

**AUDIT CHAMBER OF THE REPUBLIC OF ARMENIA**



# **ANNUAL ANNOUNCEMENT**

**ON ACTIVITY OF THE YEAR 2020**



Yerevan 2021

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### Executive Summary

This annual announcement is submitted in compliance with the requirements of clause 1 of part 3 of Article 198 of the Republic of Armenia Constitution, as well as sub-clause a) of clause 1 of part 4 of

Article 5 and Article 28 of the Law of the Republic of Armenia on Audit Chamber. It was prepared in accordance with ISSAI standards of the International Organization of Supreme Audit Institutions (INTOSAI).

This annual report presents the work conducted by Audit Chamber in the area of public finance and property for the year 2020.

## Audit Process

In 2020 the Audit Chamber conducted 78 audits, among them 65 were carried out within the framework of the Audit Chamber's 2020 activity program first part (audits of three, six, nine month and annual execution of the state budget for 2020), as well as 13 audits within the framework of the second part of the program of this activity (according to the risk-based methodology).

Starting from 2021, the Audit Chamber submits its annual conclusion on the state budget execution in a new format in accordance with the procedures established in part 1 of Article 27 of the RA Law on Audit Chamber. According to it, the 2020 annual conclusion of state budget execution should be made through utilizing the three-month, six-month and nine-month audit conclusions of the compliance and financial audits of the reporting year. In this scope, the Audit Chamber planned and performed 65 quarterly audits in 17 establishments for the state budget execution in accordance with the "Guidelines for the annual execution audit of the state budget for three, six, nine months" and provided coverage for the amount of AMD 1,711,556,936. 0 thousand of actual expenses (at the same time, only annual state budget execution audit was conducted in the RA Ministry of Health, since before that the audits were suspended at the request of the Ministry due to the congestion caused by epidemiological situation and by martial law<sup>1</sup>)

Taking into consideration that in accordance with the Constitution of the Republic of Armenia and the Law of the Republic of Armenia on the Audit Chamber, in 2020 the conclusion summary results of audits of the State budget execution will be presented to the National Assembly of the Republic of Armenia as an independent document and as well as will be published on the website of the Audit Chamber, this annual report does not cover the same information.

In the framework of the second part of the 2020 Activity Program (according to the risk-based methodology) 13 of the 29 audits planned for the reporting year have been completed, one has been suspended, and 15 are still ongoing (transferred to 2021 by the power of law.)

The transfer of the 15 audits to the next round of operations was due to the COVID-19 pandemic that broke out in 2020, which significantly complicated the audits. In particular, according to the RA Government decision # 298-N dated March 16, 2020, a state of emergency situation was declared in the whole territory of the Republic of Armenia for the timeframe of March 16, 2020 through September 11, 2020, which among other restrictions, declared a restriction of public services as well as restrictions on movements within the Republic of Armenia; and this allowed the audits to be carried out only remotely in the office of the RA Audit Chamber with the mandatory requirement to wear masks and maintain social distance.

In addition to the pandemic, the standard course of audits was significantly affected by the war unleashed by Azerbaijan on September 27, 2020, when due to an unforeseen circumstance that makes the implementation of the audits impossible (Decision of the Government of the Republic of

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<sup>1</sup>Based on the RA Minister of health letter #22 1/5596-dated March 22

Armenia # 1586-N of September 27, 2020 "On declaration of martial law within the territory of the Republic of Armenia") all audits and inspections of 2020 were suspended by the relevant decision of the Audit Chamber for the period of September 30 through November 20 (the martial law was in effect from September 27, 2020 through March 24, 2021).

As a result, based on part 4 of Article 25 of the RA Law on the Audit Chamber, 15 program items were transferred from the year 2020 Activity Program to the year 2021 Activity Program (the list is in Annex 1 of this report.)

Sector description. In 2020, the Audit Chamber's scope of audits included labor and social security, the water sector, the police, high-tech industry, nature protection, emergencies, culture, road construction, community development and other sectors.

Published audits. Based on the results of 13 audits, the current conclusions approved by the Audit Chamber within the time period established by law were submitted to the National Assembly, the RA Government, and the relevant auditing establishments, and 12 of them, in compliance with the requirements of part 1 of Article 30 of the RA Law on the Audit Chamber were published in the official website of the Audit Chamber - [www.armsai.am](http://www.armsai.am) as well as the public notifications website of the RA - [www.azdarar.am](http://www.azdarar.am) (summary results of published audits are presented in Part 1 of this announcement).

Audits comprising state secrets. During the reporting period, an audit containing state secrets was conducted in relation to the financial and economic activities of the Armenian Nuclear Power Plant CJSC of the Ministry of Territorial Administration and Infrastructure of the Republic of Armenia (with the exception for credit and grant programs), the results were not published based on confidentiality. Pursuant to part 5 of Article 5 of the RA Law on the Audit Chamber, the Audit Chamber decided to send the results of the above-mentioned audit to the Prosecutor General's Office of the Republic of Armenia. The current conclusion of the audit is available in compliance with the RA Law "On State and Official Secrets".

The audit of maintenance costs, the use of budgetary funds in the field of communications and information technology, budget revenues and the use of state property in the Ministry of High-Tech Industry of the Republic of Armenia also contained confidential information and within this scope the statement details of the audit were not published based on confidentiality.

Suspended and non-renewed audit. The joint audit of the Supreme Audit Bodies of the Eurasian Economic Union (hereinafter the EAEU) member States regarding the formation, management and allocation of budgetary funds, the use of property and other assets within the Eurasian Economic Union in 2020 was suspended by a joint decision of the heads of the Supreme Audit Bodies of the EAEU member States due to "COVID-19" situation. This joint audit is planned for the second part of 2021.

Cooperation with law enforcement agencies. As a result of the audits (inspections) carried out within the framework of 2017-2020 Activity Programs 44 cases were provided to law enforcement agencies, from them 41 were sent to the Prosecutor General's Office of the Republic of Armenia, 1 to the National Security Service of the Republic of Armenia, 1 to the Special Investigation Service of the Republic of Armenia, 1 to the Investigative Committee of the Republic of Armenia.

