

AUDIT CHAMBER OF THE REPUBLIC OF ARMENIA



**ANNUAL
ANNOUNCEMENT**
ON ACTIVITY FOR THE YEAR 2018

YEREVAN 2019

CONTENT

EXECUTIVE SUMMARY	3
AUDIT PROCESS	3
GENERAL DATA	3
PART 1. SUMMARY INFORMATION ON THE STATE BUDGET PERFORMANCE AUDIT	8
PART 2. SUMMARY INFORMATION ON THE RISK-BASED AUDIT	9
AUDIT OF CIVIL AVIATION COMMITTEE	9
AUDIT OF HEALTH PROJECT IMPLEMENTATION UNIT OF THE RA MINISTRY OF HEALTH.....	10
AUDIT OF WATER COMMITTEE	11
AUDIT OF SOCIAL SECURITY SERVICE.....	12
AUDIT OF NORAKERT COMMUNITY OF THE RA ARMAVIR MARZ.....	14
AUDIT OF THE RA MINISTRY OF ENERGY INFRASTRUCTURES AND NATURAL RESOURCES.....	15
AUDIT OF THE RA MINISTRY OF EMERGENCY SITUATIONS	22
AUDIT OF LICENSING OF MEDICAL AID AND SERVICE COMPANIES.....	24
AUDIT OF LICENSING OF PHARMACEUTICAL ACTIVITY.....	25
AUDIT OF THE RA MINISTRY OF ENVIRONMENT	26
AUDIT IN INSPECTORATES	28
AUDIT OF ACCRUAL AND ALLOCATION PROCESS OF IMPORT CUSTOMS DUTIES (OTHER SIMILAR DUTIES, TAXES AND PAYMENTS), AS WELL AS AUDIT OF COMPLIANCE WITH THE PROTOCOL ON THE PROCEDURE FOR TRANSFERRING THE AMOUNTS OF DUTIES AS INCOME TO THE MEMBER-STATE BUDGETS (TOGETHER WITH SUPREME AUDIT INSTITUTIONS OF MEMBER-SATES)	30
PART 3. INFORMATION ON IMPLEMENTATION OF INTERNAL PROGRAMS OF THE AUDIT CHAMBER AND CONCLUSION OF THE EXTERNAL AUDIT	35
CONCLUSION AND RECOMMENDATIONS	41

EXECUTIVE SUMMARY

The Audit Chamber of the Republic of Armenia (hereafter referred to as the Audit Chamber) acts from the moment the RA Law on the Audit Chamber came into effect, that is from 09 April 2018. The Audit Chamber is the legal successor of the RA Chamber of Control.

In the first year of its activity, the Audit Chamber realized the last annual program of the activity of the RA Chamber of Control.

This Annual Announcement is represented in compliance with the requirements of clause 3 (1) of Article 198 of the RA Constitution, as well as clause 4 (1(a)) of Article 5 and Article 46 of the RA Law on Audit Chamber. The Announcement was prepared being guided by the standards of International Organization of Supreme Audit Institutions (INTOSAI).

This Annual Announcement is the first annual announcement of the RA Audit Chamber. It demonstrates the work made in relation to audit in the area of public finance and property for the year 2018.

AUDIT PROCESS

GENERAL DATA

Pursuant to the annual activity program for the year 2018, it was envisaged to conduct 25 audit engagements, two from which was suspended by corresponding decisions of the Audit Chamber guided by the requirements of clause 7 of Article 34 of the RA Law on the Audit Chamber.

Five audit engagements from 25 were completed during the year 2018, while the remaining 20 engagements guided by the requirements of clause 4 of Article 25 of the RA Law on the Audit Chamber were moved to the following year as they were completed during the given year. Two audit engagements from 20 engagements that were moved to be included in the annual activity program for the year 2019 are still left suspended, four engagements are in the process, while 14 engagements were completed.

Results of the completed 14 engagements were approved in the first quarter of 2019 based on corresponding decisions of the RA Audit Chamber.

Thus, to sum up the aforementioned, 19 engagements from 25 that were approved by the annual activity program for the year 2018 are completed, two are suspended, while with regard to the remaining four engagements, the audit is still being carried out. These four audit engagements relate to the audit of the RA Ministry of Defense, ‘Hayastan’ All Armenian Fund, Russian-Armenian University (together with the Accounts Chamber of the Russian Federation) and financial activity targeted at state regulation of circulation of medicines and medical products.

Audit in Russian-Armenian University (together with the Accounts Chamber of the Russian Federation) was postponed based on the recommendation of the head of the Accounts Chamber of the Russian Federation stating that structural changes that at that moment were being held in the Accounts Chamber restrict the complete and effective implementation of the audit.

With regard to audits held in the RA Ministry of Defense, Hayastan’ All Armenian Fund, as well as audit of the financial activity targeted at state regulation of circulation of medicines and medical products it should be noted that by their nature they are rather extensive and special. For instance, audit of the defense related items covers the following subject matters of activity from 2009 to 2018: procurement of items of the state secrecy that relates to ensuring arms, weapons, ammunition and military equipment, formulation and use of the off-balance resources, financial activity of foundations established by the RA in the defense industry; while in terms of ‘Hayastan’ All Armenian Fund, the audit covers the period from 2015 to 2017. It should be noted that in two cases specified above, no any control has been made by the Chamber of Control ever since.

Audit of the process of circulation of medicines is rather specific that requires also corresponding resources. Taking into consideration the legitimate requirement on conducting audits in an unbiased

manner through investigation, analysis and conclusion of facts, the Chamber of Control decided to postpone implementation period thereof up to 30 June 2019.

One of the audits from those nineteen audits refers to establishment, management and disposal of budget resources in the bodies of Eurasian Economic Unit (jointly with supreme audit intuitions of the members states of the Union).

Pursuant to clause 62 of the Basic Provision on Implementing External Audit (Control) in the Bodies of the Eurasian Economic Union, summary reports prepared based on the results of external audit (control) implemented in EAEU bodies and approved by the joint decisions of supreme bodies of the state financial control (including the RA Chamber of Control) were provided for the discussion to the Supreme Eurasian Economic Council.

As soon as the Audit Chamber receives the copy of the announcement signed after its approval, it should be submitted to the National Assembly and to the Government, as well as should be posed on the official website of the Chamber.

Based on the results of eighteen audits, current findings (conclusions) approved by the Chamber of Control were submitted to the RA National Assembly, Government and to the corresponding audited entities within the timeframe set forth by the legislation, moreover, current findings of seventeen audits were posted on the official website of the Chamber of Control, as well as on the website for the RA public notices pursuant to the requirements of clause 1 of Article 30 of the RA Law on Audit Chamber.

Taking into consideration that the audit of the electronic databases of the RA central and local self-government bodies and institutions contain information that can deteriorate the security of the Republic of Armenia, it has been considered "confidential" and has not been published.

Audits on the use of the state budget resources allotted for the purpose of construction of the RA Ministry of Transport, Communication and Information Technologies, as well as the "Radioisotope Production Center" CJSC were suspended.

The basis for suspensions was the impossibility of complying with legitimate requirements of auditors by the audited entities.

Being guided by the requirements of clause 6 of Article 5 of the RA Law on the Audit Chamber, the Audit Chamber made a recommendation to the Minister of the RA Transport, Communication and Information Technologies, the Minister of the RA HealthCare and the Minister of the RA Economic Development and Investments, as well as made a recommendation to the Prime Minister, as a higher instance, in the procedure defined by the law, to bring to responsibility the officials of those audited entities that did not comply with legitimate requirements of the RA Law on Audit Chamber and auditors.

In five separate directions, the Audit Chamber has come to the conclusion that some of acts committed include attributes of apparent crime and those documents with corresponding decisions were sent to the RA Prosecutor's General Office.

Two of them relate to audits of the Ministry of Energy Infrastructures and Natural Resources of the Republic of Armenia (in terms of "High Voltage Electric Networks" CJSC), two relate to audits of 'Hayastan' all Armenian Fund and one relates to the audit of Norakert community of Armavir Marz.

The scope of audits was rather extensive and included social security, health, energy, environment, water economy, agriculture, defense and security, economic development, international cooperation and other areas.

Audits were conducted in line with the procedure defined by the RA Law on the Audit Chamber. Auditors applied financial, compliance and performance types of audits by using all corresponding audit procedures.

STATISTICS OF AUDIT TYPES

<i>Financial</i>	9
<i>Compliance</i>	14
<i>Performance</i>	8
<i>Combined/financial, compliance/</i>	7
<i>Combined/performance, compliance/</i>	3
<i>Combined/financial, compliance, performance/</i>	2

The requirement for conducting three audits from 25 audits planned in prior was stated in ‘*Public Finance Policy Improvements in Armenia*’ the EU Agreement on Budgetary Assistance, as a special pre-condition for the year 2018. In particular, the following requirements were stated for the Audit Chamber for the year 2018 by the Agreement:

- To conduct financial and compliance audits of at least 17.5 percent of the state budget expenditures for the year 2017 in line with ISSAI 100, ISSAI 200 and ISSAI 400;
- To conduct performance audits in areas different from the ones conducted in previous two years in line with ISSAI 100 and ISSAI 300;
- To submit the results of the audits required to the RA National Assembly and to post them on the official website of the Audit Chamber.

All the aforementioned requirements were completely complied in line with international standards, moreover, financial and compliance audits were conducted in relation to 22 percent of the state budget expenditures instead of 17.5 percent.

Various incompliances and misstatements were identified through the audits conducted within the scope of the Annual Activity Program 2018.

As a result of the conducted audits more than 359 recommendations were provided to the audited, inspected entities, the RA Government and other bodies targeted at elimination and further exclusion of identified incompliances and misstatements, as well as at increase of activity efficiency.

Per their qualitative nature, these recommendations may be classified in three types: system-oriented recommendations, result-oriented recommendations and issue/problem-oriented recommendations.

The system-oriented recommendations aim at improving the efficiency of management, financial and legal systems. As a result of the audits carried out within the scope of the Annual Activity Program of the Audit Chamber 2018, 44 system-oriented recommendations were presented.

Result-oriented recommendations aim to improve programs and services to achieve goals and expected outcomes.

By the 2018 Annual Program of the Audit Chamber, more than 128 result-oriented recommendations were submitted as a result of the conducted audits.

The purpose of recommendations that were made in terms of the identified issues/problems and solution thereof is targeted to eliminate misstatements or to correct them.

By the 2018 Annual Program of the Audit Chamber, more than 187 issue/problem-oriented recommendations were submitted as a result of the conducted audits.

Audit opinions were provided based on the results of financial and compliance audits, in particular:

- Three positive opinions were provided - sufficient information was provided for conducting the audit and no any material misstatements were identified;
- Nine qualified opinions were provided - material misstatements were identified, the effects of those misstatements are not pervasive, financial statements were materially misstated or material

misstatements were identified, sufficient information is impossible to get for conducting the audit.

No any adverse opinion was provided since no any material misstatements were identified the effects of which are pervasive and financial statements were not materially misstated.

As a result of the performance audit, reports on compliance with the principles of economy and /or efficiency and /or effectiveness were provided.

PRINCIPLES NOT COMPLIED WITH IN TERMS OF PERFORMANCE AUDIT

<i>Economy</i>	4
<i>Cost-effectiveness</i>	2
<i>Objective -effectiveness</i>	5

Current findings/conclusions were drafted on the basis of protocols on the audit (inspection) results prepared by auditors during the audit. 108 protocols of audits (inspection) were drafted for all directions from which 14 protocols are confidential. All these protocols were presented to the management of the audited (inspected) entities in compliance with clause 3 of Article 35 of the RA Law on the Audit Chamber. Management of those audited (inspected) entities provided its response with regard to the identified incompliances and misstatements with clarifications attached, the majority of which was not accepted by the Audit Chamber since it was unjustified, without supporting facts, or represents merely comments and explanations with regard to the recorded incompliances and misstatements.

Arguments accepted by the Audit Chamber were considered in development of current findings/conclusions.

Being guided by the principles of transparency and accountability set forth by ISSAI 200, the Audit Chamber attached the arguments and explanations submitted by the management of the audited (inspected) entities to current findings/conclusions making them publicly available. Activities of auditors were not appealed by the audited (inspected) entities.

