identified as a result of monitoring (as needed) | Improved regulatory framework |
| 3․ Qualification process of public sector organizations’ chief accountants | * Defining the qualification process of public sector organizations’ chief accountants: conducting qualification procedures and certificate issuance | Qualified Public Sector Organizations chief accountants |

Target 31. Preparation of interim consolidated financial statements on ministry level

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Development of financial statements consolidation methodology | * Drafting legal acts, manuals and guidelines * Submission of drafts for feedback * Approval of final drafts | * Consolidation methodology is available |
| 1. Development or procurement of unified computer software for consolidation implementation | * Development of TOR for unified computer software for consolidating the financial statements * Procurement of software | * Computer software needed for consolidation |
| 1. Preparation of interim consolidated financial statements on ministry level | * Testing of unified computer software for consolidation purpose * Training of public sector relevant specialists * Identification of problems during the use of the system, submission of recommendations for their solutions | * Interim consolidated financial statements presented on the ministty level |

## Corporate Accounting and Audit

Component 13. Regulation of corporate accounting and audit activities

**Current situation description and challenges**

At present, the regulation of accounting in the Republic of Armenia is implemented by the state through the Authorized Public Administration Authority (MoF), which means that in the areas of accounting and audit, the state is developing the regulatory policy, as well as the mechanisms for implementing that policy. The draft laws of the Republic of Armenia “On Accounting”, “On Audit”, “On Regulation of Accounting and Auditing Activities and Public Oversight” have been elaborated by the MoF. The package of draft laws envisages introducing a new model of specialized structures - public oversight councils - for regulating and controlling the areas of accounting and audit in Armenia. The drafts also envisage adjusting the scope of organizations subject to mandatory audits by moving from the current formal legislative requirement to engaging companies that public needs to be really audited.

According to the new draft law “On Regulation of o Accounting and Auditing Activities and Public Oversight” - public oversight council is a body under the RA MoF established to implement public oversight over the accounting and auditing activities. It is envisaged that the public oversight council will be composed of seven members - the Chairman, the Deputy Chairman and five members, who will be appointed by the Minister of Finance.  The public oversight board will carry out its activities on a pro bono basis.

The Draft Law of the Republic of Armenia “On Audit” provides that auditing company shall acquire the right to provide audit services from the date the information about it is registered in the roster of a specialized institution. i.e. in the roster of audit firms, auditors and certified accountants. According to the new draft law “On Regulation of Accounting and Auditing Activities and Public Oversight” the roster is a systematized list of auditors, certified accountants, and audit companies (members of the specialized organization), maintained electronically. The procedure for maintaining the roster and the list of data to be included in the roster shall be established by the Public Oversight Council.

The mentioned package of Draft RA laws[[13]](#footnote-13) has been submitted to the discussions of RA National Assembly.

With the adoption of the drafts the following main results are expected to be achieved:

1) certain functions required for the development of the areas of accounting and audit, in particular, the professional qualification and continuous professional development, timely translation of FSPSs and International Standards on Auditing and the performance of actions necessary to ensure the audit quality by specialized agencies;

2) establish a Public Oversight Board under the Ministry of Finance responsible for public oversight over the regulation of accounting and audit activities;

3) specify the scope of the statutory audit required for organizations deemed to be large by modified standards, the definition of which will be in accordance with the standards set out in EU directives;

4) revise the licensing process of audit organizations – by means of introducing a new system (registry of audit organizations).

**Objective**

Introduction of a new model for regulation of the areas of accounting and audit activities and control over them thereof

**Final result indicator of performance**

37) Availability of an introduced public oversight system over the accounting and audit activities

Target 32. Introduction of public oversight system over the accounting and audit activities

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Completing of the necessary sub-legislation framework | * Development of public oversight council rules * Development of quality control methodology * Development of legal acts envisaged by new legislation | * New model of specialized structures for regulating and overseeing sectors - public oversight council; Effective audit quality control system, * Adjusted scope of organizations subject to statutory audits |
| 1. Staff training | * Preparation of new training plan-schedule for staff consistent with new legislation * Implementation of trainings | * Level consistent with capacities |

## Financial Management and Control of Public Organizations – State Non-commercial Organizations (SNCO)

Component 14. Financial management and control of public organizations – state non-commercial organizations (SNCO) accountability

**Current situation description and challenges**

SNCOs, as a large group of public sector entities based on their size, risk level and management features, are involved in many areas of activity (most of them mainly in the educational, cultural, health and social sectors). Currently, the SNCOs submit reports for various periods to their authorized bodies, which are then submitted to the RA MoF for accountability and monitoring purposes.. Though these reports are quite extensive, however the information presented therein in the current format is not sufficient for conducting efficient monitoring of financial and economic activities of organizations on the basis of these reports. In this context,  [it has become necessary to](https://context.reverso.net/%D0%BF%D0%B5%D1%80%D0%B5%D0%B2%D0%BE%D0%B4/%D0%B0%D0%BD%D0%B3%D0%BB%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D0%B9-%D1%80%D1%83%D1%81%D1%81%D0%BA%D0%B8%D0%B9/it+has+become+necessary+to) define a system of non-financial (outcome) indicators for SNCOs from different sectors, which gives an opportunity to assess the effectiveness of services provided by SNCOs not only in terms of financial but also non-financial outcomes and from the perspective of accomplishment of the goals set.

**Objective**

Improvement of SNCO financial-economic activates accountability and monitoring

**Final result indicators of the performance**

38) Implementation of effective accountability and monitoring over the SNCO financial-economic activities

Target 33. Improvement of SNCO financial-economic activities accountability and monitoring system

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Development of a system of non-financial (outcome) indicators for the purpose of effective monitoring of SNCO activities | * Improvement of the SNCO financial-economic activities’ monitoring mechanism; * Development of a system of non-financial indicators for monitoring of SNCO financial-economic activities * Drafting and approval of relevant legal acts | Availability of an up-to-date system for monitoring of SNCO financial-economic activities |

## Public Procurement

Component 15. Modernization of electronic procurement system

**Current situation description and challenges**

In order to bring the e-procurement system in Armenia into line with modern requirements, the World Bank estimates that the e-procurement system is technically and functionally incompatible with both the modern and procurement requirements of the RA legislation. Current software does not allow to expand the range of clients using the system, as well as to automatically provide analytics to identify risky transactions.