Among those submitted cases, 23 became criminal cases and the investigations of 21 cases are still ongoing. 45 criminal proceedings/cases were initiated upon the above mentioned 23 cases, 6 cases merged to other criminal cases, and 9 cases were discharged. Three people have been charged in the framework of the cases. In one of the initiated cases a guilty verdict was passed, which entered into force. According to the information provided by the RA General Prosecutor's Office, the initial amount

of damage caused within the framework of these criminal cases is about AMD3,413,300 thousand. An investigation is underway to determine the final amount of the damage.

During the reporting period in accordance with the requirements of Part 5 of Article of the RA Law on the Audit Chamber and based on the decision of the Audit Chamber the audit outcomes of the financial and economic activities of the RA Ministry of Nature Protection's Hayantar SNCO, the RA Ministry of Labor and Social Affairs, the RA The Ministry of Territorial Administration and Infrastructure's "Armenian Nuclear Power Plant" CJSC (confidential) were sent to the RA General Prosecutor's Office. Upon the request of the RA General Prosecutor's Office the RA Audit Chamber provided records in regards of those audits. The detailed description of the recent four-year cooperation with the law enforcement bodies is in the appendix 2 of this announcement.

**Audit Opinions and Conclusions.** The auditors used three types of audits - *financial*, *compliance* and *performance*. To perform the audit tasks all kinds of auditing procedures were used.

### **STATISTICS OF THE AUDIT TYPES<sup>2</sup>**

<i>Financial</i>	1
<i>Compliance</i>	8
<i>Performance</i>	5

No unqualified opinion was provided upon the results of the financial audit and compliance audits. Eight qualified opinions were provided as audit outcomes, material misstatements were identified, the effects of those misstatements are not pervasive, the audit results are not materially misstated, and it is not possible to get sufficient information for conducting the audit.

Performance audits provide reports on compliance with principles of economy, efficiency and effectiveness.

The statistics of noncompliance with the principles of 2020 performance audit results are summarized below.

### **PRINCIPLES NOT COMPLIED WITH IN TERMS OF PERFORMANCE AUDIT**

<i>Economy</i>	3
<i>Cost-Effectiveness</i>	4
<i>Objective-effectiveness</i>	4

### **Recommendations produced by audits.**

<sup>2</sup> The statistics doesn't include the types of audits that contain state secret and the co-audits with the EAEU.

A total of 192 recommendations were submitted to the auditee organizations, RA Government and other bodies for elimination and prevention of identified incompliances, misstatements, and risk-based cases, as well as for the increase of work efficiency, which according to the characteristics can be divided into three types: system-oriented, result-oriented, problem-oriented.

The system-oriented recommendations aim at improving the efficiency of management, financial and legal systems. Result-oriented recommendations aim to improve programs and services. As a result of the audits carried out within the scope of the Annual Activity Program of the Audit Chamber 2020, 59 system-oriented recommendations were delivered.

The result-oriented recommendations aim at improving programs and services to achieve goals and expected outcomes. As a result of the audits carried out within the scope of the Annual Activity Program of the Audit Chamber 2020, 50 results-oriented recommendations were delivered.

The problem-oriented recommendations aim at improving or elimination of any noncompliance and misstatements found as a result of the audit. For the same time period the Audit Chamber delivered 83 recommendations aimed at the problems.

Audit Toolkit. Current findings/conclusions of the annual announcement were drafted based on protocols of the audit (inspection) results prepared by auditors during the audits. 35 protocols of audits (inspections) were drafted for all directions, and three of them are confidential, seven inspection protocols are about legal bodies (companies). All these protocols were presented to the management of the audited (inspected) entities in compliance with part 3 of Article 35 of the RA Law on the Audit Chamber. Management of those audited (inspected) entities provided objections and explanations. Many of these objections were just comments or clarifications about the identified incompliances and misstatements. Arguments were accepted by the Audit Chamber to be considered in development of current findings/conclusions.

The actions of the auditors were not appealed by the auditee organizations. The Audit Chamber 2020 Activity Program was implemented by the corresponding organizational subdivisions of the Audit Chamber. In some cases, the Audit Chamber has involved experts on contractual basis for each field as well as professionals and experts with special knowledge on auditing and inspection.

During the audits, the auditors were guided by the procedures stipulated in the RA Law on the Audit Chamber for the implementation of their activities, at the same time, in cases not conflicting with the latter, special auditing knowledge envisaged by the international standards of the Supreme Audit Institutions were applied.


The whole process of audit has been documented by the auditors in accordance with the requirements of Clause 3, Part 4 of Article 36 of the RA Law on the Audit Chamber. The results of the audits were obtained based on impartial and comprehensive information and facts. All evaluations carried out are based on sound evidence. To ensure the quality of the audit process and the work of the Audit Chamber, the Chairman of the Audit Chamber developed internal control procedures for the hierarchical chain operating in the audit process (auditor - audit task manager- member of chamber coordinating audit unit - 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. In this Annual Announcement, as well as in all current findings/conclusions the Audit Chamber refuses to give any kind of qualifications of identified incompliances and misstatements, as well as *projections* in regards of consequences of the identified incompliances and misstatements.



## Part 1. INFORMATION SUMMARY ABOUT THE RISK-BASED AUDIT

### RA MINISTRY OF LABOR AND SOCIAL AFFAIRS

Audit Subject		
RA Ministry of Labor and Social Affairs		
Period of the Audit Performance		Period to be Audited
June 8 of 2020 - March 31 of 2021		January 1 of 2019 - December 31 of 2019
Subject Matter of the Audit		Audit Methodology
Financial and Economic Activity		In the framework of the performance audit, inspections have been conducted in Kharberd Specialized Orphanage, Marie Izmirlian Orphanage, Yerevan Nursing Home # 1, Vardenis Neuropsychological Nursing Home SNCOs.
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations
21	-	37
Conclusion Summary		link
The principles of economy and effectiveness were not protected. *		

*Note: The financial and economic activities carried out in 2019 in the Ministry of Labor and Social Affairs of the Republic of Armenia (in the framework of audited portion), as well as its subordinate entities - Kharberd Specialized Orphanage, Marie Izmirlian Orphanage, Yerevan Nursing Home #. 1, Vardenis Neuropsychological Nursing Home State Non-commercial Organization do not reflect the expenditures made for the acquisition of resources, they didn't make sufficient efforts to minimize the maintenance in proper timeframe, quality, quantity, volume, with adequate compensation.*

#### Most significant facts <sup>3</sup>

*Kharberd Specialized Orphanage, Marie Izmirlian Orphanage, Yerevan Nursing Home No. 1, Vardenis Neuropsychological Nursing Home SNCOs.*

- The Ministry did not comply with the requirements of clauses 2.3.2 of the Agreements on providing grants to the above-mentioned SNCOs, according to which "the Ministry was obliged to

<sup>3</sup> Upon the decision #83-A of the Audit Chamber dated March 31, 2021 the audit materials were sent to the Prosecutor General's office of RA.



monitor the implementation of certain measures and cooperate with other government agencies if necessary."