Like all current findings/conclusions, this Annual Announcement is also free from data comprising legal and personal confidentiality.

The 2018 Annual Program of the Audit Chamber was implemented by the Audit Chamber through its structural departments. If required, several experts from particular area and with specific skills and knowledge in the audit engagement were attracted by the Audit Chamber on a contractual basis.

In compliance with the requirements of clause 4 (3) of Article 36 of the RA Law on Audit Chamber, the entire audit process was documented by auditors. Audit results were obtained through objective and comprehensive information and facts. All assessments are made based on sufficient appropriate audit evidence obtained. In order to ensure the quality of the Audit Chamber and the audit engagement, internal control procedures developed for the entire hierarchic cycle (*auditor- in charge of the audit engagement – coordinating member-Audit Chamber*) and applied during the audit engagement were ensured by the Chairman of the Audit Chamber.

Within the scope of its activity the Audit Chamber fully complied with the requirement of the principle of *political neutrality* set forth by Article 13 of the RA Law on Audit Chamber. This Annual Announcement, as well as all current findings/conclusions are free from ‘qualification’ that may refer to the identified incompliances and misstatements, as well as from any ‘projection’ that may relate to consequences of the identified incompliances and misstatements.

PART 1. SUMMARY INFORMATION ON THE STATE BUDGET PERFORMANCE AUDIT

Conclusion of the RA Audit Chamber with regard to the annual announcement ‘*On Execution of the RA state budget for the year 2017*’ was drafted and approved pursuant to Decision of the RA Audit Chamber No 3/4 on 21 May 2018. On 13 June 2018 the Audit Chamber presented the conclusion of the RA Audit Chamber to the National Assembly on the Report of the RA Government on Execution of the RA State Budget for the Year 2017. Pursuant to the conclusion of the Audit Chamber eight key issues were identified and recommendations were provided in relation thereto.

Still in 2008, the Chamber of Control recommended to circulate all loan and grant funds that were reflected in the state budget through the single treasury account, as a result of which starting from 2010 the majority part of the loan and grant funds started to be circulated through the treasury system. Hence, at the reporting year, all loan and grant funds are circulated through the treasury system. However, a part of financial flows of entities established by the state or communities has not been transferred to the treasury system yet. This refers to community non-commercial organizations (CNCOs), foundations and shareholding companies.

The Audit Chamber recommended to undertake activities to ensure compliance with the requirement set forth by clause 2 of Article 14 of the RA Law on Treasury System on transfer of accounts of CNCOs, foundations and shareholding companies from commercial banks to the single treasury account. At present, this problem has been partially resolved, in particular, accounts of SNCOs were transferred to the Treasury, while the accounts of CNCOs, foundations and shareholding companies – not yet.

The Audit Chamber addressed non-financial indicators underlying the state budget. In particular, for 17.4% of expenditure related activities no any non-financial indicator has been specified at all, while for 59.3% only one type of non-financial (mainly, quantities) indicator has been specified that is insufficient to ensure complete assessment of results of the specified activities/measures.

The Audit Chamber recommended to define non-financial indicators for those activities of the policy in relation to which no any non-financial indicator has been specified yet, that is to define a more complete set of non-financial indicators and to increase consistency over the planning and implementation process of non-financial indicators.

It is worth to mention that starting from 2019 the transfer into the program budgeting was initiated.

Based on the conclusion it was specified that there is a possibility for insufficient control over the planning of off-budget accounts of the legislative body, since the ministerial bodies that dispose those resources make their own decision on off-budget proceeds and how to use them.

In this regard, it was recommended to include proceeds and use of off-budget resources in the draft of the RA Law on the State Budget. Within the scope of this recommendation, the RA Government undertook certain measures in 2018, as a result of which off-budget resources were included in the RA Law on the State Budget for the year 2019.

In accordance with the conclusion of the Audit Chamber, figures reflected in the annual announcement of the state budget execution were reliable, and the requirements defined by the RA Law on the State Budget for the year 2017 were followed.

PART 2. SUMMARY INFORMATION ON THE RISK-BASED AUDIT

In compliance with clause 1 of Article 30 of the RA Law on the Audit Chamber, all current conclusions/findings were presented by the Audit Chamber to the National Assembly, the RA Government and were posted on the official website of the Audit Chamber. In its annual announcement the Audit Chamber highlighted the most significant results of the audit.

There is an intention by the Audit Chamber not to burden the annual announcement, instead to make it more accessible and to include and reflect only the information that is more significant.

Based on the judgment of the Audit Chamber, this Annual Announcement presents sufficient information to the National Assembly and to the public proving that the Audit Chamber conducted its audit in compliance with the principles of economy, efficiency and effectiveness.

AUDIT OF CIVIL AVIATION COMMITTEE

Object of the Audit		Objects of Inspection
RA Civil Aviation Committee		ArmAeroNavigation CJSC Aviation Training Center CJSC
Period of the Audit		Period to be Audited
06.07.18-04.03.19		01.01.17-30.09.18
Subject Matter of the Audit		Audit Methodology
Use of resources allocated from the state budget, ensuring budget proceeds and management of the state property		Three types of audits were conducted within the scope of this audit: financial, compliance and performance audits. In terms of audit procedures observation, review, analytical procedures, re-calculation, re-performance were made.
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
4	7	14
Audit Opinion		
In terms of financial and compliance audits <i>positive opinion</i> was expressed.		
The principles of economy, efficiency and effectiveness of the performance audit were not complied with.		

Most Significant Facts

- For the purpose of implementing training flights for student-pilots, Aviation Training Center CJSC rented DIAMOND -40 aircraft from Main Aviation Technique LLC. This aircraft was imported from Main Aviation Technique LLC in 2013 the customs value of which was amounted to AMD 86.2 million with taxes that, in substance, is the market price of the given aircraft. Since 2013 Aviation Training Center CJSC has paid more than AMD 600 million rent payment for renting the craft, that is seven time more than the cost of the aircraft.
- Absence of corresponding controls makes impossible to be informed about the actual volume of activities implemented by aviation companies that increases the risk of reliability of the declared revenue. For instance, during the year 2017, two aviation companies that had 10 or more aircrafts (location base is African countries) declared to have gross income at average annual AMD 1,727.6 thousand and AMD 4,733.3 thousand for one aircraft.
- During the study of registration of letterheads, their movement and formulation it was found out that 369 letterheads in total were missing. No proper control was applied over the circulation of the received letterheads by the General Department Civil Aviation of Armenia. As a result of which this issue was not addressed and there was improper regulation of functions targeted to comply with the requirements to circulation of letterheads of the state importance. There is a risk of activities with non-returnable letterheads.

AUDIT OF HEALTH PROJECT IMPLEMENTATION UNIT OF THE RA MINISTRY OF HEALTH

Object of the Audit		
Health Project Implementation Unit State Institution (hereafter PIU) of the RA Ministry of Health		
Period of the Audit		Period to be Audited
06.07.18-29.03.19		01.01.17-30.09.18
Subject Matter of the Audit		Audit Methodology
Loan and grant projects		Within the scope of this audit compliance and performance audits were conducted. In terms of audit procedures observation, review, inquiry, external confirmation, analytical procedure, re-performance, re-calculation were made.
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
0	2	5
Audit Opinion		
In terms of compliance audit ‘qualified opinion’ was provided. In terms of performance audit, the principle of economy was not complied with.		

Most Significant Facts

- Prices of equipment and other tools acquired by the PIU were reconciled with import and acquisition prices of supply companies. During the reconciliation of 167 names of products at the amount of AMD 2.18 billion, it was found out that suppliers acquired those products at the cost of AMD 1.3 billion and supplied to PIU by AMD 847.2 million more amount (without transfer, installation and training costs);
- In particular, ‘Laparoscopic Collection’ was supplied by Ar. Med-Technique LLC on 10.11.2017 at the cost of AMD 102.5 million. Ar. Med-Technique LLC acquired that collection at the cost of AMD 41.0 million from another supplier on 30.10.2017, while the monitor for that collection was imported to the RA at AMD 3.3 million. This collection (without the monitor) was acquired on the same day at the amount of AMD 38.97 million that was imported to the RA on 28.03.2017 the customs value of which was equal to AMD 23.2 million. It is worth to mention that Ar. Med-Technique LLC supplied similar collection to PIU on 02.03.2018 at AMD 37.5 million.
- During the audit reconciliation between the prices per units of separate portions of price proposals submitted by companies applied for the same lots in relation to equipment, furniture and other tools of medical institutions, as well as technical specifications thereof was made. As a result of this reconciliation, it was found out that if evaluation of tenders were made per separate portions and not per lots, in terms of three tenders AMD 184.4 million could have been saved.

AUDIT OF WATER COMMITTEE

Object of the Audit		Object of Inspections
Water Committee of the RA Ministry of Energy Infrastructures and Natural Resources		Water Intake CJSC
Period of the Audit		Period to be Audited
06.07.18-29.03.19		01.01.17-30.09.18
Subject Matter of the Audit		Audit Methodology
Financial and economic activity of Water Committee		Within the scope of this audit compliance audit was conducted. In terms of audit procedures, external confirmation, analytical procedures, re-performance, re-calculation were made.
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
3	9	10
Audit Opinion		
In terms of compliance audit 'qualified opinion' was provided.		

Most Significant Facts

- Actual reading of the amount of water consumption is missing. Meter reading devices acquired in 2013 at the cost of AMD 500.0 thousand euro are not installed in the specified locations for unclear reasons;
- The property owned by Water Intake CJSC was leased out with violation of the requirements of the RA legislation; moreover, lease payments were specified arbitrary.

In particular,

- The pump station located in Vernashen region was leased out to Green Energy Concern LLC at AMD 220.00 thousand per month. Green Energy Concern LLC pledged that pump station for getting the credit line;
- The area of Her-Her reservoir was leased out to Jaguar Animal World LLC at AMD 20.0 thousand per month for fish breeding purposes;
- In 2017 and as at 01 October 2018, 40.5 million cubic meter water was released from Her-Her reservoir for two HPPs for energy purposes, in relation to which Water Intake CJSC received in total AMD 3 million (the cost of the supplied water was amounted to AMD 93 million);
- Expenses in relation to spring preparation activities incurred in 2017 and as at 01 October 2018 in the total amount of AMD 460 million from which AMD 233 million is in cash carry risks. Implementation of those works is not documentary supported. Procurement process is not made. The cost of work is sufficiently high. For instance, monthly salary of a permanent employee with a specified position amounts to AMD 80.0 thousand, while the contracted expert for carrying out similar work is paid AM 917.0 thousand for 27 days; or the market price of 'ZIL' cars amounts to AMD 2.5 million, whereas they are leased at average AMD 1.2 million (for 30-42 days), while 'KAMAZ' cars at AMD 1.5 million. AMD 1.7 billion was used for similar activities by Water Users Companies that carry risks.
- The water taken from the Lake Sevan through a corresponding canal in a gravity mode was directed to corresponding basins of pump stations and was pulled back to the same canal. As a result of this, additional 1.1 million kW/h electricity was consumed.

- Through reconciliation the amount of electricity consumed by certain pumps with their technical indicators (productivity), it was found out that 6,528.86 and 6,798.74 thousand cubic meter water received in a mechanical mode was underestimated by Water Intake CJSC in 2017 and as at 01 October 2018 that amounts to AMD 76.2 million and AMD 78.3 million cost, correspondingly;
- Water User Companies did not comply with the time-table established for irrigation water release purposes and submitted to Water Intake CJSC that effects the amount of water released from the Lake Sevan, from pump stations of Mghchyan and Ranchpar regions, and thus, the amount of the electricity consumed;
- The practice of charging in cash for the water by Water User Companies was continued;
- There is no an effective management-planning system developed. Planning should start from the water demand of farmers up to water release from the Lake Sevan. Capacities of the unified electronic system of Water User Companies are not fully used, as a result of which the management of water use process is not effective;
- Design and budgeting documents of capital renovation works in Arpa-Sevan tunnel No 2 were drafted with violations of the procedures and norms provided for by the RA legislation, as a result of which the budgeted cost (estimated cost) was high by AMD 1.6 billion.