With the introduction of the new e-procurement system, it is envisaged to expand the list of clients using the system. This will give an opportunity to the clients identified by Article 2 of the RA Law on Procurement, but not included in list presented above to process the internal procurements through the system.

**Objective**

Improvement of e-procurement system

**Final result indicators of the performance**

39) The electronic procurement system fully complies with the modern functional, technical and security requirements of the RA legislation on procurement. Expanded scope of clients, automated analysis of risky transactions.

Target 34. New software for e-procurement system

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| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Development and introduction of a new software for e-procurement system | * Procurement of a new software at the expense of RA state budget or financial resources provided by the international donor organizations * Introduction, testing and maintenance of software * Organization of training programs for beneficiaries using the system | Provision of new software for current e-procurement |

Component 16. Procurement planning

**Current situation description and challenges**

Currently, different cost estimates are planned for purchasing the same purchase item within the framework of purchases at the expense of government funds, resulting in significant deviations from market prices for those items.

The procurement planning process is partially standardized and legally regulated. As a result, the same needs of different bodies are met by items with different characteristics, which does not allow for a unified planning system.

**Objectives**

Improvement of procurement planning system

**Final result indicators of the performance**

41) Cost estimate determination and planning unified system. As a result of it the procurement of different bodies is performed as standardized and unified as possible.

Target 35. Improvement of procurement planning system

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| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| * + - 1. Draft RA Government decision on determining the cost estimates of items with the same description and introducing a unified system for planning in an automated manner | * Stipulation of legal grounds for meeting identical needs with same descriptions of customers and purchasing with estimated | Customers’ identical needs are met by the items with the same specifications and the same estimate prices |

Component 17. Procurement appeal system

**Current situation description and challenges**

The extrajudicial procurement appeal system is ineffective, given that the analysis of complainants' activities shows that decisions made by the RA legislation on procurement are problematic, contradictory decisions are taken, which result in procurement procedures being declared ineffective, which from the standpoint of their organization and conduct leads to dissatisfaction and financial loss. As a result of proposed changes, the extrajudicial procurement appeal system will no longer function, and procurement-related complaints will be reviewed by the courts, setting special procedure for issuing judgements on such cases.

**Objective**

Set up an effective and efficient procurement review (appeal) system

**Final result indicators of the performance**

41) There is an effective and efficient procurement appeal system.

Target 36 Improvement of procurement appeal system

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| --- | --- | --- |
| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Amendments in RA Law on Procurement | Procurement appeals are reviewed by the courts – by stipulating special proceedings decision making process for such cases | Effective and independent review system |

## Public Internal Financial Control and Financial-Budgetary Supervision

Component 18. Financial management and control (FMC)

**Current situation description and challenges**

The introduction of the FMC system has been one of the most difficult parts of the reform. The first strategy of the PFMSR foresaw that by the end of 2014 Armenia would have an effective system. A range of laws and sub-legislation come to regulate the public internal financial control system activities[[14]](#footnote-14), defining the governance organization structures, management accountability mechanisms, etc. That legislation has been adopted through the course of the time – in parallel with the development of individual elements of PFM and focus on individual issues of financial management and control – sometimes without taking into account the issues of general efficiency and effectiveness of PFM system. In that regard there is no one common legislation concerning the public financial management and control.

From the other side some reforms implemented in recent years in PFM area (for example – program budgeting reforms) generate serious challenges for objectives, components and functions of FMC system.

**Objective**

Introduction of financial management and control

**Final result indicators of the performance**

42) FMC system introduced in all public bodies

43) Administrative accountability principle introduced

Target 37. Ensuring implementation of of financial management and control system

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| --- | --- | --- |
| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Piloting of FMC system methodology | * Testing of the developed FMC system methodology in at least two RA public sector organizations | FMC system methodology is tested |
| 1. Approval of FMC concept and FMC related legal acts | Development of FMC concept and legal acts based on the tested methodology | FMC concept and legal acts are approved |
| 3. Introduction of FMC system in public sector organizations | * Development and approval of FMC system introduction action plan * Introduction of FMC in line with the action plan | The FMC system introduction process is carried out in accordance with the established timetable |

Component 19. Public sector internal audit

**Current situation description and challenges**

The activities of forming and introducing of internal audit (hereinafter referred to as IA) system in RA public sector organizations implemented in 2009-2015 in RA public sector internal audit sector were followed by activities aimed at ensuring IA function.

According to 1300 IA professional standards, the head of the internal audit department of every public sector organization in the RA should develop and implement an IA quality assurance and improvement program that should be subject to internal and external evaluation. External evaluation should be carried out by the MoF at least every five years. In 2018 an external quality assessment manual was developed with the support of the WB , which was then tested at the RA Ministry of Education and Science and MoF. The IA quality of the remaining 52 public administration bodies and 48 community municipalities of the RA public sector as by the first half of 2019 has not been subject to external evaluation.

Despite significant reforms rolled out in this field so far, the system is still not fully operational, since [insufficient attention is given](https://context.reverso.net/%D0%BF%D0%B5%D1%80%D0%B5%D0%B2%D0%BE%D0%B4/%D0%B0%D0%BD%D0%B3%D0%BB%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D0%B9-%D1%80%D1%83%D1%81%D1%81%D0%BA%D0%B8%D0%B9/insufficient+attention+is+given+to)to assessment of effectiveness of financial management and control functions due to the challenges in FMC system introduction as well as limited capacities of auditors. As a result, the internal audit, provides assurance mainly based on system evaluation and compliance audit results, overshadowing the importance of performance audit. This gives rise to a need for improvement of internal audit legislation and development of internal auditors’ capacities, while not excluding the possibility for revision of existing internal audit model.

**Objective**

Efficiency increase of RA public sector internal audit function

**Final result indicators of the performance**

44) External evaluation of internal audit quality in RA public sector organizations.

45) Ensuring cooperation between internal audit and external audit.

46) 30% of internal audit annual programs of RA public sector organizations prepares performance audit.

47) Capacity and professional knowledge development of RA public sector internal auditors.