- The quantities of a number of supplied goods have either exceeded or fell behind the quantities specified in the contracts.
- Organizations did not take into account inventory balances at the beginning of the year in the process of preparing procurement plans or announcing procurement tenders, which could save certain amount of money and prevent significant year-end leftovers as much as possible.
- For a number of procurement item parameters and conditions have been set forth that make it very difficult, and in some cases even impossible, for the buyer to determine the compliance of the goods with the established criteria without laboratory examination (which, however, was not required.) However, these goods were accepted, and appropriate payments were made.
- The staff positions approved by the General Managers did not comply with the standards approved by the RA Government Decision # 1292-N dated October 29, 2015. As a result, more employees were approved for positions compared to the defined criteria, while at the same time less number of employees were hired for certain other positions.
- There is a significant risk in the procurement process of some products for the 220 foster children defined by the contract in *Kharberd Specialized Orphanage* SNCO, in particular, 300 pieces of "Woolen sweaters" for children aged 7-18 were bought, as well as 30 pieces of "Sports clothes for girls", 300 pair of "Men's pants", 10 pairs of "boy's winter shoes", and 20 pieces of "comforter cover small" were bought. Moreover, in order to provide upcoming dental services to the beneficiaries, only 15 pieces of "spherical, conical, cylindrical diamond burs" and only "10 dental screw post" were purchased, and if divided to the number of 220 beneficiaries will distribute as follows: only 1 diamond bur for 15 beneficiaries and only 1 dental screw post for 22 beneficiaries.
- In Yerevan Nursing Home # 1 SNCO and Kharberd Specialized Orphanage SNCO the minimum standards for the use of sanitary items were not observed in general. Based on the principle of similarity, it was compared with the quota of personal hygiene items defined for the same profile institutions approved by the order # 224 of the Department of Labor and Social Protection of the population of the city of Savastopol, Russia, of June 21, 2019. As a result, some personal hygiene items purchased/provided for beneficiaries are significantly undersupplied than those for the same kind of organizations in Russia. In particular, the demand for toothpaste was covered by 14.9% in Yerevan Nursing Home # 1 SNCO, the demand for toothbrush was covered by 50.4%, the demand for disposable razor was covered 10.0%, and the demand for soap was met by 20.3%.
- As of January 1, 2020, as a result of comparing the data of the beneficiaries registered in the Electronic Pension information system and the data of the beneficiaries of Kharberd Specialized Orphanage SNCO, it was found out that 4 beneficiaries receive disability pensions, while in accordance with the procedures established in the point 20 of Chapter 4 of Annex 9 of the RA Government decision # 665-N dated May 5, 2011 the beneficiaries of the such organizations are not eligible to receive pensions.
- As of December 7, 2020, comparing the data of the employees of the organizations with annual budget information received from the State Revenue Committee of the Republic of Armenia it was revealed that 45 employees of Kharberd Specialized Orphanage are employed by other organizations as well, while 14 of them work for three or more employers at the same time, 19 employees at Marie Izmirlian Orphanage SNCO are also employed by other organizations, while 6 employees work for three or more employers at the same time. Yerevan Nursing Home #1 SNCO has 30 employees, who are employed by more than one employers at the same time, of which 9 employees worked for three or more employers at the same time, "Vardenis Neuropsychological Nursing Home" SNCO has 45 employees who are employed by other organizations at the same time.
- During some months, according to the calculation the monetary amount of food consumed per person per day exceeded the set maximum amount, and as a result the total amount exceeded was AMD9,818.9 thousand in Yerevan Nursing Home # 1, and AMD2,616.6 thousand in Vardenis Neuropsychological Nursing Home SNCO and etc.

- The administration of In Marie Izmirlian Orphanage SNCO changed fiscal codes of certain funds without informing and carrying out necessary procedures with the Ministry and as a result the benefit pay funds of the organization increased by AMD9,036.1 thousand.
- The administration of Marie Izmirlian Orphanage SNCO did not conduct a standard procedure of inventory of assets and liabilities before preparing the 2019 financial statements in order to ensure the reliability of the financial statements.
- The accounting in Marie Izmirlian Orphanage SNCO was conducted with disregard of several articles of the RA Law on Accounting of Public Organizations, which led to formation of debts, fines and penalties.
- The agreements of RA Ministry of Labor and Social Affairs about 14 day duty shifts for the Ministry's subsidiary organizations till June 11, 2020 didn't include the name of Marie Izmirlian Orphanage SNCO's director, and yet he was paid a 50% premium pay in an amount of total AMD1,048.6 thousand for the period of June-December of the reporting year.
- There is unconformity between the reported number of registered beneficiaries of Yerevan Nursing Home # 1 SNCO and the number of per capita consumers of monthly meal menu-descriptions of the organization. In particular, according to the organization's menu-descriptions it provided meals to 7,069 individuals, but requested the Ministry to cover the expenses of 7138 individuals, i.e. extra 69 capita/day.
- In December 2019, the employees of Yerevan Nursing Home # 1 SNCO were paid a premium pay, the main financial source of which was redistribution of unused funds for a number of expenditure lines. The free funds generated were not generated in a result of savings, but it was resulted by incorrect planning; the free funds remained as a result of partial purchase of planned clothing and drugs for the beneficiaries.
- The annex 4 of the Government of the Republic of Armenia Decision # 730-N, dated May 31, 2007 about *approved minimum standards items for the elderly and disabled* suggests 40 categories of clothes and bedding items for beneficiaries of such institutions, but Yerevan Nursing Home # 1 SNCO submitted only 14 categories from the above-mentioned list with procurement applications equal to AMD3,665.9 thousand, in case when at the beginning of the year AMD10,734.0 thousand was estimated for the given items by the budget. Moreover, in a number of cases, as a result of a tender conducted by the Ministry, the unit prices did not decrease, but instead increased without any justification.
- In Vardenis Neuropsychological Nursing Home SNCOs, the technical description of the state procurement contract for the provision of bus transportation services, as well as the request for quotation, did not indicate how many times the routes were to be carried out, what kind of routes there are, distances, number of seats, in case when the average daily amount allocated for transport was about AMD10 thousand according to the cost of the provided fuel coupons.
- The study of the quantities of medicines and medical tools obtained by Vardenis Neuropsychological Nursing Home SNCO showed that acquisition planning for 2019 was done in improper manner. In several cases, the number of medicine and medical devices acquired in 2019 and used throughout the year was as much as the warehouse stocks of the same items kept in the Organization's warehouse at the beginning of 2019.
- Vardenis Neuropsychological Nursing Home SNCO made real estate dealings under the name of 11 beneficiaries, out of this number 10 transactions were made without informing or getting the