AUDIT OF SOCIAL SECURITY SERVICE

Object of the Audit		
The RA Ministry of Labor and Social Affairs Social Security Service of the RA Ministry of Labor ad Social Affairs		
Period of the Audit	Period to be Audited	
06.07.18-28.12.18	01.01.17-31.12.17	
Subject Matter of the Audit	Audit Methodology	
Use of resources allocated from the state budget, ensuring budget proceeds and management of the state property	Within the scope of this audit financial and compliance audits were conducted. In terms of audit procedures, observation, review, external confirmation, analytical procedure, re-performance, re-calculation were made.	
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
4	11	18
Audit Opinion		
In terms of financial and compliance audits ‘qualified opinion’ was provided.		

Audit was carried out in accordance with the provisions of the EU Agreement on Budgetary Assistance. The subject matter of the audit was financial and economic activity of the Social Security Service of the RA Ministry of Labor and Social Affairs for the year 2017.

As a result of reconciliation of data in information databases of Social Security Service, the RA Border Crossing Electronic Database System, state registration database of population and other databases, it was found out that there are risks of material misstatements in the payment process of pensions and benefits.

Most Significant Facts

Labor Pension (Amount equals to AMD 220.7 billion)

- Labor pension beneficiaries who left the country for 12 months were actually paid AMD 702.6 million non-cash and AMD 619.1 million cash. Labor pension payment to a person that does not have the authority to receive the pension per the authorization letter for the eligible person who left the country carries risk;
- Labor pension beneficiaries who left the country for 3 to 9 months were actually paid AMD 9 billion non-cash and AMD 4 billion cash. With consideration the absence of beneficiaries, however, the Service did not make proper control to clarify whether the specified beneficiaries actually applied and got their pensions within the specified timeframe;
- The pension of beneficiaries (AMD 602.8 million and AMD 48.2 million) serving in a penitentiary institution or receiving a treatment in a psychiatric hospital is also paid on the basis of the letter of authorization verified by the head of the given institution. There are no guarantees whether the pensioner really gets the pension;
- Pension in the amount of AMD 178.8 billion (60%) was paid through HayPost CJSC, and AMD 119.8 billion through commercial banks. For the purpose of rendering these services, HayPost CJSC received AMD 1.5 billion from the state and AMD 80 million to the banks as a commission fee. The amount of the commission fee paid to HayPost CJSC is not justified;
- By the budget financing request 2018 it was envisaged to reduce the number of eligible labor pension beneficiaries by 20,575 through toughening the disability criteria and excluding cases of double payment of pensions. As a result of these measures, savings in the amount of AMD 9 billion should have been made, however, as a result of the audit it was revealed that lists of pensioners were not updated.

Family Benefit (Amount equals to AMD 36.8 billion)

As a result of reconciliation of results of different information databases, change of residence, inaccurate application of certain codes and cases that were recognized invalid, the audit of the entire family benefit program (AMD 36.8 billion) revealed that there may be possible material risks in relation to 10,193 cases and in the amount of AMD 2.3 billion. Including:

- Risks in relation to zero or minor consumption of natural gas and electricity in beneficiary families – 3,891 cases, AMD 824 million;
- Possible risks of inaccurate application of codes of a **divorced family child and a single mother child revealed as a result of** civil status registration databases provided by the RA Ministry of Justice – 2,184 cases, AMD 741.1 million;
- Risks of demonstrating arbitrary and subjective approaches for application reconciliation results of related databases (real estate trading, donations, availability and purchase of vehicles, customs payments) – 2,406 cases, AMD 419.2 million;
- Risks of inaccurate application of a code of a single pensioner – 269 cases, AMD 55.2 million;
- Risks of recognizing invalid of benefits instead of termination in the procedure set forth by the law that relate to 1,443 cases having real estate trading, donations, availability and purchase of vehicles, customs payments, as a result of which the beneficiary families were not charged back the amounts paid that equals to AMD 215.5 million, in total.

Funeral Payment/Benefit (Amount equals to AMD 4.9 billion)

During the audit it was revealed that AMD 90 million that was paid as funeral payments/benefits are risky, including:

- Funerals were organized by Vanadzor Old Age Home Foundation; funeral benefit for 5 cases was paid in the total amount of AMD 1.0 million. In all five cases the payment was made to the same person;
- It was revealed that there were many cases of paying funeral benefit to one person – 60 person received 448 funeral benefits in the amount of 89.6 million, moreover, 4 person received 267 funeral benefits, in the total amount of AMD 53.4 million, from which:
 - 1 person – 169 benefits, in the total amount of AMD 33.8 million;
 - 1 person – 45 benefits, in the total amount of AMD 9 million;
 - 1 person – 35 benefits, in the total amount of AMD 7 million;
 - 1 person – 18 benefits, in the total amount 3.6 million.

Taking into consideration the limited scope of authority of the Audit Chamber, the results of the review were finalized and submitted to the Government of Armenia for final and complete assessment and identification of misstatement risks, as well as were discussed with the Minister of Labor and Social Affairs of the Republic of Armenia that was proposed to set up a special working group to check the recorded risks. The relevant information thereon will be provided.

In accordance with the activity program of the Audit Chamber 2019, based on the provisions of EU Agreement on Budget Assistance, a new audit is being conducted in the Social Security Service covering the activity held in 2018.

AUDIT OF NORAKERT COMMUNITY OF THE RA ARMAVIR MARZ

Object of the Audit		
Norakert Community of the RA Aravir Marz		
Period of the Audit		Period to be Audited
02.07.18-04.10.18		01.01.16-29.06.18
Subject Matter of the Audit		Audit Methodology
Use of resources allocated from the community budget, ensuring budget proceeds and management of the community property		Within the scope of this audit financial and compliance audits were conducted. In terms of audit procedures, observation, review, inquiry, external confirmation, analytical procedures, re-performance, re-calculation were made.
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
0	1	13

The population of Norakert community is about 3,000 people with an area of 1,800 hectares, average annual budget expenditure amounts to AMD 85 million, whereas revenue is AMD 68 million.

Results of the audit were provided to the RA Prosecutor's General Office.

Most Significant Facts

- As a result of the audit of expenses in the amount of AMD 26,957.1 thousand spent for renovation of the Culture House, its performance stage, as well as municipality of Norakert Community in 2016, incompliances in the amount of AMD 6,762.1 thousand were identified;
- Structures and buildings owed by several companies and individuals were not included in the bases of land tax and property tax, as a result of which AMD 6,709.3 was not paid to the community budget;
- Expenses in the amount of AMD 11,777.2 thousand are not justified, without amendment to the contract, above-payments were made;
- Documents supporting the writing-off materials owed by the community were missing, and the work was frequently made by non-licensed companies;
- The day-care of the community was not actually operated, employees were at mandatory idleness, however, the head and the accountant of the day-care was completely paid per their position, as a result of which the amount equal to AMD 1,389.8 thousand was additionally spent;
- In 2016 Toyota Land Cruiser Prado was purchased at AMD 9.418 thousand that was sold at auction in 2018 at AMD 5,050 thousand. In the announcement of the auction it was stated that the car was out of order, whereas according to the evaluator it was in a good state. The auction was not organized and implemented in a non-transparent way;
- In relation to refuse collection charges, the community budget was not collected in the amount of AMD 3,997.8 thousand;
- AMD 594.2 thousand was paid less to the community budget by economic entities that have local duty payment obligation.

AUDIT OF THE RA MINISTRY OF ENERGY INFRASTRUCTURES AND NATURAL RESOURCES

Object of the Audit		Objects of Inspection	
RA Ministry of Energy Infrastructures and Natural Resources		High Voltage Networks CJSC (hereafter, HVN)	
Period of the Audit		Period to be Audited	
06.07.18-29.03.19		01.01.17-30.09.18	
Subject Matter of the Audit		Audit Methodology	
Use of resources allocated from the community budget, ensuring budget proceeds and management of the community property		Within the scope of this audit financial and compliance audits were conducted. In terms of audit procedures, observation, review, inquiry, external confirmation, analytical procedures, re-performance, re-calculation were made.	
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations	
5	14	31	
Audit Opinion			
In terms of financial and compliance audits ‘qualified opinion’ was provided.			

Most Significant Facts

I. Internal Purchases of HVN CJSC

- 1) As a result of the tender announced for reconstruction of cafeteria and administrative building of High Voltage Network CJSC, Montajtransshin CJSC was recognized the winner of the tender with AMD 353.9 million contractual cost, while the bid of the tender participant that proposed the price at AMD 119 million less was denied with justification that the participant had no any license. However, data on the given license are available on the website of the RA Urban Development Committee. Upon observation of the package of the tender and the process of the contract execution, it was found out that:
 - a) Montajtransshin CJSC provided licenses and documents witnessing the professional expertise and skills of another company with similar name that was not addressed by the tender committee;
 - b) The bid presented by the company did not comply with the financial qualification criteria;
 - c) The contract was signed without the bank guarantee;
 - d) Prepayment in the amount of AMD 100 million was provided without a legal guarantee justifying the import of goods that really did not happen;
 - e) The contract signed on 23.09.2017 should have been completed within 60 days after its signature. The execution of activities specified by the contract was extended up to 01.06.2019 that helped to avoid imposition of penalties by HVN that was set forth by the contract that would be amounted to AMD 177 million. At present, activities are in a completion phase. The quality and volume of the work made during the audit was not assessed since those issues were beyond the audited period.
- 2) Big Energo LLC previously had not any experience with working in 220kV and 110kV networks, however, HVN awarded Big Energo LLC contracts for performing the following works violating the requirements of the legislation:
 - elimination of malfunction of wires of Anush-Bjni, Shahumyan-2 and Ejmiadzin;
 - transportation of the holding section of 110kV Goris overhead lines;
 - Construction works of landing structures of pillars of Marash, Sevan and Center overhead lines.

The total price of the contract was equal to AMD 224 million. At the same time, Big Energo LLC executed subcontract contracts at AMD 173 million immediately after signing the contract on performance of the aforementioned activities having no contractual basis for that. The difference is AMD 51 million.
- 3) On 27.11.2017 T-Construction CJSC was awarded a contract for painting 245 pillars for Gyumri 220kV overhead lines at AMD 142.2 million, however, the company did not meet the qualification criteria of the tender. Without a bank guarantee and with no specified terms and conditions by the contract, the company made a prepayment in the amount of AMD 71.1 million. In order to justify this selection, the fact that the company imports the required materials was mentioned, however, during the audit, it was revealed that this company have not implemented import of similar materials at all.
- 4) Arsarqtekh LLC was awarded a contract in the amount of AMD 187.3 million for import of 268 pillars for 220 kV overhead lines of Shamb that (as in the above example) did not have any professional experience for implementing such work. Based on the same justification, the company was made a prepayment in the amount of AMD 89 million. In this case, activities were given to the subcontractor T-Construction CJSC without any bases specified by the contract.
- 5) On 29.05.2017 Davit Energy LLC was awarded a contract in the total amount of AMD 66.5 million for import of 87 pillars for Sipan 220 kV overheads, however, the company have not had any similar experience previously. Tender documents contain apparent misstatements of facts. There were incompliances between the contractual and actual indicators observed and recorded, moreover, pillars that were not provided for by the contract were imported. As a justification for selection, the performer presented oral instruction made by the client.

It is worth to mention that according to the terms and condition of the tender for importing materials specified in items 3, 4 and 5 above, performance of final activities shall be completed 335 days after

disconnection of the line. Actually, this means that importing activities may be implemented during several years. Consequently, for delay of performance of activities, enforcement of responsibility measures was not feasible, though the prepayments made are disposed without time limitation.

During the five months period only 50 percent of work was done. Within that period HVN twice applied to Electric Energy System Operator CJSC for disconnection of the line that was satisfied, that is, in terms of disconnections, practically there were not any obstacles.

- 6) A contract in the amount of AMD 141 million was signed between Volios CJSC and HVN. The bid that was submitted by the company did not meet both financial and technical qualification criteria. Employees that were included in the bid, actually were not employees of Volios CJSC. A prepayment in the amount of 40 percent was made that is a violation of the law.