Target 38. External evaluation of internal audit quality

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| --- | --- | --- |
| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Approval of methodology for internal audit quality external evaluation | Approval of the piloted methodology for internal audit quality external evaluation | * RA Minister of Finance approved order “On approving the procedures for internal audit quality external evaluation” |
| 1. Implementation of internal audit quality external evaluation | According to the approved methodology:   * RA public sector organizations risk assessment * Preparation of annual program of implementing external audit * Implementation of external evaluation | * All those organizations of public sector, where internal audit system has been introduced, have been evaluated by MoF. * Report – about RA public sector internal audit quality |

Target 39. Ensuring cooperation between internal audit and external audit

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Identification of cooperation procedures between internal audit and external audit | Upon agreement and participation of MoF and AC implementation of joint activities – for the development and approval of internal audit and external audit cooperation. | Approval of joint legislative act of R Minister of Finance and chairman of RA Audit Chamber “On approving the cooperation procedures between internal audit and external audit” |

Target 40 . Emphasis on performance audit importance and ensuring its practical application in the amount of 30% of the annual program

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| --- | --- | --- |
| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Approval of performance audit methodology | * Elaboration of performance audit manual/guideline; submission to stakeholders, summary and approval | Performance audit implementation procedures approved by RA Minister of Finance order |
| 1. Increased role of performance audit in the internal audit legislation | * Making amendments in RA Minister of Finance 2012 February 17 order N 143-N | Requirements stipulated in IA legislation – according to which the performance audit will make 30% of internal audit annual plan |
| 1. Capacity development for the implementation of performance audit by internal auditors in RA public sector organizations | * Organization of performance audit training courses | Internal auditors working in RA public sector organizations trained in line of audit |

Target 41. Capacity and professional knowledge development of internal auditors

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Development of internal auditors’ capacity and professional knowledge development program | * Internal auditors’ capacity assessment * Internal auditors’ professional needs assessment * Development and approval of internal auditor’s capacity and professional knowledge development program | Approved program of internal auditors’ capacity and professional development |
| 1. Optimization of internal auditors’ continuous professional training courses | * Assessment of internal auditors’ continuous professional training courses and organizational approaches * If necessary, revision as by identified needs | Internal auditors master the requirements of RA internal audit legislation, theoretical knowledge and practical skills of internal audit |
| 1. Development of online information system for internal auditors’ continuous professional training courses | * Design of online information system for internal auditors continues professional training courses * Launch of online information system for internal auditors’ continues professional training courses | Online information system for internal auditors’ continues professional training courses |
| 1. Revision of public sector internal auditor qualification procedure | * Legislation revision and amendments thereof | Quality assurance of public sector internal audit |

Component 20. Central Harmonization Unit (CHU)

Current situation description and challenges

According to public internal financial control strategy approved by RA Government 2010 November 11 session N44 protocol N 15 protocol decision the CHU is responsible for coordinating and monitoring the implementation of financial management, control and internal audit mechanisms based on international standards. Sub-clause 1 of clause 2 of RA Government 2011 August 11 N1233-N decision has stipulated that according to RA Law on Internal Audit the authorized body is MoF. The, public financial management policy department of MoF has been reserved with the powers and duties of CHU.

Currently the human resources of CHU are no sufficient to ensure the introduction of FMC under its responsibilities in RA public sector and development of internal audit. Consequently, CHU capacities need to be developed.

**Objective**

CHU capacity development

**Final result indicators of the performance**

49) The capacities of the CHU staff are sufficient for performing the functions defined

Target 42. CHU staffing and capacity building

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| Measures | Description of steps aimed at the implementation of measures | Expected result indicator/s |
| 1. CHU staffing and capacity building | 1. Assessment of the staffing needs and capacities required for implementation of CHU functions 2. CHU staffing 3. Development and implementation of a program for CHU staff capacity development | 1. Sufficient resources are available in CHU |

Component 21. Financial and Budgetary Oversight

Current Situation

Financial and Budgetary Oversight

The administration of the financial control sector is essentially limited to the RA MoF Financial and Budgetary Oversight Department's exercise of its powers in the legislative field, namely the use of audit practices that lack the actual mechanisms that will enable certain actions to be performed prior to the audits, as well as the logical outcome of the audit.

The objectives of establishing an up-to-date financial control system are to increase the effectiveness of financial control and the level of financial discipline in public finance management.

The primary objectives of the sector are:

* no financial control development, modernization document or program - no financial control strategy, no development directions outlined;
* the current system does not fully meet the requirements of modern control; there is no modern system of risk management.
* lack of up-to-date analytical tools and a complete database. The department lacks the necessary information and software for extracting it;
* the system of applying financial responsibility and realization of the results of inspections as a result of violations found in control does not fully ensure the increase of the level of financial discipline;
* the lack of analytical mechanisms and databases is also attributed to the existing structure of the Department and the unclear separation of functional responsibilities between the units. At the same time capacity building and improvement mechanisms are not in place.

**Objective**

Efficiency increase of financial-budgetary oversight function

**Final result indicators of the performance**

50) Analytical capacity building of financial-budgetary oversight sector’s specialists – with the application of modern instruments;

51) Application of technically new solutions for risk management system and formation of a comprehensive information system – with the reinforcement of analytical capacities;

52) Efficiency increase of control process – by defining relevant procedures;

53) Introduction of effective mechanisms to fulfill control results.

Target 43. Ensuring effective activities of financial-budgetary oversight

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․Revision, upgrading of financial-budgetary oversight legislation; development of a new methodology for financial-budgetary oversight implementation | * Review, assessment and identification of gaps of FBO legislation * Development and approval of FBO risk-based controls’ new methodology – at the same time putting the emphasis on FBO activities performance, as well as cooperation with other bodies in charge of oversight, control or audit | * Sub-legislative acts stipulating the modern methodology to perform financial-budgetary oversight |
| 2․ Capacity building of financial-budgetary oversight sector specialists | * Capacity assessment of FBO sector specialists and drafting development program * FBO sector specialists training – according to capacity building program’s directions | * Specialists of financial-budgetary oversight sector have professional skills and have relevant knowledge |
| 3․ Availability of databases necessary for risk assessment | * Access to databases of public bodies | * Introduction of a new risk system – based on the analysis of comprehensive, argumented and justified information |

## Management of Public Assets and Public Investments

Component 22. Management of public assets

**Current situation description and challenges**

Recognition of value and economic potential of public non-financial assets is important for assessment of government’s financial position, identification of the need for future capital investments and efficient use of resources, as well as for other FMC functions. Accounting of public assets and their use is one of the key features of public asset management on an accrual basis. It is important to have management, monitoring and reporting systems for assets, including risk management mechanisms and appropriate measures aimed at ensuring transparency..