approval from the guardian institution, but only on the basis of the decision of the Director of the organization, while according to the current legislation it had to be done through a guardian.

**The framework of Implementation of Agreements about the use of the financial assistance in form of grants provided to Hans Christian Kofoed Charitable Foundation in the scope of the program *Distribution of Temporary homes for the Homeless***

- The organization provided accommodation services to 177 homeless people in 2019, 116 of them received services longer than 90 days as it is defined by the RA Law on Social Assistance. As a result, the organization provided services by 22038 units (people\*day) more, for which additional AMD16,775.5 thousand in terms of variable costs was spent on food.
- Considering the fact, that the actual service provided was by 61.6% less than set in the Contract, the contract accordingly should have been reduced by a 20%, which didn't take place. As a result, the Ministry allocated at least AMD4,978.0 thousand of unjustified expenses to the Organization.
- During the reporting period, the personal data of 59 homeless people were not inputted into the databases of the State Population Register, while according to point 23 of Annex 4 of Decision #1069-N of the RA Government of September 10, 2015 **The organization providing temporary accommodation to homeless should organize the process of homeless person's registration in the State Population Register with its own expenses and within the timeframe in accordance with the procedures established by law.**

**The framework of implementation of agreements about the use of financial assistance in form of grants provided to the Mission Armenia Charitable Foundation in the framework of *Social Services for Lonely Elderly, Disabled at Home, the Day Care Center for the Elderly* program.**

- As a result of actions not complying with the requirements of paragraphs 35 and 69 of Annex 2 of the Decision # 1112-N of September 25, 2015, approved by the RA Government, additional 1,038 people, who should not have been covered under this Program, were serviced by the Nursing house (for example, 386 people not registered in Pyunik database, 241 minors or 152 employed people, and etc.) based on the decision of the head of regional social assistance agencies, as a result at least additional AMD30,400.2 thousand was transferred by the Ministry to the Organization.
- Noncompliance of the quantities of food supplied in the organization with the minimum standards stipulated in the Decision #730-N about "acknowledgment of the minimum standards of care for the elderly and disabled" and particularly its Annex 6 about the "food supplied to beneficiaries in Social-Rehabilitation Day Care Center" approved by the Government of the Republic of Armenia on May 31, 2007 has been revealed.

**The framework of *Providing housing to the graduates of the RA orphanages* program implemented by the RA Ministry of Labor and Social Affairs**

- As of December 1, 2020 the Ministry hasn't provided any information about the property rights for the state registration of the apartments acquisitioned by the graduates through Apartment Purchase Certificates (APCs) in the framework of the Program.
- As a result of analysis of information provided by the RA Cadastre Committee in letter DS / 121-2021 dated January 14, 2021, there are cases revealed where the graduates signed purchase agreement, but did not complete state registration process of property rights within 30 days and therefore in seven cases the property rights are invalid according to the requirements of part 6 of the article 24 of the RA Law on State Registration of Property Rights. In these cases, the further management of the amounts paid, about AMD44.1 million is unclear.

- As required by point 2 of the Minister's Order # 163-A/1 of November 26, 2019, the Commission was instructed to inform by November 30, 2019 the orphanage graduates through media about the procedure of Apartment Purchase Certificates (APCs), however the Commission hasn't completed this assignment and hasn't spread any information through the media, which has created unequal conditions for graduates who may not be aware of the APC award process for a certain reason.
- There was a case when the Ministry refused to provide the Apartment Purchase Certificate (APC) since the graduate's application was not fully examining, but after re-examining the same application the certificate was provided.
- As of July 24, 2020, the number of individuals who were rejected the provision of Apartment Purchase Certificates (APCs) was 157, after which on July 24, 2020 24 persons out of this number were selected through an unclear method by the Ministry of Labor and Social Affairs of the Republic of Armenia and a draft decision on making additions to the decision # 1555-N of November 7, 2019 was submitted to the RA Government, which was approved by the RA Government Decision # 1269-N on July 30, 2020. As a result, the above-mentioned 24 persons were provided with APCs, and an unequal, non-uniform approach was shown to the rights of other rejected graduates.
- By the decisions of the commission two citizens were provided with Apartment Purchase Certificates (APCs), while the mentioned citizens were transferred from the Gavar orphanage to the Litchk boarding school on January 12, 1987 (Armenian SSR). In similar circumstances, the provision of APCs to three citizens who applied for a APCs was denied. In the mentioned cases, the Ministry of Labor and Social Affairs of the Republic of Armenia showed unequal and differentiated approaches in the same factual circumstances, which is prohibited by the provisions of Part 1 of Article 7 of Law on Fundamentals of Administrative Action and Administrative Proceedings of the Republic of Armenia.
- As of December 1, 2020 the Ministry of Labor and Social Affairs of the Republic of Armenia did not carry out a comprehensive accounting of the actual payments made to the citizens of the Republic of Armenia from the funds transferred to the deposit accounts of notaries on December 26, 2019 and the balances on the deposit accounts.
- The decision made at the sitting of the Commission on December 2, 2019 admitted that the selection of Notaries should be made only within the Notary Offices located within 1 km distance from the Government Building #3, but this decision is not justified and doesn't comply with the requirements of decision # 1555-N of November 7, 2019. The Commission did not take into account the fact that the graduates of the RA Orphanages, who are the beneficiaries of the Project, live throughout the regions of the RA; this requirement of the decision caused additional financial obstacles for the beneficiaries.