Volios CJSC mainly implemented activities at the expenses of HVN. In particular, seven employees of HVN terminated their employment at HVN and were hired by Volios CJSC, moreover, geodetic measuring devices at the amount of AMD 13 million were actually used by Volios CJSC.

- 7) Energotsants Montaj LLC was awarded a Contract on Elimination of Deficiencies of Lori 1 Wind Power Plant in the amount of AMD 14.2 million. The company did not have any professional experience in making similar work and, in substance, was unable to realize renovation, however, the company was paid the amount specified by the contract.

Wind turbines do not operate up to now, as a result of which the HVN failed to manufacture the product in the amount of AMD 153 million.

II. On Recoveries Made as a Result of the Study by the RA State Control Service

As a result of the study made in HVN by the RA State Control Service, it was revealed that amounts were transferred to the bank account of HVN by suppliers as a compensation of damage.

As a result of the audit it was revealed that transfers in the amount of AMD 172.5 million (including, Big Energo LLC in the amount of AMD 98 million, Montajtransshin CJSC in the amount of AMD 30 million, EnergaNaghagits Institute CJSC in the amount of AMD 25 million, Arsarqtech LLC in the amount of AMD 7 million, Hydroelectromontaj CJSC in the amount of AMD 7.5 million, Akhuryan Coopshin LLC in the amount of AMD 5 million) were recorded as ‘prepayments made’, that is a payable account is originated at HVN and a receivable account at suppliers.

Pursuant to HVN, the reason for such accounting formulation was the fact that the document drafted as a result of studies made by the RA State Control Service had not been approved yet, hence, as a result of the absence of legal justification, payments had been recorded as a repayment made generating a payable account for HVN.

III. Nairit-2 CJSC

A-S INVESTMENTS LLC was founded on 22.02.2018.

A day after registration, that is on 23.2.2018, A-S INVESTMENT LLC applied to the RA prime-minister and expressed its willingness to acquire a building of 29.9 thousand cubic meter that belongs to Nairit 2 and is located at the address of 5/1 Artashat Lane, Yerevan and the land on which that building is located at 10.5813 ha area with the commitment to make AMD 7.5 billion investments and to create 250 new jobs.

According to the RA Government on 01.03.2018, a property at the amount of AMD 627 million liquidation cost was disposed to A-S INVESTMENTS LLC.

The State Property Management Department officially made a recommendation to the RA Government to clearly define a provision by that Decree on investment control mechanisms, however, the Government accepted that part of investments “for granted”. As a result, nothing has been included in the concluded contract in terms of investment and jobs.

IV. Loan and Grant Projects for Reconstruction of Substations, Replacement of Overhead lines and Supply of Equipment and Devices

Brief financial information, as well as information of other nature with regard to the loan programs is

Program	Chief Contractor	Amount	Date of Execution	Completion
Reconstruction of Agarak-2 and Shinuayr Substations	LEEEK (China)	USD 14.8 million	06.05.2016	26.10.2018
Reconstruction of Hakhtanak Substation	Cascade Energo (RF)	USD 14 million	01.07.2016	31.12.2018
Reconstruction of Charentsavan-3 Substation	Efaseck(Portugal)	USD 6.1 million	01.07.2016	13.07.2018
Reconstruction of Vanadzor Substation	Xsian (China)	USD 5.1 million	01.07.2016	31.12.2018
Reconstruction of Ashnak Substation	Xsian (China)	USD 9.1 million	01.07.2016	31.03.2019
Replacement of Shinuayr Overhead Lines from Hrazdan TPP	Kalpataru (India)	USD 25.7 million	21.11.2012	30.11.2016
Replacement of Lalvar-Noyemberyan Overhead Lines	Gam Arak (Iran)	USD 4.4 million	11.08.2016	22.10.2020
Supply of Vehicles and Equipment	Kalugaglavsna (RF)	Euro 1.4 million	15.11.2017	29.03.2018

presented in the table below:

- Disagreements and mutual claims were often incurred between HVN and foreign companies (contractors) with regard to power sector loan and grant projects. Requirements set forth by the contracts with high prices (of million dollars) were often ignored, in particular:
 - With regard to reconstruction of *Charentsavan* substation, execution of the contract was suspended on the basis of the note submitted by the director of HVN on 24.10.2017 with justification of “*Changes of the Requirements of the Power Sector*”. However, with regard to further process of activities, HVN did not apply to the World Bank and did not discuss the issue in the governing council of loans of the Ministry. At the suspension of the contract, during September-October the contractor has been already paid USD 1.2 million, as a prepayment, however, no any performance act confirming implementation of activities was available as at 30.09.2018. Period of the contract ended on 13.07.2018 and was not extended.
- Within the scope of various loan programs, reconstruction of 6 substations was planned to complete during the year 2018, however, the range of performance of activities as at 30.09.2018 fluctuates from 21% to 44%, in particular:
 - Performance of reconstruction activities of *Shinuayr* substation is 20.9%, however, the period of the contract ended on 26.10.2018.
- HVN accepted goods and works that do not meet the requirements of the contract, however, payments were made for these goods and works, in particular:
 - With regard to replacement of overhead lines of *Shinuayr* substation, dismantling operations conducted by Hrazdan TPP were accepted and were regarded as completed in full, thus payment

was made at AMD 122.8 thousand and AMD 39.8 million. However, the supporting documents of the number of dismantled transmission lines, as well as hail protection ropes are misstated, the remaining parts of 13 pillars were left in the fields, no any accounting entries were made with regard to dismantling operations.

- With regard to supply of vehicles and equipment, supply of two car laboratory of LVT-3A brand at Euro 170 thousand price was made instead of two car laboratories of LVT-3A brand that should have been supplied at the amount mentioned above, as set forth by the contract executed with Kalugaglavsnab (RF). The supplied cars have technically lower parameters than the ones that were provide for by the contract.
- With regard to the contract on reconstruction of *Hakhtanak* substation, within the scope of which two line-regulating transformers at the amount of USD 1 million were supplied, the supply does not correspond to supply conditions set forth by the contract. Moreover, the designed testing of those transformers were not conducted in compliance with the technical requirements of the contract, as a result of which the supplied equipment does not correspond with the technical requirements of the contract.
- It is worth to mention that no any claim was submitted by HVN to insist imposition of a penalty for the late performance of contracts, in particular:
 - With regard to *Agarak-2* and *Shinuayr* substations, no any claim for imposing penalty in the amount of USD 1.5 million for late performance of the contract was applied to the contractor by HVN.
 - With regard to replacement of overhead lines to *Shinuayr* substation from *Hrazdan TPP*, no any claim was submitted by HVN to Kalpataru (India) company for imposing penalty in the estimated amount of USD 2.5 million (end of the contract is 30.11.2016)
 - With regard to supply of vehicles and equipment, the contract was performed with delays (that is, with violation of the timing of the contract). In compliance with clause 7.4 of the English version of the contract, the calculation of the claim for compensation of the damage stipulated by the delay is made on the amount of supplies which equals to 10% of the contract price or Euro 143 thousand. While in the Russian version of the contract, the wording of the same paragraph is different: calculation of the claim for compensation of the damage is made on the amount of supplies, that is in this case the penalty amounts to Euro 30 thousand. In compliance with clause of 1.4 of special conditions of the contract, in the case of different content or interpretations, the English version shall prevail. No claim for imposing penalty for late performance of activities set for by the contract either in the amount of Euro 30 thousand or Euro 143 thousand has not been submitted to the contracting company Kalugaglavsnab (Russia) by HVN

Within the scope of the loan programs, documentation of the following two cases were sent to the RA Prosecutor's General Office in the procedure set forth by the law, based on the decisions of the RA Audit Chamber, dated 18 March 2019, on the basis of suspicion of containing features of apparent crime cast during the audit.

With regard to Reconstruction of Agarak-2 and Shinuayr Substations

A contract for reconstruction of *Agarak 2* and *Shinuayr* substations between HVN and Chinese company LEEEK (hereafter referred to as the Contractor) was signed on 06.05.2016 in the amount of USD 9.8 million. The deadline for performing activities established by the contract was 26.10.2018. From the commencement of the contract up to 30.09.2018 more than USD 9.8 million was actually spent

As a result of the study of compliance of construction and dismantling operations with the minimum qualification criteria, it was revealed that the below specified sub-contractors did not meet the minimum qualification criteria set forth by the contract:

- a) Energanorogum OJSC – construction and dismantling operations of two substations;
- b) Srtashat Jrshin LLC and Big Energo LLC AE - construction and dismantling operations of *Shinuayr* substation;
- c) Enrgy Group LLC - construction and dismantling operations of *Shinuayr* substation

In addition, during the audit it was revealed that in documentation flow of *Mulberry* electronic system of HVN, there is a Note No 659, dated 25 February 2019, addressed to the management of HVN by the contractor, that confirms the facts recorded by the audit team. Hence, the note mentioned above, describes actions committed by the management of HVN that contain suspicion on features of apparent crime.

With regard to the Deficit of 33 Tone of Aluminum Transmission Line

During the audit the following was recorded:

- a) With regard to the sections of Noratus and Lichq overhead lines, upon comparison of deemed and weighted data, the deficit in the amount of 33 tone of aluminum transmission lines was identified;
- b) The information on acceptance and handover of the property dismantled based on the basis of the order of the general director of HVN is misstated, while fixed assets and inventories that were dismantled were not inventorised, measured and no any initial accounting documents were drafted in that regard.

V. Program for Launching the Armenia-Georgia Transmission Line/Substation

Discussions on the program has been started in Armenia more than 10 years ago. The importance of the program goals has been documented in various strategic documents. International donor organizations have been sought and engaged in various negotiations to attract investments. Various justifications were provided. The program was included in the priority issues of the RA Government for the years 2017 and 2018.

During the years 2013-2015 the RA National Assembly ratified three international financing agreements, within the framework of which a number of loan and grant agreements were signed with a total value of Euro 188.7 million, of which Euro 178.7 million was loan, Euro 10 million was grant resources, as well as grant in the amount of Euro 820.0 thousand was provided for expert services.

For the purpose of obtaining consulting services within the framework of the program, HVN signed a contract with the German consulting company Figtner on providing consulting services in the amount of Euro 6.4 million (ending on 15.08.2019). Hence, as at 30.09.2018 the consultant was actually paid Euro 2 million from the loan and grant resources mentioned above.

In Ayrum and Ddmashen communities, lands with the total amount of AMD 641.4 thousand was acquired for implementation of the program at the expenses of HVN, as well as the program management fee was financed from the funds of HVN that amounted to Euro 1.6 million.

Most Significant Facts

- a) During the consultation held at the RA Prime Minister on 21.02.2017, the Minister of Energy and Natural Resources of the Republic of Armenia was instructed to stop the Armenia-Georgia program, considering it "inappropriate" (reasons and justifications are not provided in the protocol). At the moment of the termination of the program, over Euro 5.5 million has already been spent from various sources of the program, including about Euro 1.2 million from the HVN funds paid as a percentage of unused part of the loan.

- b) Termination of the tender for selection of the main contractor has not been made in accordance with the KFW Bank Procurement Guidelines. It is noteworthy that the assignment to discontinue the program has followed the bidding process. As a result, financial proposals of bidders have not been opened, and the deadlines for bids and their warranties have been expired.
- c) According to calculations made by KFW bank, the penalty for termination of the loan programs to be imposed on the borrower is at least Euro 13.9 million.
- d) On 14 March 2018, the Technical Committee for Reliability and Efficiency of Operation of the RA Power Sector approved new phases of the program that do not correspond to the official position of the KFW Bank, do not comply with the objectives of the loan and program agreements, the stages set out in the special agreement, as well as technical requirements of the contract with the consultant.
- e) As at the end of the audit, no changes were made in the loan and grant agreements

AUDIT OF THE RA MINISTRY OF EMERGENCY SITUATIONS

Object of the Audit		
RA Ministry of Emergency Situations		
Period of the Audit	Period to be Audited	
02.07.18-31.03.19	01.01.17-01.10.18	
Subject Matter of the Audit	Audit Methodology	
Use of resources allocated from the state budget, ensuring budget proceeds and management of the state property	Within the scope of this audit financial and compliance audits were conducted. In terms of audit procedures, observation, review, inquiry, external confirmation, analytical procedures, re-performance, re-calculation were made.	
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
1	2	7
Audit Opinion		
In terms of financial and compliance audits ‘qualified opinion’ was provided.		