Currently, there is no unified system of accounting and management of public assets in the Republic of Armenia. Measures on public assets management system introduction were envisaged also by the second PFMS reforms strategy and the PFMS reforms action plan for 2016-2020however, in 2016-2018 these measured have not been implemented because of lack of technical support.

**Objective**

Accounting for public assets and their use to secure public expenditure financial accountability

**Final result indicators of the performance**

54) Establishing legislative grounds to account for public assets and their use

55) Effective management of public assets

Target 44. Ensuring monitoring of government financial and non-financial assets

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| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1. Development and approval of public asset management methodology and legal acts necessary for its introduction | * Study of international experience in the field of government’s financial and non-financial assets management * Development and approval of legal acts necessary for introduction of the methodology based on international experience | * Availability of government’s financial and non-financial assets management methodology; legal acts approved in compliance with the procedure established by the RA legislation |
| 2․According to the approved legislation – implementation of trainings on asset management techniques | * Organization of trainings for the relevant specialists of public bodies | * Specialists trained according to the public assets legislation |
| 3․ Preparation and monitoring of financial and non-financial assets logbooks | * Testing of financial and non-financial assets logbooks in public bodies * Monitoring of financial and non-financial assets * Identification of challenges during the monitoring, submission of recommendations for the solutions thereof | * Reports about assets’ monitoring |

Target 45. Ensuring transparency in the process of sale, transfer and disposal of non-financial assets and the right to use them

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| --- | --- | --- |
| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| Stipulation of procedures of sale, transfer and disposal of non-financial assets and the right to use them | * The procedures of sale, transfer and disposal of non-financial assets will be revised and relevant procedures for identifying the right to use them will be developed and approved * Organization of staff training on asset disposal techniques | * Procedures of sale, transfer and disposal of non-financial assets and the right to use them are approved * Disposal of assets shall be done according to the established procedures * Reports about asset disposal |

Component 23. Public investment management (PIM)

**Current situation description and challenges**

The introduction of public investment management (PIM) system is one of the components of the key toolkit to account for the resources necessary for assessment of capital programs, identification of priorities and financing. The PIM system is a set of clearly interconnected procedures and operations that enable the decision-making process to answer the following questions: are PMI programs in line with national development priorities and are they effective, and whether funding has been provided to implement them. According to the performance indicator of budget classification (PI-4) of PEFA-2016, each section of the Government's annual budget, including the classification of current and capital expenditures, shall comply with PI-4 requirements regardless of the fact whether they are integrated in the budget and accounting processes or not. The Public Investment Management (PI-11) measure of performance indicator 11.3 assesses whether budget documents include mid-term projections for investment projects, and the capital and recurrent expenditure budgeting process is fully integrated. Managing a reliable budget process requires comprehensive and predictable budget plans for capital and current expenses throughout the investment process. Therefore, during the drafting of public capital investment projects one should take also into account the current expenditures needed in the coming years. Stable budget and cash flow management, as well as cost and benefit analysis, depend on a thorough financial analysis of investment projects.

With the support of the International Monetary Fund, the Public Investment Management Assessment of Armenia (PIMA) report was developed and presented in 2018 with the aim of presenting the current situation, problems and gaps in this system, as well as presenting recommendations for designing and introducing a modern system of PIM. Taking into account the recommendations presented in the evaluation report, the Government of the Republic of Armenia has taken a commitment to reform the current PIM system with the aim of ensuring a more targeted use of public investment funds and improving the performance of public investment programs. With the support of the World Bank, a preliminary version of the draft handbook has been developed and is currently under discussion. The purpose of the handbook is to provide a framework for making reliable and regular evaluations of government-proposed investment projects that have the potential of utilizing the public funds, as well as substantiated information to make decisions on the selection of projects to be implemented.

The key challenges in the field of public investment management are considered to be the lack of unified system and methodology for assessment of public investments impact, scarcity of public resources as well as inadequate capacities and of statistics necessary for evaluation and development of programmes. To address these issues, methodological guidelines and a system of evaluation of public investments are being developed with the assistance of international experts, focusing on continuous improvement of public investment statistics and institutional capacity development.

According to the estimates of PEFA implemented 2008 and 2013 estimates the "Links Between Investment Budgets and Tasks" performance indicator was rated "C", given the weak link between investment decision making strategies and the link of current expenditure projections necessary in future years as a result of capital investment programs with the current expenditures are weak and their subsequent running costs have been included in the budget projections only in cases of some (large) projects.

Measures provided by the Public Investment Management component were included in the action plan for the reform of the PFMS, but in 2016-2018 no technical support was provided.

At the same time, the SIGMA Report notes that the budget for capital investment programs is weak. And although the provisions of the RA Law on the Budget System of the Republic of Armenia set out the basic requirements for financing capital expenditure, there are essentially no rules and procedures in place for the budgeting and management of capital investment projects. International development partner organizations mostly finance investment projects envisaged by the agreements. Preliminary discussions with donors are conducted to fund investment projects. Information on the implementation process of these projects is available at Project Implementation Units functioning under line ministries, with their functions gradually being transferred to the staff of relevant public authorities as part of the optimization of the public administration system.[[15]](#footnote-15) Overall, the capital budgeting process is a bottom-up approach, and there is a risk that targeted access to finance in the selection process of investment projects will override the Government's investment priorities.