**The framework of Issuance of certificates for purchase of hearing aids and wheelchairs for disabled individuals by the Ministry of Labor and Social Affairs of the Republic of Armenia, as well as the programs Provision of technologies for supporting persons with disabilities and repair.**

- A case was revealed where a citizen died on August 10, 2019, but on August 12, 2019 he received two orthopedic prosthesis assistive shoes (cost 2xAMD13,500) from **Planta Sana** LLC, moreover in the *Supply of Orthopedic prosthesis and Rehabilitation goods information database* there is the beneficiary's application for supply of assistive devices dated August 12 2019 (which is filled out after receiving of assistive devices).
- As a result of the comparison of the data received from the RA NSS Border Management Electronic Information system on January 15, 2021 in the letter # 216 / 3-23, total 67 cases were registered, where the beneficiaries were outside of the territory of the RA according to the system data on the day when they received the assistive devices. In particular, the 40 beneficiaries of the above-


mentioned number left the country before 2019, but in the mentioned year they received the corresponding assistive devices. And 27 beneficiaries, who made more than one border crossing in 2019, were not in the territory of the Republic of Armenia as of the day of receiving the assistive devices.

- The Ministry of Labor and Social Affairs of the Republic of Armenia is informed about the provision of assistive devices through the reports submitted by the organizations, in fact it does not participate in any way in the process of control or supplying of the assistive devices to the beneficiaries. Moreover, there is no assessment of the compliance of the assistive devices supplied by the organizations with the minimum requirements set by the technical specifications.
- The amounts in certificates for the upper and lower limb prosthesis assistive goods were based only on the price offers from Interortho LLC, and establishment of the prices went through price values presented by the latter, as well as with no justification the amount for lower leg endoskeleton prosthesis with leather receiver certificate was established by AMD59.0 thousand higher than the price offers in 2018 tenders. In general, the amounts established for the assistive devices procurement certificates continued 2018 procurement procedures, and were not based on the competition process. Moreover, the amounts in three categories of assistive devices procurement certificates were set higher than the prices offered during the tender.
- The Ministry of Labor and Social Affairs of the Republic of Armenia did not have any sound pricing methodology in establishment of value amounts through assistive device certificates; in case of availability of the latter it would be possible to have more reliable price establishment process. Moreover, no further Internet market research have been conducted, both on prices in the Republic of Armenia and in the Eurasian Economic Union member states, which would have resulted in more sound values.

#### **The framework of the procurement process carried out by the Ministry of Labor and Social Affairs of the Republic of Armenia**

- To support the needs of state non-commercial organizations operating within the structure of the Ministry (food, household, sanitary and cleaning means, clothing-bedding, cigarettes-fuel) and in the result of 73 tenders in total amount AMD1,034,754.2 thousand worth contracts were signed through centralized system electronically. It is worth to mention that about AMD721,220.0 thousand of the mentioned amounts or 70% falls under 5 trading companies.
- The amendments to a number of contracts signed between the Secretary General of the Ministry and the supplying commercial companies (vendors) as a result of electronically conducted centralized auctions, were approved not by the Client Organization's head, but by the directors of the mentioned organizations before assuming the authority.
- In the RA Ministry of Labor and Social Affairs as well as in the audited organizations the procurement plans required by the RA legislation regulating the procurement process were either incomplete or missing. In many cases those plans contained errors and did not meet the required scope and terms.

#### **MINISTRY OF NATURE PROTECTION'S HAYANTAR STATE NON-COMMERCIAL ORGANIZATION**

Subject of Audit		
Ministry of Nature Protection's <b>Hayantar</b> state non-commercial organization (SNCO)		
Period of the Audit Performance		Period to be Audited
May 22, 2019 – February, of 2021		January 1 , 2017 – December 31, 2018
Subject Matter of the Audit		Audit Methodology
Financial and Economic Activity		Compliance Audit
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations
1	5	10
Conclusion Summary		link
Qualified opinion		

### Most significant facts<sup>4</sup>

#### Wood harvest and forest materials

1. The basis for determination of annual wood harvesting norm are the forest management plans based on forestry projects, in case of nonexistence or expiration of forestry projects, comprehensive studies of professional commissions and conclusions, state census of forests and inventory data are taken into consideration. The annual task of the SNCO was approved by the professional commissions and has undergone several changes throughout the year (increased several times). In 2017, the annual wood harvesting task was equal to 10,780.0 cubic meters at the beginning of the year, then, as a result of amendments, the volume increased to 25,181.0 cubic meters at the end of the year. In 2018, the annual task at the beginning of the year was equal to 17,036.0 cubic meters, which increased to 42,757.0 cubic meters at the end of the year.

2. According to the clause 6 of the strategy approved by the joint order of the RA Ministers of Agriculture and Nature Protection on *Approving the strategy for procurement and release of wood residues for non-commercial purposes*, the collection of wood residues (remainders) is carried out on the basis of a wood residues collection coupons issued by forest management organizations (residue is the parts or branches of dead trees lying on the forest ground). The study revealed that wood harvest coupons were issued with indication of wood residue collection as type of activity. It is not clear, in fact, if the wood harvest coupons are issued for firewood (in the Annual Allowable Cut (AAC) estimation lists trees with the details of tree types, thickness of trunks and etc.) when the harvest is done for commercial purposes, or the coupons are issued for wood residues. In such manner the certified harvest was equal to 27,065.0 cubic meters of wood materials.