Most Significant Facts

- 33,000 liter petrol in the amount of AMD 11,742 thousand purchased by the Rescue Service for its own needs was provided to other cars of the Ministry, while AMD 14,503.3 thousand that was planned for business trips was paid to employees of other divisions of the Ministry.
Goods that were not provided for by the procurement plan in the amount of AMD 21,387.4 thousand were purchased from the resources allocated for the tax payment purposes.
- In 2017 the Inspection of State Fire and Technical Security planned to make inspections in 496 companies of different spheres, however, inspections were made only in 58 gas stations. In all inspected companies violations of fire safety rules were identified, however, due to application of unequal approach penalties set forth by the law were not imposed in 39 cases that does not correspond with the requirements of the law.
- During the audit it was revealed that more than 6,000 units from 18,000 units that are being operated and are considered as hazardous production facilities and recorded in registry of hazardous production facilities were not undergone mandatory technical safety inspection in 2017, while the Inspectorate did not impose any penalty on those units as set forth by the law that equals to AMD 6.0 billion. Apart from this, the Inspectorate did not impose a penalty in the total amount of AMD 237.0 million on 237 anti-hail stations.
- Based on the results of control conducted by the RA Chamber of Control in 2010, it was recorded that the gas-generator anti-hail stations used to protect harmful hails are not effective and a recommendation on applying more effective method for protection of hail was made to the RA Government. However, it is worth to mention that as at the completion of the audit, anti-hail protection is realized per the same method. The number of these stations has increased 13 times in recent years and nowadays there are 547 such stations installed - 192 gas-generating anti-hail stations with AMD 1.4 billion are owned by Hydrometeorological Service. Moreover, in the years of 2015-2018 the agricultural system of the country suffered more than AMD 60 billion damage from harmful hail, and, in fact, it should be specified that the anti-hail protection in the country has been ineffective for years.

- During the audit it was revealed that official salary rates of employees of National Center for Technical Security SNCO exceed the salary rates of the same staff in other SNCOs of the Ministry by 2 to 4 times. Even under these conditions, employees of National Center for Technical Security SNCO have been paid monthly premiums in the amount of AMD 19,287.7 thousand starting from June 2017.
- In general, in the opinion of the Audit Chamber, in order to save budgetary funds, it is necessary to revise and optimize the staff lists of SNCOs of the Ministry of Emergency Situations of the Republic of Armenia and to separate the state functions from entrepreneurial activity.

AUDIT OF ARMENIAN AGRICULTURAL DEVELOPMENT FUND

Object of the Audit		Object of Inspection			
RA Ministry of Agriculture		Armenian Agricultural Development Fund			
Period of the Audit		Period to be Audited			
06.07.18-15.04.19		01.01.16-30.09.18			
Subject Matter of the Audit		Audit Methodology			
Within the scope of the assistance of the World Bank, Community Agricultural Resource Management and Competitiveness Project, Construction of Pasture Stock-Watering System, Network Construction and Ensuring Roadside Passage of Fields.		Within the scope of this audit compliance audit was conducted. In terms of audit procedures, observation, review, inquiry, external confirmation, analytical procedures, re-performance, re-calculation were made.			
System-oriented recommendations		Result-oriented recommendations		Issues/problem-oriented recommendations	
0		3		11	
Audit Opinion					
In terms of compliance audits ‘qualified opinion’ was provided					

Most Significant Facts

- Budgeted values of 54 facilities (units) were over-calculated at AMD 286,077 thousand, from which in 33 cases, the contractual prices exceed the adjusted budgeted values at AMD 196,053 thousand.
- More than AMD 27,456 thousand was over-calculated against the performance acts;
- For one facility, in the case of which no any performance act has been drafted yet, the contractual price was over-calculated by AMD 8,918 thousand;
- As a result of estimating the contractual prices per unit of the reducing works lower than the budgeted values, and as a result of estimating the unit prices of increasing works more than the budgeted values, there has been a rise in prices for works in the amount of AMD 25,550 thousand;
- As a result of inaccurate recording of the designed depth of installation of foundations, additional works in the amount of AMD 3,468 thousand were made without any justification;
- Amendments in the amount of AMD 15,027 were made in the designs that pursuant to the expert opinion comply with acting norms and standards, however, such amendments would have been considered as justified, in case the designs did not comply with the norms and standards;
- In the course of construction works, within the scope of additional survey conducted by the request of contractors, the suspicion that instead of the soft soils the rocky soils were detected was not confirmed, moreover the category of the soil was not changed, however, as additional

work, loosening work for rocky soils has been realized with no any justification in the amount of AMD 4,512 thousand;

- Additional work in the amount of AMD 6,083 thousand was made beyond the water-stocking project, that is, the drinking device was constructed in the residential area, next to barns of certain individuals for watering the cattle of barns, instead it should have been constructed in pastures to water the livestock during pasture;
- As a result of heavy rainfall per the assurance of contractors, and as a result of non-compliance with the contractual obligations by contractors, more than AMD 7,762 thousand double payment was made for the work damaged and not yet provided to the customer. However, in compliance with the acting law and the procedures of the credit organization, that work is not subject to payment and that loss shall be the risk of the contractor;
- In the course of construction works, as a result of the change made without any proposal, justification and necessity, more than AMD 3,557 thousand was calculated as performed work ;
- By examining the actual state of the works done at 9 facilities (units), it was found out that in 6 facilities (units) more than AMD 13,410 thousand was over-calculated as a result of presenting another work and the work with more volume performance acts done against the actual work made on site. In addition, in 2 facilities (units) the case of AMD 936 thousand double payment was detected.

AUDIT OF LICENSING OF MEDICAL AID AND SERVICE COMPANIES

Object of the Audit		
RA Ministry of Health		
Period of the Audit		Period to be Audited
06.07.18-28.12.18		01.01.17-31.10.17
Subject Matter of the Audit		Audit Methodology
Licensing of medical aid and service companies		Within the scope of this audit compliance and performance audits were conducted.
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
1	2	3
Audit Opinion		
In terms of compliance audits ‘qualified opinion’ was provided.		
The principle of objective-oriented effectiveness of the performance audit has not been complied with.		

Most Significant Facts

- When providing medical aid and related service, in terms of 268 licenses among 401 licenses, documents confirming professional qualifications of relevant experts have not been submitted. Failure to submit these documents is a basis for suspending the license. However, a number of companies have not only been engaged in activities but also received funding from the state budget within the framework of the state order with regard to the activity subject to licensing. Medical aid and service providers have been granted licenses without professional qualification checks;
- As a result of studies made by the licensing agency, more than 67 cases were given negative opinion with justification that in a number of items the presented applications do not correspond to the requirements of the licensing set forth by the RA legislation, however, the licensing committee ignoring the provided negative opinions and through the closed secret voting gave positive opinions, and eventually, those companies were licensed;

- The Authorized Body (Ministry of Health of the Republic of Armenia) conducts studies on availability of licensing mandatory conditions and requirements at 80% of applicants, that is on site studies were made. No legal act has been adopted by the Authorized Body to determine the proportion of 80% that should be studied and 20% that should not be studied. Hence, in the context of providing license on the basis of this method inspections were not made at 95 applicants. The same problem was available with regard to the licensing of pharmaceutical activities, as a result of which no inspections were carried out in 57 applicants.

AUDIT OF LICENSING OF PHARMACEUTICAL ACTIVITY

Object of the Audit		
RA Ministry of Health		
Period of the Audit		Period to be Audited
06.07.18-28.12.18		01.01.17-30.09.18
Subject Matter of the Audit		Audit Methodology
Licensing process of pharmaceutical activity		Within the scope of this audit performance audit was conducted.
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
1	2	2
Audit Opinion		
The principle of objective-oriented effectiveness of the performance audit has not been complied with.		

Most Significant Facts

- With regard to 159 licenses from 410 licenses provided for carrying out pharmaceutical activity, no any data on a qualified pharmacist or apothecary was presented (non-submission of these data is the basis for suspension of the license). Despite of this, it was revealed that these companies operate and implement pharmaceutical activity. During the audit it was revealed that there were cases when individuals that were presented as qualified experts based on the documents simultaneously work in other companies, at the same time schedules. There is a risk that the process of drafting employment contracts is not reliable;
- There are cases when for licensing purposes companies and sole entrepreneurs provided data of the same persons with relevant qualifications and with the corresponding document (diploma), however, in different employment contracts for these persons there are different passport data and registration addresses. According to the data of the RA Police Passport and Visa Department, certain passport data mentioned in the signed employment contract do not exist.
- Licenses have been provided without professional qualification checks as required by licensing procedures.

AUDIT OF THE RA MINISTRY OF ENVIRONMENT

Object of the Audit		
RA Ministry of Environment		
Period of the Audit		Period to be Audited
06.07.17-29.03.18		01.01.17-30.09.18
Subject Matter of the Audit		Audit Methodology
Use of resources allocated from the state budget, ensuring budget proceeds and management of the state property		Within the scope of this audit financial and compliance audits were conducted. In terms of audit procedures, observation, review, inquiry, external confirmation, analytical procedures, re-performance, re-calculation were made.
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
3	6	7
Audit Opinion		
In terms of financial and compliance audits ‘qualified opinion’ was provided.		

Most Significant Facts

- For implementation of environmental programs, in 2017 and in 2018 the communities of Armenia were provided with AMD 137.6 million and AMD 213.3 million subsidies, respectively. AMD 52.4 million in 2017 and AMD 48.5 million in 2018 were spent for implementation of activities not provided for by the law, including painting of roofs of multi-apartment buildings, asphaltting, construction of the market, renovation of pavements and alleyways;
- Within the scope of *Support Program for Protected Areas - Armenia* grant project funded by The Reconstruction Credit Institute (KFW Development Bank) the amount of which was equal to Euro 1.84 million in 2017, in total, 21 activities from the intended 34 were not fulfilled the amount of which was equal to Euro 958 thousand. The amount provided for the year 2018 was equal to Euro 1.85 million, from the intended 28 activities more than 19 activities in the total amount of Euro 1 million was not fulfilled;
- As a result of review of 28 fish breeding farms selected on a sample basis from 178 fish breeding farms it was revealed that 88.4 million cubic meter more water was used instead of the permitted 104.5 million cubic meter. In addition, as a result of non-application of the secondary water use promotion norms prescribed by the aw, more than 185 million cubic meter water used by the aforementioned 28 fish breeding farms flows from the territory of Armenia through the Aras river;

One of the key functions of the Water Resources Management Agency of the RA Ministry of Environment is the maintenance of the State Water Cadaster that is implemented partially. As a result, problems arise from the point of view of substantiation of the amount of water intake established pursuant to water use permits, as well as development of a common strategy within the national water policy and effective management;

- At the request of the RA Ministry of Environment, the Institute of Hydroecology and Ichthyology of the National Academy of Sciences of Armenia conducts annual recording of the crayfish reserves and determines the amount of its permitted hunting. For these services, the Ministry makes annual payment to the Institute in the amount of AMD 7.6 million;

- However, the Ministry did not take into account that information and granted many permits that exceed the amount of hunt;
- During the years 2017 and 2018 the number of crayfish actually exported from Armenia has several times exceeded the legitimate hunting permits for that period. For example, during the first nine months of 2018, the permit for 3 tones of hunting was granted from the Lake Sevan, while exports were equal to 110.6 tones or 37 times more than the legal hunting. As a result, based on the comparison of the amount of the wild crayfish left in the pools of exporting companies with the number of wild crayfish hunting permits granted by the Bioresources Management Agency of the RA Ministry of Environment and with the RA export volume, more than 63.1 tones of illegal hunt was recorded. The amount of compensation of the damage caused to the animal world as a result of environmental offenses amounts to AMD 63.1 million;
- Pursuant to Article 22 of the RA Law n Flora, ‘*The use of the state property flora object in industrial purposes (not for household purposes) is chargeable and is considered to be a licensed activity*’. The license is provided by the Bioresources Management Agency of the Ministry of Environment. During the years 2017-2018 no any individual or legal entity was granted the permit for collection and use of liquorice (the root of *Glycyrrhiza glabra* from which a sweet flavor can be extracted), in the procedure defined by the RA legislation. However, during that period, more than 744.5 tones of the root of that plat was exported from the RA. The environmental fee not paid was equal to AMD 148.9 million;
- Applying different a values for lease payments, forest lands have been provided for lease by *Hayantar SNCO* for the purpose of forest rehabilitation, planting, fish breeding, beekeeping, landscape gardening, forest area improvement, preservation of water sources. The difference between the amount of the lease payment defined by the contract and the minimum amount of the lease payment established by the RA Government Decree for the years 2017-2018 amounted to AMD 571,400.0 thousand;
- The study of 11 contracts revealed that in 2 cases the lands leased by the contracts are not used for their intended purposes; in 4 cases, no work is made on the lands as set forth by the contracts, while in 2 cases the performance of works provided for by the contract did not have any justification;
- As of October 2018, *Sevan National Park SNCO* had 885 contracts on land leasing (including, with the right for construction). The investment program is presented in terms of 31 contracts out of 100 contracts that were studied where the total investment is AMD 3,653,400.0 thousand.
- As a result of study of activities set forth by investment programs, it was revealed that realization of certain business plans contain risks, in particular, no any time-schedule is established for investment programs to be realized in terms of 9 contracts, in terms of 11 contracts no any investment was made, while in terms of 3 contracts there were no any investment programs developed, however, the duration of the lease contract was extended until 2060. Most of the works or investments are planned to be completed at the end of the contract period.
- As of 2018, *Dilijan National Park SNCO* had 65 contracts on land leasing (including, with the right for construction). The investment program is presented in terms of 50 contracts among the concluded contracts, the gross value of investments set forth therein is equal to AMD 5.2 billion without clarification of the period.