**Objectives**

Stipulating the legislative basis for the selection of public investment programs (including those for public-private partnerships);

Stipulating the priorities for large investment programs based on standard project selection criteria

Reflection of total general investment capital and current expenditure projections in the budget / MTEF

Ensuring transparency of progress in implementation of large investment programs

**Final result indicators of the performance**

56)Attracting large investment programs is a priority, which shall be implemented based on the standard criteria of program selection;

57) The budget reflects total general investment capital and current/regular expenditure estimates;

58) There are standard rules and procedures of program implementation; on the annual basis the implementation of large investment program is published and the Government supervises the overall volume of progress in implementation of large investment programs.

Target 46 . Establishing legislative grounds – public investment management methodology

| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| --- | --- | --- |
| 1․ Development of public investment management (hereinafter -PIM)handbook | * Development of a handbook, which shall include[[16]](#footnote-16): * Economic analysis of investment programs * Identification of program selection standard criteria (priorities) * Projections of total capital expenditure of investment projects * Current expenditure estimates of investment projects for at least three years * Rules and procedures for project implementation and monitoring * Assessment of project implementation results (ex-post evaluation) * Feedback from project beneficiary public bodies * Approval of the final version of the projects | Public investment management handbook is developed and ready for piloting |
| 2․ Public investment management handbook testing and registration of deficiencies | * Selection of ministries for testing the handbooks * Testing of handbook * Registering the deficiencies | Report on testing results and existing deficiencies |
| 3․ Revision and approval of public investments management handbook | * Revision of handbook based on the testing results * Approval of handbook | Public investments management handbook is approved by the RA government |

Target 47. Capacity building of public investments sector specialists

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| --- | --- | --- |
| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․ Development of public investment specialist capacity building program for public investment management training manual | * Capacity assessment, inventory of knowledge needed for public investment specialists * Development of capacity building program for public investment specialists | * Capacity building programme is developed |
| 2․ Capacity building | * Implementation of activities aimed at development of capacities of public administration bodies’ specialists according to the timetable set out by the program | * Public investment sector specialists have sufficient skills |

Target 48. Public investment programs included in 2022 annual budget have been prepared in line with the PIM handbook requirements

| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| --- | --- | --- |
| Practical application of PIM handbook in budget process | * In the bids submitted by states agencies to the RA MoF the investment projects are presented in accordance with the requirements of PIM Handbook | The public investment programmes included in the budget for 2022 are developed in compliance with the requirements of the PIM handbook |

Target 49. Public investment programs monitoring

| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| --- | --- | --- |
| Public investment programs monitoring | * Public investment programs financial and non-financial results indicators analysis and evaluation * Monitoring results report will be prepared and published | A published report on public investment program monitoring results |

## Financial Management in Local Self-Governing Bodies

Component 24. Efficiency of financial management in local self-governing bodies

**Current situation description and challenges**

Measures envisaged by this component have been included in this strategy – given the measures included in the financial management area in the communities envisaged by “Democracy, civil society and public management” dominant sector within Armenian-German Cooperation in the South Caucasus countries “Good Governance in South Caucasus” model.

According to part 2 of Article 3 of RA Law on Budgetary System the state and ***community*** budgets shall be based on financial, monetary and tax unified policy. The budgets shall be drafted and executed as by budget revenues and expenditures unified classification (part 1 of Article 37 of the law). The public resources financial management reforms have focused on improving the financial management system of the government and public bodies. The local authorities’ budget drafting, execution and quarterly and annual reporting processes need to be further regulated.

**Objective**

Capacity building and efficiency increase of public financial management of local self-governing bodies

**Final result indicators of the performance**

70) Transparency improvement of the local self-governing bodies budgetary process and fostering the citizen participation to those processes.

Target 50 Capacity building and professional skills development of the administrative personnel of local self-governing bodies

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| --- | --- | --- |
| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․ Implementation of public financial management reforms program of local self-governing bodies (LSGB) | * Development of public financial management reforms program and action plan * Pilot assessment of public financial management capacities in several LSGB * Assessment of public investments management capacities in Yerevan municipality with the purpose of identifying the obstacles associated with the targeted and effective investment implementation * Identification of priorities of public financial management reforms * Capacity building * Development of methodology aimed at the improvement of budgetary process transparency and participation | * Review reports * Transparent and participatory budget process plans on LSGB level |
| 2․ Public financial management reforms program monitoring and complete realization in local self-governing bodies | * Pilot implementation of public financial management reforms (PB, PIM, revenue management, etc.) in selected LSGBs, methodology piloting * Training and capacity building of piloting LSGBs personnel * Methodology improvement and full introduction on LSGB level based on the accumulated experience * Introduction of public financial management reforms in all LSGB organizations * Monitoring of public financial management reforms | * LSGB staff able to introduce public financial management reforms * Transparent and participatory budgetary process on LSGB level |

## External Control and Audit

The two bodies implementing this section of this strategy are the National Assembly and the AC. These bodies are independent state bodies, which are enshrined in the RA Constitution, RA laws and international standards. They are independent of the executive and other public bodies.

**The National Assembly** is the representative body of the people, which exercises legislative power. The National Assembly exercises oversight over the executive branch, adopts the state budget, and performs other functions provided for by the Constitution. The National Assembly also oversees the execution of the state budget, as well as the use of loans and credits received from foreign states and international organizations. The National Assembly, subject to the opinion of the Audit Chamber, shall discuss and adopt an annual report on the execution of the state budget by the Government.[[17]](#footnote-17)

**The Audit Chamber** is an independent state external auditing body that audits public finances and property in relation to state budget and community budgets, borrowings and credits received, the lawfulness and effectiveness of state and community property use.[[18]](#footnote-18) The Audit Chamber shall submit to the National Assembly an annual report on its activities, the report on the execution of the state budget, as well as current conclusions in cases established by law.[[19]](#footnote-19) The Audit Chamber shall draw up a report on the execution of the state budget through financial and compliance audits of the state budget for the reporting year, using the current financial and compliance audits for the execution of three, six, and nine months of the same year's state budget, and submit to the National Assembly a report on the state budget execution - within one month after submission of the report to the National Assembly.[[20]](#footnote-20)

In order to increase the role of **the National Assembly** of the Republic of Armenia in the field of external oversight of the Government of the Republic of Armenia, GIZ provided support for the strengthening of the parliamentary oversight of the budget and the establishment of the Budget Office. In March 2015, relevant amendments were made to the RA Law on the Rules of Procedure of the National Assembly, which laid down provisions regarding the establishment and operation of the Budget Office. The Rules of Procedure of the Budget Office (working group of experts) and the requirements of the Budget Office experts, their selection (appointment) procedure and the amount of remuneration have also been approved.[[21]](#footnote-21) **The Budget Office** provides professional information and support to the RA National Assembly deputies, standing committees and factions to enhance the effectiveness of the process of discussing and approving the draft state budget, to respond promptly to the issues and significant deviations in budget execution, as well as to contribute to the development of capacities of the National Assembly in the field of finance.