3. According to the decision # 806-N of the Government of the Republic of Armenia of May 24, 2007 on *defining the procedure for use of forests and forest lands* the forest management enterprises are entitled to sign two types of contracts for wood harvest - forest management activities and sales of wood stands, but in the meanwhile in 2017 forest management enterprises signed contracts according

<sup>4</sup> The Audit Chamber has sent the audit materials to Office of Prosecutor General of the RA, according to its decision #62-A of February 25, 2021



to which the enterprises ensure self-preparation conditions for purchase of timber by the buyers. Pursuant to Clause 2.1 of the above-mentioned agreements, the branch undertakes the obligation of making the allocated forest products available for the buyer at the determined price in the forest, and the buyer undertakes to prepare, remove, and transport the purchased forest products at his own expense under the direct supervision of a forest management enterprise staff. As a result, 30,111.0 cubic meters of forest products were sold out without complying with the provisions of the above-mentioned decision of the Government of the Republic of Armenia.

4. According to the order #142-N of the Minister of Agriculture of the Republic of Armenia of September 5, 2012, the wood harvest and forest coupons should be transferred from **Hayantar** state non-commercial organization to forest management enterprises, which, in their turn, in accordance with the same procedure, complete and issue the mentioned coupons to forest users. According to Article 3 of the RA Forest Code, the forest user is a physical or legal person, who by the order established by the legislation obtained the right to use useful properties of forest and forest lands prescribed by law. The study of wood harvest coupons revealed that coupons were issued by the forest management enterprises not to the forest users, but instead to the forest management enterprise itself, since its name was mentioned in the "forest user" chart (for example wood harvest coupon #00999 (for 59 trees 252.77 cubic meters) issued by Artsvaberd branch on November 13, 2017; wood harvest coupon #01206 ( for 424 trees, 1,011.8 cubic meters) issued by Noyemberyan branch on April 20, 2018).

5. By the joint order of the Ministers of Nature Protection of the Republic of Armenia, Agriculture of the Republic of Armenia and the Minister of Territorial Administration of the Republic of Armenia on November 29, 2011, a list of "*communities located in the immediate vicinity of forests receiving the privilege of collecting free wood residues for non-commercial purposes*" was determined. A study of records of the distribution of free wood residue collection at Gugark forest management branch revealed that out of 579.8 cubic meters of wood residues distributed to the communities free of charge by the forest management enterprise in 2017-2018, total of 219.0 cubic meters of wood residue was allocated to the communities not listed in the Order.

6. There is a number of noncompliance in the quantities of wood harvest coupons, wood material sales reports and actual sales records.

7. Examining satellite images of forest lands in the serviced area of the Forest Management Enterprise branches and as a result of scanning the changes of satellite images (according to information received the changed areas are wood harvest, trees fallen due to wind and snow, sick or dying tree areas) and comparing with the wood harvest coupons issued by the branch (according to different districts and fragments) it turned out that there are a number of risk areas. During the random visits to the forest management enterprises of Artsvaberd, Gugark, Yeghegnut, Noyemberyan, it was revealed that there were many loggings within the area of responsibility of correspondingly Artsvaberd, Gugark, Yeghegnut branches, which were not documented as illegal logging.

## Finance

1. The performance indicators defined by the SNCO grant agreements were not met. Performance indicators refer to the number of records documented in case of a forest rule violation, rather than the number of trees illegally harvested as a result of the violation.
2. Pursuant to Clause 2.4.7 of the grant agreements signed in 2017-2018, the SNCO is obliged to procure the goods, works and services necessary for the implementation of the program in accordance with the RA Law on Procurement and following the procurement regulations for the needs of the State. Meanwhile, in 2017-2018, the SNCO made 1,030 acquisitions without observing the mentioned procedure in the amount of AMD227,642.5, of this amount AMD198,493.2 thousand was already paid.
3. During the audit period 83 employees were outside of the territory of the Republic of Armenia for a total of 2,022 working days, however in wages records of the absent days were accounted for and total of AMD9,216.2 thousand was paid as salary.

### **Lease of forest lands**

1. Pursuant to paragraph 27 of the Annex to the Government of the Republic of Armenia Decision # 806-N of 24 May 2007, applicants must submit a forest use programs to the Authorized Body together with the application for the right to lease forests or forest lands for recreational and tourism purposes. It should also include the volume of the investment and the investment timeline. Examination of the lease records provided by the SNCO during the audit revealed that the investment programs attached to the applications of the leasing company did not indicate the investment timeline, and yet the lease agreements were signed with them, which does not meet the requirements of the above decision.
2. As a result of the study in the Hrazdan forest management enterprise branch, it was revealed that according to clause 1.3 of the agreement signed on November 31, 2018, between Hayantar SNCO and the lessee, the forest land was provided for leisure and tourism. According to clause 3.4.7 of the same agreement the lessee is obliged to use the forest land in accordance with the forest use plan submitted by him and to submit a report on the implementation once a year. According to the introduced investment program, it was suggested to install a temporary station for the "Zip Line" in the indicated area. It was planned to invest about AMD10,000.0 thousand, to improve the rented area to maintain its green landscape. According to the submitted construction work schedule, the work should be completed in 12 months. In September of 2020 the construction was not implemented.
3. On October 31, 2018, two lease agreements were signed between the lessee and Hayantar SNCO. According to the agreements, the forest land was provided under the lease for leisure purposes. The lessee is obliged to use the forest land in accordance with the forest use plan submitted by him and submit a report on the implementation once a year. According to the annual reports, almost AMD400,000.0 thousand has been invested for the implemented works, and in the near future it was planned to invest about another AMD500,000.0 thousand. According to the information received from the forest ranger no work was done during his visit in October of 2020.

### **Forest Committee**



The Charter of the Forest Committee was approved by the Order #172-L signed by the Minister of Nature Protection of the Republic of Armenia on June 22, 2018, where per clause 11.1 one of the functions of the committee is to execute the liabilities entrusted to the State Forest Service by law.

The draft documents of creation of a state forest service was developed and submitted for discussion on March 16, 2018. The project was developed with the support of the "Introduction of Sustainable Land and Forest Management in the Mountainous Landscapes of Northeastern Armenia" program, conditioned by the requirements of point 17 of the Forest Sector Reform Concept approved by the RA Government Protocol Decision # 50 of November 30, 2017. The Forest Committee has been operating since June 22, 2018, but is not able to fully perform its functions, since the draft law on state forest service is still in the revision status.