AUDIT IN INSPECTORATES

Objects of Audit		
RA Ministry of Environment and RA Inspectorate for Nature Protection and Mineral Resources, RA Ministry of Health and RA Health and Labor Inspectorate, RA Ministry of Education, Science, Culture and Sport and RA Education Inspectorate, RA Ministry of Economy and RA Market Supervision Inspectorate		
Period of the Audit	Period to be Audited	
06.07.18-28.12.18, 28.09.18-28.12.18	01.01.17-30.09.18	
Subject Matter of the Audit	Audit Methodology	
<ul style="list-style-type: none"> • Financial and economic activity aimed at environmental protection and efficient use of natural resources • Financial and economic activity aimed at healthcare, safety and health of workers • Financial and economic activity in the field of education • Financial and economic activity aimed at ensuring unity of non-food products, precious metals and measurements thereof 	<p>Within the scope of this audit, compliance and performance audits were conducted. In terms of audit procedures, observation, review, inquiry, external confirmation, analytical procedures, re-performance, re-calculation were made.</p>	
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
39	24	45
Audit Opinion		

In terms of compliance audits ‘qualified opinion’ was provided.
The principles of efficiency, effectiveness and economy of the performance audit were not fulfilled.

Most Significant Facts

Reforms in the inspectorate system in Armenia has been launched since 2009. New inspectorates should have been worked with new approaches, on the basis of new formats, based on the new developed procedures, as well as they should have been introduced a risk-based system of inspections, checklists should have been operated in the inspection process, which, however, did not happen.

Inspectorates were mainly formed with significant delays and started their work without any preliminary established annual plans, checklists, methodological guidelines, without necessary amendments to legal acts and without other key measures.

Handover and acceptance of the property, as well as the packages of inspections were not properly implemented in inspectorates. In certain inspectorates there was no any risk assessment methodology. The conducted inspections do not primarily reflect all possible risks in the given area. Inspections were mainly made on a segmental basis, sometimes even formal.

In parallel with poor addressing at institutional issues and poor implementation of inspections, the inspectorates have made expenses the effectiveness of which is low or incomprehensible. Implementation of the established objectives and the results therefrom was also infective. In particular:

I. On the RA Ministry of Environment and RA Inspectorate for Nature Protection and Mineral Resources

- The Inspectorate has 195 employees, maintenance costs were equal to AMD 685,456.8 thousand. Meanwhile, as a result of inspections conducted during the same period by the Inspectorate, only AMD 168,406.2 thousand were recovered to the state budget, notwithstanding the fact that, in total, the Inspectorate estimated AMD 3,137,012.6 thousand damage caused to the state.
- In 2017 the Inspectorate did not perform any of the 722 inspections, while in 2018, only 35 out of 250 inspections were made. For instance, the territorial office of the Inspectorate of Gegharkunik Marz has 9 employees, during the years 2017-2018 nine cases of illegal hunting of crayfish, as well as five cases of illegal hunting from the Lake Sevan, and five cases of white fish were recorded.
- In 2017 the Inspectorate executed contracts with *Pahapan, Derdzak, Elaamoda* LLCs in the amount of AMD 9,598.0 thousand for the purchase of uniforms. However, during the audit, it was revealed that the inspectors did not wear uniforms due to the inconsistency of sizes, as well as due to the low quality of the uniform.
- Environmental inspectors were obliged to hand over the confiscated natural resources, easily-spoilt confiscated bio resources to orphanages, elderly homes and museums, while several confiscated resources would have to be sold and the money would have to be deposited to the state budget, however, no any such action was implemented. No any measurements of hazardous emissions to the atmosphere of thousand vehicles operated in the RA territory was made by the Inspectorate.

II. On the RA Ministry of Health and the RA Health and Labor Inspectorate

- The Inspectorate has 280 employees, maintenance costs in 2017 were equal to AMD 736,783.1 thousand and in 2018 to AMD 380,217.5 thousand. During the years 2017-2018 no any inspection was made, as a result of which the health sector and employment relationships were completely left out from the scope of inspections. In 2017 no amount was directed to the state budget by the Inspectorate, and in 2018 only AMD 1,470 thousand was entered to the RA state budget.
- In *Zvartnots International Airport* of the Inspectorate remote thermo-metering static devices were installed with the price of AMD 38,416.9 thousand each that have not been operated since the day of their installation.

III. On the RA Education Inspectorate

- The Inspectorate has 41 employees, maintenance costs in the years 2017-2018 were equal to AMD 285,032.3 thousand, however, during the same period no any amount was directed to the RA state budget as a result of inspections.
- The RA higher education institutions are entirely outside the control of the Inspectorate, as the Inspectorate has been entrusted with control functions only in pre-school, general education, primary vocational (craftsmanship) and secondary vocational education sectors. Meanwhile, it should be mentioned that one of the key points of the RA Government 2019 annual program is to bring the higher education system to a qualitatively new level in the Republic of Armenia.

As a result of the analysis of the information provided by the Higher Education Qualification Committee of the Ministry of Education and Science, Culture and Sport, the Audit Chamber identified that due to the lack of inspection control, in such major, non-state universities as

Haybusak University, the University of Traditional Medicine, *Progress* University, *Urartu* University, Yerevan Mesrop Mashtots University, and in other universities, positions of the head of universities, deputy heads, deans of departments occupy individuals that do not have scientific degrees that may directly effect the quality of education delivered by those universities. This fact becomes more crucial considering that both state-owned and non-state universities grant the same type of diplomas that equal power.

IV. On the RA Market Supervision Inspectorate

- The Inspectorate has 40 employees, maintenance costs in the year 2017-2018 were equal to AMD 273,592 thousand, the amount directed to the state budget within that period is AMD 40,410.0 thousand.
- During the year 2017 the RA Market Supervision Inspectorate conducted 144 inspections out of 200, while as at 30 September 2018, only 160 inspections were conducted out of 240. The main targets of inspections were petrol stations, gas stations, perfume, cosmetic products and toys markets, as a result of which other markets left out from the scope of inspection.
- There are two mobile laboratories in the Inspectorate equipped with appropriate equipment and devices. Laboratory research has not been carried out for a long time through mobile inspection laboratories, instead, they have been ordered to National Institute of Standards CSC, at total amount of AMD 12,405.2 thousand.

AUDIT OF ACCRUAL AND ALLOCATION PROCESS OF IMPORT CUSTOMS DUTIES (OTHER SIMILAR DUTIES, TAXES AND PAYMENTS), AS WELL AS AUDIT OF COMPLIANCE WITH THE PROTOCOL ON THE PROCEDURE FOR TRANSFERRING THE AMOUNTS OF DUTIES AS INCOME TO THE MEMBER-STATE BUDGETS (TOGETHER WITH SUPREME AUDIT INSTITUTIONS OF MEMBER-SATES)

Objects of the Audit		
Treasury and Customs Bodies of EAEU Member-States , Eurasian Economic Commission		
Period of the Audit		Period to be Audited
01.03.19-29.11.19		01.01.18-31.12.18
Subject Matter of the Audit		Audit Methodology
Accruing and allocating the EAEU import duties (other similar duties, taxes and collections), transferring those amounts as income to the member state budgets		Within the scope of this audit, financial, compliance and performance audits were conducted. In terms of audit procedures, observation, review, inquiry, external confirmation, analytical procedures, re-calculation were made.
System-oriented recommendations	Result-oriented recommendations	Issues/problem-oriented recommendations
5	1	3

The allocation rates (defined rates) of import duties to be transferred to the budgets of the EAEU member states in 2017 are set as follows:

- For the Republic of Armenia - 1.22 percent;
- For the Republic of Belarus – 4.56 percent;
- For the Republic of Kazakhstan – 7.055 percent;
- For the Republic of Kyrgyzstan – 1.9 percent;
- For the Russian Federation – 85.265 percent.

In 2017 the total amount of import customs duties directed to the EAEU member-state budgets amounted to USD 11.6 billion which as compared to the year 2016 was increased by 18.5%. The largest increase in import customs duties was registered in the Republic of Armenia which as compared to the year 2016

amounted to 30.6%, in the Republic of Belarus it was equal to 8.4%, in the Republic of Kyrgyzstan it was 2.7% and in the Russian Federation it was 3.2%.

In the year 2017, the balance of mutual calculations between the EAEU member-states was positive in Armenia, Kazakhstan and Kyrgyzstan and amounted to USD 50.1 million, USD 189 million and USD 41.0 million, respectively. While, in Belarus and in the Russian Federation that balance was negative and amounted to USD 99.4 million and USD 181.9 million, respectively.

Most Significant Facts

- The amounts of import customs duties paid during the years 2014-2017 by users of entrails of the Republic of Kazakhstan (about USD 30.0 million) were not allocated between the EAEU member-states by the authorized body of the Republic of Kazakhstan. As a result, the assignment given by supreme audit institutions based on the results of the control made in 2017 was not met.
- The Chairman of the Audit Chamber of the RA has suggested to undertake measures to find the possible solution of the problem that have not been regulated for years, and made a recommendation to the Accounts Chamber of the Russian Federation, as the organizer of joint control events of 2018, on behalf of the EAEU supreme audit institutions, to officially apply to the EAEU court for the purpose of regulating the issue on a judicial basis. This issue was identified by the Chairman of the RA Audit Chamber also during the joint collegial session of supreme audit institutions of EAEU member-states held on 29 November 2018 in Moscow. During the session, it was decided to apply to the EAEU court to solve the issue in a judicial procedure.

REPORTING PHASE

In compliance with clause 6 of Article 26 of the RA Law on Audit Chamber, within 30 days after receiving the current conclusion (findings) from the audit team, the management of the audited entity shall provide the RA Audit Chamber with the written information on elimination of the identified incompliances and misstatements, implementation of the submitted recommendations and other related information.

The information mentioned above was submitted to the RA Audit Chamber with regard to all current conclusions (findings) published in 2018 (except for the current conclusion (findings) of the audit conducted in Norakert Community of the RA Armavir Marz, on which the information was sent to the National Assembly and the RA Government by the Audit Chamber), and after receiving that information, within three business days, in the procedure set forth by the law, together with the corresponding current conclusion that information was submitted by the Audit Chamber to the RA National Assembly and the RA Government.

At this stage, based on the acting legislative regulations, activities to be held within the scope of the 'follow up process' by the RA Audit Chamber come to an end.

However, Principle 7 of Mexico Declaration of SAI Independence states the necessity of effective follow-up mechanisms, in particular, identifies the significance of implementation of follow up procedures and corrective measures on the basis of current conclusion (findings) of the Supreme Audit Institution by the Legislature.