International experts have assessed the Budget Office of the National Assembly as a well-established institution that should expand its functions and powers as an institutional body, as well as take steps to develop its internal capacity.

Component 25. National Assembly oversight of the financial-credit and budgetary area

**Current situation description and challenges**

In order to ensure transparency in the use of public funds, increase the level of quality of external audit services, the National Assembly should review the draft annual budget law, monitor the effectiveness of budget execution, review and approve last year's state budget execution report.

According to the RA NA Decree On Creation of Standing Committees of the Seventh National Assembly of the Republic of Armenia, the Financial-Credit and Budgetary Committee (the Committee) implements budgetary legislation, parliamentary oversight over the state budget, financial-credit and budgetary spheres. At the same time, the main purpose of the Budget Office is to contribute to effective exercise of oversight powers vested upon the National Assembly by Article 111 (1) of the Constitution, provisions of Chapter 20, Articles 114-118 of the RA NA Rules of Procedure as well as to provide professional support and information to the members of the Parliament, standing committees and factions. . The budget office has functional independence[[22]](#footnote-22). The references prepared by the Budget Office, with the consent of the requestor, are posted on the Budget Office website of the www.parliament.am website, making them accessible to a broader range of stakeholders. Given the budgetary reform process, it is necessary to develop regularly both, institutional and internal capacities of Budget Office , including the enhancement of internal analytical capacities of the staff.

The Budget Office shall submit to the committee a report about the Government's draft state Budget and annual report on state budget execution and a summary description of the reference submitted by the Government about the state budget execution process. At the same time, in order to provide professional support and information to the NA members, standing committees, factions in order to increase the effectiveness of the external audit reports, the Budget Office provides a review of the annual state budget, as well as references to current findings submitted the Audit Office

To get a closer look at the problems, solutions and trends in its field of activity, the Budget Office needs to join the global network of Parliamentary Budget Offices in other countries, as well as a global network of parliamentary offices of the world and Economic Cooperation and Development (OECD).

A subcommittee on audit and audit issues has been set up within the committee, which should become a platform for cooperation with the Audit Chamber. Commission and sub-committee members and relevant staff members need capacity building.

**Objectives**

Efficiency increase of external control

Efficiency increase of review of AC reports on annual financial statements

Efficiency increase of Budget Office functions

**Final result indicators of the performance**

60) Availability of quality professional conclusion about reports submitted by AC.

61) The committee has information necessary for evaluating the regulations and actual situation over the laws pertaining to its jurisdiction.

Target 51. Ensuring external control (Annual budget and AC reports)

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| --- | --- | --- |
| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․ Review of annual draft budget | * Staff of the RA NA provides professional support and information to MPs, standing committees, factions, parliamentary groups in cases and in line with procedures established by the RA NA Rules of Procedure for effective review of the draft budget , * The Budget Office provides professional information and assistance to National Assembly deputies, standing committees and factions to effectively implement oversight powers vested in the RA National Assembly, by Chapter 20 of the Rules of Procedure, Articles 114-118. * Implement measures aimed at developing the capacities of the committee, sub-committee members and RA NA staff * Drafting and adopting legal act about review efficiency monitoring by NA * Society, represented by NGOs, will be involved in the discussion process of the given year’s draft budget | * More effective review of draft annual budget * Reduced number of draft annual budget clarifications needed |
| 2․ Review of annual report of execution of state budget and conclusion of AC thereof and organization of hearings together with the bodies that performed the audit | * Provision of professional support and information to the parliamentarians, standing committees, factions * Provision of references by the Budget Office on current findings of the AC; * More effective review of annual report on execution of state budget and conclusion of AC thereof * Society, represented by NGOs, will be involved in the discussion process of the reports of the state budget | * More effective review of AC reports about annual financial statements * Ensuring transparency over external control * Legislative hearings on the formation of an annual budget during which members of civil society or non-governmental organizations can testify |
| 3․ Post-audit control by the committee | * Review of information received from the SBs on the implementation of measures to address deficiencies identified in the AC findings | * Effective implementation of post-audit control by committee |

* Target 52. Developing the capacities of Budget Office, MPs, and committee expert

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| --- | --- | --- |
| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicators** |
| * + - 1. Development of Budget Office Institutional and Internal Capacities | There will be implemented the budget office: • Institutional development by expanding its functions and responsibility; • Development of internal analytical capabilities | * The Budget Office has necessary tools to perform its functions to accomplish its purpose |
| * + - 1. Development of the RA NA deputies’ and committee experts capacities | Trainings for RA NA deputies and committee experts on review of the draft annual budget law and oversight of budget execution process | * The RA NA deputies and committee experts effectively review the draft annual budgets as well as oversee the state budget execution process |

Component 26. Independence of audit chamber and external audit of annual financial statements of the Government

**Current situation description and challenges**

The external audit area of the EU SIGMA Project “Baseline Facts Evaluation Report on Public Governance System in Armenia” included problematic legal provisions, the revision of which will put the Audit Chamber activities into compliance with ISSAI standards.

In particular, the RA Law on the Chamber of Audit contains a number of provisions that do not comply with ISSAI standards. This circumstance adversely affects the effective functioning of the Audit Chamber, as well as the results presented, taking into account international standards for them.