## **WATER COMMITTEE OF THE MINISTRY OF TERRITORIAL ADMINISTRATION AND INFRASTRUCTURE**

### **Audit Subject**

**Ministry of Territorial Administration and Infrastructure of RA (MTAI), Water Committee**

### **Period of the Audit Performance**

June 8 of 2020 – March 31 of 2021

### **Period to be Audited**

January 1 of 2019 – December 31 of 2019

### **Subject Matter of the Audit**

Financial Activity

### **Audit Methodology**

Compliance Audit

Performance Audit

### **System-Oriented recommendations**

2

### **Result-Oriented recommendations**

27

### **Issue/problem-oriented recommendations**

-

### **Audit Opinion and Performance Audit Conclusion Summary**

- Qualified opinion
- The principles of efficiency and effectiveness are not complied with

### **link**



## **Most significant facts**

### **Water consuming companies**

- According to the medium-term expenditure program for 2018-2020 approved by the RA Government decision# 818-N of July 6, 2017 the state budget of the Republic of Armenia envisaged state financial assistance of AMD3,636.7 million to water-using companies (WUCs) in 2019, however the actually allocated support amounted to AMD14,766,900.0 thousand or in other words another AMD11,130,200.0 thousand was allocated on top of that, which almost three times exceeds the amount of state financial support provided for the same purposes in previous years (AMD5,253,100.0 thousand was allocated in 2017, and AMD4,761,800.0 million was allocated in 2018). The audit found that the unprecedented amount of support was provided without the Water Committee adopting a methodology or mechanism for determining the amount of financial assistance to companies providing irrigation services to determine the outcome financial stability criteria and preconditions.
- The requirement of the 3rd clause of the RA Government Decision # 128-N of February 15, 2019 was not fulfilled, which anticipated within three months to submit for the Government of the Republic of Armenia approval of a plan on implementation of med-term measures on the justification, prevention and order of payment of debts by the WUCs with clear action plan and timeline. However, the instruction of the Government of the Republic of Armenia aimed at the thorough settlement of the issue of credit payment obligations was not fulfilled in time; instead, in 2019, unforeseen additional funds were allocated to the WUCs from the state budget.
- According to the requirement of clause 1.2. of the subsidy agreements signed between the RA MTAI Water Committee and the WUCs, the subsidy was to be used to pay the financial gap of 2019, while the WUAs directed a significant part of the subsidy received to the accounts payable incurred before January 01, 2019. Thus, the amounts of AMD3,798,900.0 thousand to carry out 12001 activities in full, and AMD2,159,000.0 thousand from AMD3,636,760.0 thousand to carry out 11002 activities allocated by the RA Government decision #128-N on February 15, 2019 were used to pay credits payable at Ameria Bank CJSC received during the previous year.
- The financial support provided to WUCs in 2019 exceeded the financial gap formed as a result of difference of the cost and tariff set for irrigation water for AMD5,937,600.0 thousand, in case when the area of irrigated lands compared to 2018 had been reduced by 10.3 thousand hectares, but the expenses and the cost of water was higher than anticipated. Therefore, at the end of the year the accounts payable of WUCs reached AMD1,977,600.0 thousand and accounts receivables increased by AMD2,369,200.0 thousand reaching AMD22,473,600.0 thousand. It should be mentioned, that no audit or monitoring was conducted in WUCs during the last 7 years.

### **JRAR CJSC**

- Jrar Strategy for Improvement of the Financial Sustainability of irrigation sector anticipated annual 10% expense reduction bringing them down to AMD2,557,500.0 million in 2019, and bringing the area of irrigated lands down to 136.3 hectares. In reality it was planned for 101.4 thousand hectares, but according to information from WUCs, the irrigated lands make only 82.7 thousand hectares.

According to the clause 34 of the Strategy for Improvement of the Financial Sustainability of the Irrigation Sector by the Protocol Decision # 33 of the Government of the Republic of Armenia of August 25, 2016, it is anticipated to set full self-financing tariffs for the irrigation company and in case of the accounts payable formation to stop Jrar subsidy system at all. However, the mentioned program was not implemented and the subsidization continued amounting to AMD1,218.2 million in 2019.

Due to noncompliance of the rules of irrigation water use and supply set forth by the RA Government Decision # 2121-N on December 26, 2002, as well as not carrying out the liabilities for supplied water in accordance with the contracts signed with WUCs, JRAR CJSC accumulated high rate of accounts payable and increased the accounts receivable.

### **"Melioration" CJSC**

AMD336,500.0 thousand was allocated from the RA state budget in 2019 under the program of Maintenance and Operation of the Collector-drainage Network with the aim to clean 182 km of drainage network, which constitutes only 17% of the total open collector-drainage network, while the maintenance and operation of the RA collector-drainage network program has no criteria set for evaluating the effectiveness of the project.

In the meanwhile, the low effectiveness of the measures taken to improve the ameliorative condition of irrigated lands is evidenced, in particular, by the project implemented in 2019, by the fact that in Ararat region, where most of the amelioration works were carried out (94 km), the wetland area before melioration was 6,870 hectares, while after melioration it amounted to 7,120 hectares. However, the same negative result was in 2018, after the melioration works in Ararat region, the wetlands increased by 150 hectares, and by 247 hectares in Armavir region.

As a result of poor operation of drainage networks the areas that underwent salination in 1992-1998 are still in there and for improvement of their ameliorative condition additional measures need to be implemented. No measures of reclamation are undertaken towards semi-saline soils.

190 fish farms operating in Ararat Valley use water from 470 artesian wells producing about 605,500 thousand cubic meters of waste water which in its turn flow into the collector-drainage network violating the preconditions and regulations of the water use permits, as a result the drainage water level and outlets are further increased, making the cleaning works more difficult and expensive.

No resources have been spent on closed drainage network since 1998, in case when the technical condition of the latter is very disgraceful.

There is a lack of long-term comprehensive program aimed at improving the land reclamation situation in the Republic of Armenia, which will include the development of tactical changes and new approaches in the state policy in this field, combining them with steps to increase the efficiency of water management and irrigation systems.

### **The inventory of JRAR and Melioratsia CJSC**

The Inventory inspection of fixed assets of both "Jrar" and "Melioration" CJSCs carried specious nature and the results of the inventory were not summarized, neither they were completed according to worksheet #G1 approved by Order #102 of the RA Minister of Finance and Economy on June 2, 2000.