Analyses of the management responses of the audited entities on identified incompliances and misstatements presented in the current conclusions submitted by the RA Audit Chamber reveals that there are few sound responses to the facts identified in those conclusions. The part of those responses addresses willingness of the audited entity to correct the identified incompliances and misstatements, the other part addresses the reasons why the management cannot meet the recommendations presented in those conclusions, while in the most cases, the management of the audited entities do not address the conclusions and recommendations at all, or present groundless explanations.

In the light of the aforementioned, for the purpose of presenting the situation in a more precise and comprehensive way, several facts are presented below on the basis of the example of the audit conducted in High Voltage Network CJSC of the RA Ministry of Energy Infrastructures and National Resources.

Accepted incompliances, misstatements and recommendations

Based on the response of the company, the company, in substance, expressed its readiness to discuss only the recommendations of the Audit Chamber that relate to the operational effectiveness of the company, at the same time informed that the recommendations of the Audit Chamber would be taken into consideration and practical steps would be made to eliminate the existing problems

The company did not accept the incompliances, misstatements and recommendations presented by the conclusion of the Audit Chamber

Based on the response of the company, the company did not accept certain incompliances and misstatements that, in particular, referred to the reporting of the construction program of Iran-Armenia 400 kV third line with vague justification of non-provision of loan resources from foreign countries and international credit organizations.

The company does not consider the fact that the program was implemented based on the memorandum signed in 2005 by the presidents of the Republic of Armenia and Islamic Republic of Iran, in compliance with which Export Development Bank of Iran is a state-owned bank, and as a guarantee of the loan repayment, the RA Ministry of Finance issued a budget guarantee which is a sufficient basis to treat the funding as the loan provided by the Islamic Republic of Iran.

At the same time, due to the failure of reporting of this program to the state government bodies, the program left out from the state control that otherwise would have not caused so many problems.

With regard to the program on reliability of electric supply realized within the assistance of International Bank of Reconstruction and Development, the requirement for non-imposition of penalties by the contractor was stated by the agreement signed between the company and the contractor on 26.12.2018. This agreement was signed in two years after violation of the period of activities to be implemented within the scope of the contract. Moreover, no any consent was gained in relation to non-application of responsibility measures by the agreement specified above; the amendment was mainly made for the purpose of ensuring payments, hence, the justifications provided by the company and the expressed disagreement is groundless.

The company did not reject the identified incompliances and misstatements

Based on the response of the company, the company addressed a number of loan programs and specific procurement cases, whereby the company did not reject the identified incompliances and misstatements.

However, in relation to those incompliances and misstatements, no any intend to implement any corrective measures was expressed by the company. This does not give any opportunity to assess the position and attitude of the company against the submitted facts of incompliances and misstatements, as well as subsequent actions to be made by the company.

The company did not address the identified incompliances and misstatements

Based on the response of the company, the company, in general, expressed its readiness for making observation in relation to the identified incompliances and misstatements and, according to the company only upon completion of that observation and after making conclusions, it will make corresponding actions, set forth by the law.

In substance, the response of the company does not present any clear opinions, confirmations and denials. With regard to certain issues, some groundless comments were provided and willingness to make some indefinite and not-measurable actions was presented. As a result, the coverage of actions, assessments and analyses made within the scope of the audit conducted by the RA Audit Chamber becomes limited and vague.

In the light of the aforementioned, with consideration the significance of the follow up function from the one hand, and the limited opportunity granted by the RA legislation from the other hand, the issue of improving the existing legislative regulation becomes extremely urgent.

Nevertheless, according to the action plan of the RA Audit Chamber for the year 2019, it is intended to make analyses of the audit results within the scope of which the Audit Chamber will try to address also the steps made after the audit engagement (follow-up function).

The work to be carried out after the audit includes cooperation with the RA Prosecutor's General Office. In compliance with the requirement of clause 5 of Article 5 of the RA Law on the Audit Chamber, the RA Prosecutor's General Office shall submit written information on the decisions made in relation to the incompliances and misstatements identified by the audit (control) to the Audit Chamber.

On 03 May 2019, the RA Prosecutor's General Office submitted corresponding information that included the actions undertaken by the Prosecutor's General Office based on the materials and facts identified during the audit (control) conducted in 2017-2019.

In particular,

- As a result of investigation of violations and the documents substantiating those violations identified by the control conducted in the Compulsory Enforcement Service of the RA Ministry of Justice, 7 criminal cases were initiated in the RA Prosecutor's General Office for causing damage particularly in large sizes, in total at AMD 1.379.4 million, through deception and for official negligence with serious consequences by the officials carrying out the state duties, including employees of the

Compulsory Enforcement Service of the RA Ministry of Justice, *that is* the criminal acts that are punishable by clause 2 (1) of Article 184 and clause 2 of Article 315 of the RA Criminal Code.

- As a result of the investigation of violations and the documents substantiating those violations identified by the control conducted in Sevan National Park SNCO, 1 criminal case was initiated in the RA Prosecutor's General Office in accordance with clause 1 of Article 308 and clause 1 of Article 314 of the RA Criminal Code.
- As a result of investigation of violations and the documents substantiating those violations identified by the control conducted in relation to the RA Development Program of Animal Husbandry of the RA Agricultural Ministry, documents drafted in the RA Prosecutor's General Office for 7 cases in relation to violation facts were sent to the prosecutor's offices of the RA Aragatsotn, Gegharkunik, Shirak, Ararat, Kotayq and Vayots Dzor Marzes for discussing the issues for preparation of materials in the procedure set forth by Article 180 and 181 of the RA Criminal Code and for their subsequent solution.
- As a result, based on the data sent to the RA Aragatsotn, Gegharkunik, Shirak, Ararat, Kotayq and Vayots Dzor Marzes, 6 criminal cases were initiated per the characteristic feature of clause 3 of Article 178 (fraud) and clause 1 of Article 315 (official negligence) of the RA Criminal Code. The criminal cases have been dismissed on the grounds of the lack of criminal features. At the same time, in relation to corresponding deficiencies and omissions identified with regard to the program of animal husbandry, information was sent to the RA Ministry of Agriculture to eliminate the deficiencies and to enhance the efficiency of the program.

On the initiative of prosecutors of the State Interests Protection Department at the Prosecutor General's Office, reports published by the RA Audit Chamber were studied. In particular, as a result of investigation of violations and the documents substantiating those violations conducted in Melioration CJSC, a criminal case was initiated on the grounds of criminal features provided for by clause 3 (1) of Article 179 of the RA Criminal Code.

- The note and the related documents in relation to the materials of the audit conducted in Norakert Community of the RA Armavir Marz was submitted by the Department for Combating Corruption and Economic Crimes of the RA Prosecutor's General Office to the prosecutor's office of the RA Armavir Marz for the purpose of attaching those materials to the criminal case No 57100418 examined per clause 1 of Article 308 of the RA Criminal Code in the RA Armavir Marz Regional Investigation Department and for the purpose of joint solution the process.
- Materials of the audit conducted by the RA Audit Chamber in *Armenia* Pan-Armenian Foundation in relation to procurements of furniture, home appliances, gudron, bitumen and fuel oil were sent to Investigation Department of the RA National Security Service to attach those materials to the criminal case initiated in relation to abuse of powers by the former Executive Director of the Foundation, as well as to carry out necessary procedural actions to verify the information contained in the materials.
- Results of the audit conducted in the RA Ministry of Energy Infrastructures and Natural Resources, in the State Committee of Water System and in the Civil Aviation Committee sent to the RA Prosecutor's General Office are still being investigated to detect violations, including, the apparent presence of criminal features and to give a legal assessment or to enforce other measures of prosecutors' intervention.

PART 3. INFORMATION ON IMPLEMENTATION OF INTERNAL PROGRAMS OF THE AUDIT CHAMBER AND CONCLUSION OF THE EXTERNAL AUDIT

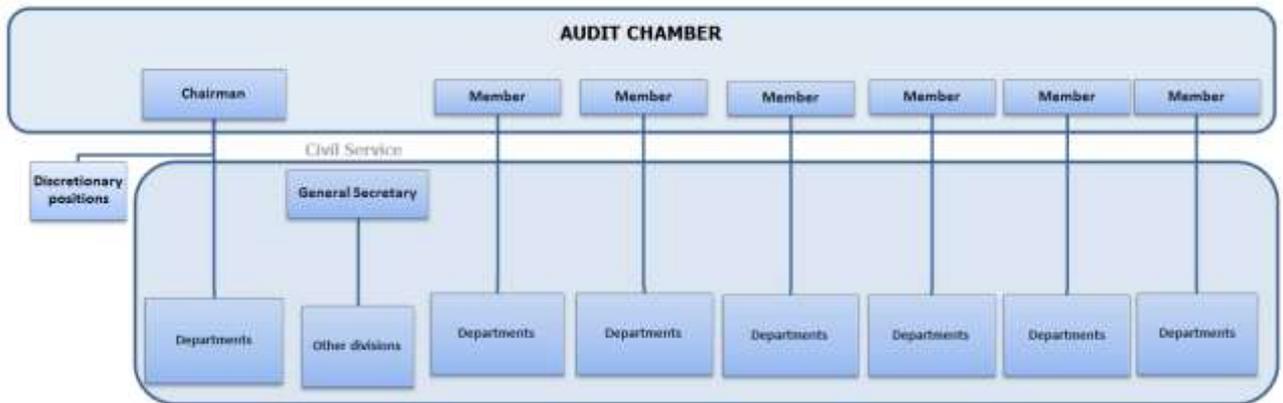
The Audit Chamber is an independent state body implementing external state audit. The objective of the activity of the Audit Chamber is to provide the RA National Assembly and the public at large with timely, professional and impartial information on the legality and efficiency of the use of the state and community budget resources in the field of public finance and property, loans and borrowings received, as well as on utilization of the state and community owned property.

The Chamber of Audit shall consist of seven members, including the chairman of the Chamber of Audit and its 6 members. The ordinary course of operation of the Audit Chamber is ensured by ten Chairman of the Audit Chamber.

General secretary, structural departments implementing audit, professional structural departments implementing functions related to the audit process, as well as other structural departments are operated in the Audit Chamber.

A member of the Chamber of Audit, including the chairman coordinate the work of one or several structural departments conducting audit.

The structure of the Audit Chamber is presented in the diagram below:



The Chamber of Audit shall organize its activities through regular and urgent sessions. 33 sessions were held by the Audit Chamber, including sessions of the Council of the Audit Chamber from which 20 sessions were urgent. Starting from 09 April 2019, agendas of all sessions of the Audit Chamber were sent to the National Assembly and the RA Government. More than 193 decisions were adopted by the Audit Chamber, the majority part of which (88%) relates to the audit process, 8 decisions relate to ensuring of methodological and legal activity of the Audit Chamber, 5 decisions relate to human resources management issues and 11 decisions relate to financial and economic activity of the Audit Chamber.

During January-March 2019, another 44 decisions were made by the Audit Chamber in relation to audit conducted within the scope of activity program of 2018.

For the purpose of ensuring the principle of transparency and accountability, on 09 April 2018 an official website of the Audit Chamber was launched with the new address: www.armsai.am.

Decisions made at the sessions of the Audit Chamber (except for individual legal acts, auditing and investigation assignments) have been published within three working days on the official website of the Audit Chamber.

The content of the publications on the website is presented in the table below:

On the materials published on the official website of the Audit Chamber in 2018	
Content	Number of Publications
Decisions of the Audit Chamber	35
Coverage of the Audit Chamber sessions	19
International platforms and cooperation	16
Vacancies	2
Analytical materials	2
Other information	8

The staff of the structural departments of the Audit Chamber is being completed, as well as the requirements applied to the staff are defined in the procedure set forth in accordance with the RA Law On Civil Service of the Republic of Armenia.