Appropriate legislative changes should be made to bring the Law of the Republic of Armenia the Chamber of Audit into line with INTOSAI standards, taking into account the following:

1. The Comprehensive and Extended Partnership Agreement between the Republic of Armenia and the EU, Article 24 (d) of which stipulates that: Further strengthen the role of the Audit Chamber as the supreme audit institution of the Republic of Armenia, in particular its financial, organizational and operational independence – according to the internationally accepted INTOSAI external audit standards;

2. 66th General Assembly of the United Nations (UN) on 22.12.2011 adopted Decision A / 66/209 on the Increase of the Effectiveness, Benefits, Accountability and Transparency of Public Administration through Strengthening the Supreme Audit Institutions, according to which the Supreme Audit Institution can only work effectively, if it is independent of all public authorities and protected from any external influence. With this decision, the UN General Assembly formally urges all member states to fully implement the principles and provisions contained in the INTOSAI Declaration of Lima (ISSAI 1) and Mexico (ISSAI 10).

Within the framework of the aforementioned, the RA Audit Chamber in cooperation with the EU SIGMA Program elaborates a strategic development plan and measures aimed at its implementation..

The measures provided for by this component will be reviewed after the approval of the RA Audit Chamber's strategy and presented with much detail.

**Objective**

Increased number of financial and performance audits by AC

Introduction of AC quality management system

Securing external audit transparency

**Final result indicators of the performance**

62) Putting the activities of Audit Chamber into compliance with ISSAI

Target 53. Identification and implementation of Audit Chamber 2020-2023 strategic targets

|  |  |  |
| --- | --- | --- |
| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․ Development and approval of the Audit Chamber strategy and implementation thereof | * AC legislation gap analysis * Development of draft strategy * Agreeing upon NA and other stakeholder organizations * Approval of strategy | Audit Chamber 2020-2023 strategy and action plan approved according to ISSAI |
| 2․ Implementation of measures approved by the Audit Chamber 2020-2023 strategy | * Implementation of measures envisaged by action plan stipulated by the strategy – as by approved schedule | Targets envisaged by the strategy are implemented. In particular:   * Law on Audit Chamber is revised * AC has developed risk-based audit strategy that envisages an increased number of financial and performance audit * Relevant measures have been implemented to ensure external audit activities transparency and involvement (involvement of stakeholders, media, SCOs) |

Target 54. AC staff capacity building and professional skills improvement

|  |  |  |
| --- | --- | --- |
| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․ Development and approval of AC staff capacity building program | * Development of AC capacity building program * Discussion with stakeholders * Approval and implementation of program | * AC implements audit according to ISSAI standards |
| 2․ AC staff capacity building and professional skills improvement | * AC staff capacity building – risk based audit for financial and compliance audit, as well as for pilot audits * AC auditors qualification – according to ISSAI standards’ requirements | * Qualified external auditors * Professionalism of external audit personnel |

## Government Financial Management Information System (GFMIS)

Component 27. Formation of government financial management information system (GFMIS)

**Current situation description and challenges**

The full implementation of the Government Financial Management Information System (GFMIS) is of particular importance in the process of reforming the public financial management system. The overall objective of the introduction of GFMIS is to enhance the efficiency, quality and transparency of public sector reforms and financial system accounting and accountability functions, as well as provision of public services – by means of consolidating and mutually integrating the entire financial information of public sector organizations.

To assist in the preparation and implementation of the GFMIS, the technical and functional specification and functionality of the GFMIS was developed and submitted by a consulting company to the MoF by the WB through a tender organized under the TF 012529 grant provided by the Trust Fund of the Government of the Russian Federation (RF) and a detailed calculation of the financial resources required to carry out it. The project will be implemented at the expense of the loan provided by the WB Third Sector Modernization Program (PSMP-3) and by the grant resources allocated by the Russian Government.

The GFMIS development and implementation project has been planned to be implemented in two phases. In the first phase, it is planned to develop and test the key components of the GFMIS. The activities completed at this stage will enable to improve the financial administration, to have separate online databases for each module with more optimized software solutions. During the second phase, computer equipment, including licenses for operating systems and office packages for client computers, should be acquired and users will be trained and system maintenance continued.

**Objective**

Consolidation and mutual integration of full financial information of public sector organizations – efficiency, quality and transparency increase of financial system accounting for and accountability, as well as public services provision

**Final result indicators of the performance**

63) GFMIS has been introduced - public financial management related processes are maximum automated on various governance levels

Target 55. Introduction of main GFMIS components – 1st phase

|  |  |  |
| --- | --- | --- |
| **Measures** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․ Revision of GFMIS tender documents | * Formation of GFMIS working groups, where there are representatives of each GFMIS module each function’s respective proficient experts, as well as representatives from other public bodies and organizations * Revision of GFMIS key components and tender documents, drafting of final text | The entire GFMIS tender documents’ package development tender documents has been revised and finalized |
| 2․ GFMIS procurement | * Preparation of the entire package of GFMIS tender documents, tender announcement * GFMIS tender implementation * Signing a contract with organization that won GFMIS tender | The entire GFMIS tender documents’ package has been prepared, tender has been conducted |
| 3․ Testing of GFMIS introduction | * Development of GFMIS project implementation plan, specification of detailed terms of reference * Drafting and development of GFMIS functional and technical modules * Testing of system piloting (pilot transformation and migration of data) | GFMIS introduced consistent with the terms of reference |

Target 56. Introduction of main GFMIS components – 2nd phase

|  |  |  |
| --- | --- | --- |
| **Measure** | **Description of steps aimed at the implementation of measures** | **Expected result indicator/s** |
| 1․ Full introduction of main GFMIS components | * Procurement of computer equipment – including software and office packages licenses envisaged for the clients’ computers * Introduction and pilot maintenance of the system in parallel with the existing systems * Final migration of data and end of previous system’s maintenance | GFMIS introduced consistent with the terms of reference |
| 2․ Training of GFMIS users | * Preparation of training plan-schedule of specialists of MoF, public administration bodies using GFMIS * Implementation of trainings | GFMIS users have been trained |
| 3․ GFMIS servicing | * Elimination of identified deficiencies * Current servicing of the system | Availability of pertinently functioning GFMIS automated system |