The maximum number of positions in the Audit Chamber is 155. Some quantitative and qualitative data on human resources of the Audit Chamber are presented in the table below:

Employee Age Groups

I. Employee age groups:	Number	Percent
1. Younger than 30	14	9.7%
2. 30-40 years old	54	37.2%
3. 40-50 years old	25	17.2%
4. 50-60 years old	31	21.4%
5. Greater than 60	21	14.5%
II. Those who have been working for 15 years or more in the state service	58	40.0%
III. Average age	44.4	

Movement of Employees

Employee total movement (TOTAL)	55
1. Movement of employees in state service positions	22
I. Quitted from the state service	14
II. Hired by then state service	8
2. Movement of employees hired on contractual basis	33
I. Quitted contractual employees	10
II. Hired contractual employees	23

Scope of Employee Qualification

Participants for Qualification Upgrades (TOTAL)	83	43.4%
- seminars in foreign countries	3	2.1%
- trainings on procurement	22	15.2%
- state /seminars on foreign countries as civil servants/	6	4.1%
- with the assistance of GIZ, MS Excel project	32	22.1%
- with the assistance of USAID, IDEA project	10	6.9%
- with the assistance of GIZ, LSOFT project of the Treasury department	10	6.9%

About AMD 1.1 billion was provided for maintenance of the Audit Chamber, amounting to 99.6% of the Project.

AMD 21.6 million specified for the reserve fund of the Audit Chamber was used by 99.8%.

The capacity enhancement of the Audit Chamber was amounted to AMD 14.5 million, amounting to 92.7% of the project

'Proceeds from compensation of the damage incurred to the state' an income account has been operating on behalf of the Control Chamber in the RA treasury system since 2008 (account of a taxpayer 900005281515). Taking into account that the effectiveness of the activity of the RA Audit Chamber is not measured based on the amounts to be recovered as a result of audit or by charging those amounts, the Audit Chamber is not vested with the function of charging the amounts and the role of the Chamber in ensuring the proceeds of the state budget is indirectly, as well as taking into account that there is no compulsory mechanism for ensuring proceeds to the state budget, in 2018 the RA Audit Chamber applied to the RA Ministry of Finance with the request to close the account.

In compliance with clause 3 of Article 23 of the RA Law on Audit Chamber, financial statements of the year 2018 of the Chamber of Audit are subject to annual external audit to be conducted by an audit firm selected through a tender. The tender was organized by the staff of the National Assembly. As soon as the audit of the financial statements of the Audit Chamber is completed, the Audit Chamber is committed to publish the audit conclusion. The audit conclusion on the 2017 financial statements of the Audit Chamber is posted on the official website of the Audit Chamber.

Assessment activities of the performance of the Chamber of Control was continued. The performance assessment was made on the basis of Performance Measurement Framework of Supreme Audit Institutions developed by INTOSAI. It provides with the framework for voluntary assessment of the performance against the International Standards for Supreme Audit Institutions (ISSAIs) and other established international good practices for external public auditing. SAI PMF is a multi-purpose, universal framework, and can be applied in all types of SAIs, regardless of governance structure, mandate, national context and development level

Such an assessment will help to enhance the capacity of the Audit Chamber. Moreover, findings of this assessment will be used in development of the strategic plan of the Audit Chamber, as well as in development of technical manuals for audit engagements that will ensure smooth transition from conventional control to the audit.

As a result of the performance assessment mentioned above, a report was drafted, and for the purpose of gaining international assurance of the final version of that report activities are currently undertaken with the office of the INTOSAI Development Initiative (IDI). After gaining the international assurance, in 2019 it is intended to publish the report on performance assessment and on the basis of that report to develop a new five-year development strategic plan.

The Audit Chamber intends to continuously use this tool, in particular, by the annual program of 2019, it is intended to implement performance assessment of the Audit Chamber again that will help to clarify the stage in which the Audit Chamber exists in terms of its performance and progress.

As a result of applying the RA Law on the Audit Chamber some "gaps" of legislation have been revealed that reduce effectiveness of the audit.

In addition, international standards on auditing and the best practice was studied by the Audit Chamber and it was stated that the existing legislation needs improvement. In this regard, a set of recommendations on making amendments and supplements to the corresponding laws were developed by the Audit Chamber that should be submitted to the legislative and executive bodies

The audit was conducted with necessary methodological and legal support. A number of documents have been worked out and approved by the relevant decisions of the Audit Chamber, including:

- regulations of the Audit Chamber;
- charter of the Audit Chamber;
- Procedures for attracting professionals and experts in the work of the Audit Chamber;
- A risk-based methodology for drafting the activity program of the Audit Chamber;
- Procedure for provision of data for audit purposes from the State Register Agency of Legal Entities;
- Model forms of audit decisions on approval of audit and investigation engagements;
- Model forms of the activity program of the Audit Chamber, annual reporting on the activity of the Audit Chamber, conclusion on the performance of the state budget and current findings/conclusions;
- New position list of the Audit Chamber and job descriptions of civil servants.

The annual program of the Audit Chamber for the year 2019 was developed and approved on the basis of the '*Risk-based methodology for drafting the activity program of the Audit Chamber*' that was posted on the website of the Audit Chamber.

During the audit, auditors were guided by the procedure set forth in the RA Law on the Audit Chamber, while in the cases when it is not prohibited, auditors used special knowledge in auditing provided for by ISSAIs (International Standards of Supreme Audit Institutions).

In order to ensure quality of the audit, the entire audit process (planning, intermediate and final stages) was accompanied by verifications and professional internal approvals based on the principles of collegiality.

Being guided by the requirements of the RA Law on Whistleblowing System of the RA, by the order of the Chairman of the Audit chamber, an internal and external system of the whistleblowing has been introduced. The process is implemented on a transparent and publicized manner through the official website of the Audit Chamber.

No any corruption cases of internal and external nature in terms of the activity of the Audit Chamber, cases of conflicts of interests, violations of rules of ethics, cases of incompatibility requirements and other restrictions, violations in relation to declarations, as well as any other damage to the public interest have been recorded.

Apart from the aforementioned, analytical support has been provided to structural departments implementing audit for the purpose of obtaining necessary information from the treasury electronic system, in particular, analyses were made in planning and in implementation phases of audit in relation to

the information on financial and economic activity of the state and local self-government bodies, PIUs, SNCOs, foundations and other budget-related entities.

The Audit Chamber had access also to the State Register Agency of Legal Entities, and as a result of developing data derived from that registry, it became possible to identify the circle of mutual relationships of participants attracted in the procurement process. Data that were processed in relation to participants became the bases for qualifying participants in the procurement process and later for recognizing the winner.

The Audit Chamber had access also to The World Bank's '*Client Connection*' electronic system, which is an electronic module of procurements implemented within the scope of the World Bank credit and grant projects.

By elaborating data derived from the system, corresponding auditors have been provided with valuable information about programs, contracts awarded and other terms and conditions.

The delegation of the European Union (hereinafter referred to as the EU) in Armenia and the German Society for International Cooperation (hereinafter referred to as the GIZ) have provided technical assistance in the following directions within the framework of the Public Finance Management in the South Caucasus Program.

- In May and June 2018, 10 employees of the Audit Chamber participated in training courses on "LS FINANCE" and "LS REP" treasury systems and passed the testing phase;
- Trainings were delivered by experts of LSoft company on the basis of training of trainers that means that the trained employees of the Chamber may further share the knowledge they gained on treasury electronic systems during the training courses to other employees of the Chamber through separate trainings;
- 30 employees of the Audit Chamber trained and mastered the Microsoft Excel software package (at the advanced level);
- With the assistance of the involved experts, an audit was made on the process of ensuring access to information necessary for implementation of the audit by the state and local self-government bodies and institutions;
- With the assistance of the involved experts, within the scope of preconditions of the EU Budget Support Agreement of the Public Finance Policy Reform Program:
 - Financial and compliance audits in line with ISSAIs standards were conducted in relation to the financial documents and related financial statements of the financial year 2017 of the Social Security Service of the RA Ministry of Labor and Social Affairs (the specific weight of the expenses of the audited entity against the total expenses of the budget amounts to more than 17.5%);
 - The areas different from the previous year were selected beforehand (licensing of pharmaceutical activity, implementation of arrangements within the scope of the state assistance grant project provided for by the strategy of the export-led industrial development policy of the Republic of Armenia), where two performance audits were conducted in line with ISSAIs;
 - A Memorandum of Understanding was signed on 30 May 2018 between the United States Agency of International Development (USAID) and the RA Audit Chamber that intends to strengthen the function of accountability of the Audit Chamber and to assist in its reform. Three main areas of cooperation are specified by the Memorandum:
 - Professional capacity building with involvement of experts of the US Government Accountability Office;

- Development of IT infrastructure and analytical capacities to match them with the requirements of the law;
- Subsequent financial audit of inter-governmental programs funded by USAID.
- With the assistance of USAID, analytical capacities of the RA Audit Chamber were enhanced, in particular:
 - Upon attraction of IDEA Caseware company, 10 employees of the Audit Chamber participated in trainings of IDEA analytical software package;
 - 10 laptops and 10 licenses of IDEA software package was provided to the Audit Chamber.
- Being a full member of INTOSAI (International Organization of Supreme Audit Institutions) since 1998, EUROSAI (European Organization of Supreme Audit Institutions) since 2000 and a full member of ASOSAI (Asian Organization of Supreme Audit Institutions) since 2007, the RA Audit Chamber took active participation in activities held within the format of multilateral (of international and regional importance) professional platforms and joint events;
- Within then framework of INTOSAI community, the RA Audit Chamber participates in working groups on Key National Indicators, on Public Procurement Audit and on Environmental Auditing, while within the framework of EUROSAI community, the RA Audit Chamber participates in working groups on the Audit of Funds Allocated to Disasters and Catastrophes and Environmental Auditing. Recently, the RA Audit Chamber has become a full member of EUROSAI Working Group on Information Technologies;
- Since 2000, the Chairman of the Audit Chamber has been a member of the Council of Heads of Supreme Audit Institutions of CIS member-states, where the Chamber takes active participation in professional work of the Council;
- Within the framework of bilateral cooperation, a number of mutual visits were held for the purpose of exchange of the information and experience. In particular, new memorandums of cooperation were signed between the RA Audit Chamber and the Accounts Chamber of the Russian Federation, as well as with the State Audit Office of Georgia. In addition, the RA Audit Chamber hosted in Yerevan the delegation of the Board of Audit and Inspection of Korea, within the scope of which a number of issues of mutual interest were discussed.

CONCLUSION AND RECOMMENDATIONS

Conclusions

1. The facts identified by the audit and the recommendations submitted thereon may be valuable either for the RA National Assembly, the public or the RA Government in making further conclusions and new decisions based on those conclusions.
2. This Annual Announcement provides the RA National Assembly and the public with the sufficient information that the RA Chamber conducted the audit in compliance with the principles of legality, efficiency, effectiveness and economy.
3. In terms of external public Audit, the RA legislation needs to be improved, in particular, with consideration of the significance of compliance thereof with INTOSAI standards.

Recommendations

To the RA National Assembly

1. **To improve cooperation with the RA Audit Chamber**, within the scope of enforcing control authorities for elimination of incompliances and misstatements identified during the audit and for acceptance of the submitted recommendations and implementation thereof.
2. **To improve the RA legislation in terms of external public audit**, with consideration the independence of financial, operational and organizational issues set forth by INTOSAI standards.

To the RA Government

1. **To improve the cooperation with the RA Audit Chamber**, when exercising control over the elimination of incompliances and misstatements identified during the audit and over acceptance of the submitted recommendations and implementation thereof.
2. **To strengthen** the control over of the implementation of the legally binding obligations by the heads of the audited entities during the audit, in particular with consideration that the heads of the audited entities shall be obligated to:
 - Ensure necessary working conditions for auditors;
 - During the audit, at the request by the auditor, within three working days, provide complete and accurate information, documents and recordings available and accessible on the subject matter of the audit;
 - During the audit immediately inform the auditor on any amendment and supplement to the already provided information, documents and recordings;
 - Nor to hinder the process of audit, comply with the legitimate requirements of auditors;
 - Ensure access to electronic databases that relate to the subject mater of the audit;
 - Follow up implementation of recommendations by the audited entities submitted in the conclusion of the RA Audit Chamber.
3. Being guided by the authorities set forth for the Government in Articles 8 and 12 of the RA Law on State and Official Secrets, per the corresponding decree of the Government, to set up a state and official secret of authority for the Audit Chamber