1. **Financial Assessment**
2. For the implementation of a range of measures of this strategy’s 2019-2023 implemented action plan we envisage financial (including also technical) support. The size and sources of some of them have been identified and presented in Annex 2. The size and sources for implementation of other measures will be determined as a result of discussions with the development partners.
3. **Coordination, Management and Monitoring**
4. The overall management of the PFMSR under this strategy will be carried out by the Minister of Finance of the Republic of Armenia. In the public administration bodies, the heads of those bodies are responsible for the implementation of PFMSR.
5. To coordinate the activities in various sectors a PFMSR secretariat will be established in the Republic of Armenia Ministry of Finance, which shall:
6. Secure the receipt, summary and submission to RA Minister of Finance the semi-annual reports submitted by the responsible bodies / units;
7. Review the implementation of the targets identified by PFM strategy and action plan and submit information thereof to RA Minister of Finance;
8. Ensure the cooperation between development partners and responsible bodies/units within the framework of implementation of measures envisaged by this strategy;
9. Submit recommendations to the Minister of Finance of the Republic of Armenia on updating the strategy and action plan as needed;
10. Provide development partners with information on reform implementation as needed;
11. Submit recommendations to the Minister of Finance on the capacity building of the agencies / units responsible for implementing this strategy, including the capacity of the secretariat, based on the monitoring results;
12. Assist, where appropriate, the development and evaluation of strategy and action plan by development partners;
13. Ensure dissemination of and access to information on the reform process;
14. Draft and submit to RA Minister of Finance reports on PFMSR.
15. The heads of the responsible bodies and the heads of the responsible unit of the MoF shall submit to the secretariat reports on the implementation of the action plan (measures) pertaining to their authorities provided for in this strategy. Reporting forms and deadlines are stipulated by the RA Minister of Finance.
16. To ensure achievement of strategic targets identified for FMC sectors, responsible agencies/units, outcome indicators, timeframes, risks associated with implementation of these measures as well as the activities aimed at mitigation of those risks are defined in the action plan of the strategy. The strategy sets out the deadlines for implementation of the measures and the agencies responsible for these activities will undertake necessary steps to reduce the period of implementation of those measures as much as possible.
17. Review of objectives and measures will be regularly carried out based on the annual results of compliance monitoring carried out by PFMSR Secretariat over the targets and indicators provided by FMC components.
18. The quarterly information and annual report on the progress of the measures envisaged PFMSR action plan is published on the official website of the MoF ([www.minfin.am)](http://www.minfin.am)).
19. **Public Participation and Communication**
20. MoF shall regularly inform the public and stakeholders on the process, intermediate and final outcomes of the strategy. The communication format will be comprehensible to the public, businessmen, RA Ministries and other government agencies and other stakeholders, and will enable them to receive up-to-date information on the reforms and implementation of the RA economy, tax system, state budget, public service financing and mechanisms of their implementation as a result of introduction of this strategy.
21. At the same time, the ministry will develop feedback mechanisms to provide the public with sufficient information on the content and format of the services provided, making the services and information more relevant to their needs.
22. RA MoF will improve:
23. ***Communication mechanisms*** – by publishing press releases, articles, video and audio materials, etc.;
24. ***Communication channels*** – using MoF official site ([www.minfin.am)](http://www.minfin.am)), print and e-media;
25. ***Communication language*** – making it more understandable for broad walks of society.

1. See the link: <http://www.minfin.am/hy/page/petakan_tsakhseri_ev_finansakan_hashvetvoghakanutyan_ptsfh_gnahatum/> [↑](#footnote-ref-1)
2. These priorities are set out in the Government of Armenia Program: [https //www.gov.am/files/docs/3133.pdf](https://www.gov.am/files/docs/3133.pdf) and in the Government of Armenia Action Plan 2019-2023: <https://www.gov.am/files/docs/3347.pdf> [↑](#footnote-ref-2)
3. As of 2019, there are 20 organizations in these infrastructure sectors [↑](#footnote-ref-3)
4. The Principles of Public Administration: Armenia. March 2019. SIGMA. [↑](#footnote-ref-4)
5. [↑](#footnote-ref-5)
6. <https://www.armstat.am/Metadata/Pages_Armenian/SM/ArmSMNationalAccounts.htm> The unobserved economy includes shadow, informal and illegal households, as well as goods and services produced by households for their own consumption. [↑](#footnote-ref-6)
7. SIGMA Report [↑](#footnote-ref-7)
8. <https://pefa.org/sites/default/files/PEFA%20Framework_English_Web_Dec18_Second%20Edition.pdf> [↑](#footnote-ref-8)
9. <http://www.minfin.am/hy/page/petakan_tsakhseri_ev_finansakan_hashvetvoghakanutyan_ptsfh_gnahatum/> [↑](#footnote-ref-9)
10. <http://www.minfin.am/hy/page/petakan_byuje_2019_t> [↑](#footnote-ref-10)
11. <https://www.pefa.org/sites/default/files/assements/comments/AM-May14-PFMPR-Public.pdf> [↑](#footnote-ref-11)
12. RA Minister of Finance Order No 463-N dated July 23, 2014. [↑](#footnote-ref-12)
13. Approved by the government by decision No 1009-A dated September 14, 2018. [↑](#footnote-ref-13)
14. RA Law on Budgetary System; RA Law on Treasury System; RA Law on on Internal Audit; RA Law on on Public Sector Accounting: RA Law on Civil Service; etc. [↑](#footnote-ref-14)
15. Instruction of the Prime Minister of the Republic of Armenia No. 02 / 16.8 / 5096-2019 dated 07.02.2019: Executive Summary of the Key Approaches to Main Issues Immediately Affecting the Public Finance Management System of the Republic of Armenia [↑](#footnote-ref-15)
16. The recommendations presented in the IMF report on assessment of the RA public investment management system will be taken into account in the development of Handbook. [↑](#footnote-ref-16)
17. RA Consitution Articles 88 and 11 [↑](#footnote-ref-17)
18. RA Consitution Article 198 [↑](#footnote-ref-18)
19. Part 4 of Article 5 of RA Law on Audit Chamber [↑](#footnote-ref-19)
20. Article 27 of RA Law on Audit Chamber [↑](#footnote-ref-20)
21. See Annexes 1 and 2 of RA Law on Rules of Procedures of the National Assembly [↑](#footnote-ref-21)
22. The Office functions according to the provisions stipulated by Chapter 24 of RA Nationa Assembly 16.12.16 N NAD-267-N decision on Approving RA National Assembly Rules of Procedures. [↑](#footnote-ref-22)