As a result, the list of fixed assets of "Jrar" CJSC does not correspond to the real picture inventory, dams, pumping stations, canal safety investment (credit), as well as amounts of work done under World Bank support programs are not reflected in the value book of fixed assets, the balance includes resources that have not, in fact, been inventoried; accounting of property for which they don't possess ownership any longer, as well as accounted or poorly accounted works done under Millennium Challenge Foundation Armenia program, where among AMD12,500.0 thousand works done only AMD8,133,100.0 thousand was accounted, and the rest AMD4,282,500.0 thousand was unaccounted. In the framework of the loan programs, Marmarik Reservoir restored properties are reflected in the list of fixed assets equal to AMD12,500.0 thousand only, in cases when the total recover property amounted to AMD5,082,100.0 thousand.

Serious shortcomings were registered in "Melioratsia" CJSC within the framework of the "Millennium Challenge Foundation Armenia" program, where the amount of AMD868,700 thousand was not distributed and was not entered into the drainage system values, but instead was reflected in the balance of the company through one-line item in a form of one total amount of fixed assets, and as a result it underwent depreciation. Moreover, starting September of 2016 total of 30 hectares of the total 400 hectares area under the closed drainage system with a cost of AMD30,610.4 thousand was used by "Greenhouse" LLC to organize a greenhouse.

### **"Veolia Water" CJSC**

The provisions of the third year implementation of the lease agreement signed between the State Water Committee of the Ministry of Energy Infrastructures and Natural Resources MEINR of the Republic of Armenia and the *Viola O General Des O* Limited Liability Company and *Viola Jur* CJSC were also audited.

For 2019, "Veolia Water" CJSC offered a tariff 205,125 drams for retail water supply services for one cubic meter. In order to maintain the current tariff (180 AMD / cubic meter) unchanged, by the decisions of the Government of the Republic of Armenia, on June 25, 2019, the State Water Committee of RA MEINR and "Veolia Jur" CJSC signed the subsidy agreement # 1-S for executing AMD1,289,780.0 thousand from 2019 state budget; later addition of AMD102,600 thousand was made towards the end of the year. The provided subsidy was not enough to cover the tariff increase cost (applied to the consumers), therefore, the AMD1,028,000.0 of total AMD2,250,000.0 thousand (excluding VAT), the minimum amount which was dedicated for maintaining and repair of the network and was planned to be invested by the lessee under the "Mandatory Capital Works Program" Capital expenditures in 2019 was transferred to the year 2025 to be used for the same investment purpose. As a result of the measures taken, the decision of increasing the tariff was neutralized.

Though, according to provisions of its primary contract the Water Committee didn't have any obligation to carry out capital works in 2018, but on December 12, 2012 they signed the 8th agreement and through amendments in the main contract an estimated amount of AMD1,293,100.0 thousand was projected to be spent to carry out the implementation of 12 capital sub-projects with savings coming from the loan programs. However, those works were financed from the RA state budget. Despite this fact, at the end of the year none of the mentioned capital construction sub-projects works were put into operation; the maximum result of quality, quantity and time was not obtained by using the resources of the RA state budget, 29.5% of the expenses were made, or in other words principles of effectiveness - have not been observed both in the scope of objective and cost by the RA MTAI Water Committee.

Next, in order to maintain the existing tariffs for 2020 and 2021, Veolia Water CJSC and the Water Committee signed the 13th agreement on July 25, 2019, by which they agreed to make changes in the existing regulations. That is, according to the 2nd point of that agreement, the Lessee presented to the Lessor the investment program for the next five years with a total cost of USD 230 million. The *Territorial Development Fund of Armenia* State Institution, which implements the investment program, has presented "Yerevan Water Supply Improvement" program with the total investment amount of AMD3,310,000.0 thousand and "Community Infrastructure Phase 3" Program II with the total investment amount of AMD25,440,000.0 thousand for the next three years. That means that during three years it is planned to invest AMD28,750,000.0 thousand or about USD60,000.0 thousand which is 26% of the total (USD 230,000.0 thousand) investment plan. At the same time according to the clause 8 of the agreement the lease payments (for the year), base retail tariffs and base retail water volumes have been reduced. The lease payments of the agreement had been reduced by total AMD9,322,700.0 thousand, including 935,800.0 thousand for 2019, AMD3,738,900.0 thousand in 2020, and AMD4,648,000 thousand in 2021.

### **Aeratsia on the "New" wastewater treatment plant**

According to the clause 11 of the appendix 2 of the lease agreement signed on November 21, 2016 between the Ministry of Energy Infrastructures and Natural Resources MEINR of the Republic of Armenia and the *Viola O General Des O* Limited Liability Company six wastewater treatment plants, including Old infrastructures of Aeratsia wastewater treatment plant have been leased out.

The "New" Aeratsia Wastewater Treatment Plant in Yerevan was built in 2015-2017 in accordance with the financial protocol of the Government of the Republic of Armenia and the Government of France, which entered into force on October 1, 2008. In particular, the project envisaged the restoration of Aeratsia water treatment plant through improving the initial treatment of wastewater and sludge deposits. 10,500.0 thousand euros of total 24,400.0 thousand program money was directed to the construction of the new station.

Here are the organizations that in different times were the customers of the construction agreement of the New Aeratsia wastewater treatment plant in Yerevan: Community Development PIU state organization (subordinate of Yerevan Municipality, after May 2017 belonged to Water Committee state organization) through September 1, 2017; “Water Holding” PIU state organization through December 28, 2019 and finally Armenia Territorial Development Foundation starting January 01, 2020 to present.


Starting from the moment of the first change of the customer both the Contractor and the Technical Supervising Engineer have sent numerous letters to the customer, who generally is in charge of water systems management in Armenia, about the lack of the Operator for the new plant and the impossibility of fulfilling the contractual obligations, about non-realization of test-examination operations and the outcomes.

The above mentioned order of clients shows that in the period covered by the audit, which is 2019, the management of the new property was to be assumed by the Water Committee. However, the property with credit amount of EUR10,500.0 thousand has not received the status of state property due to not passing the test-examination within three years in accordance with the established procedures and has not been utilized in accordance with its determination.

Due to non-utilization, most parts of the sealing rubber inserts of the shield valves were out of order, the hydraulic test-examinations as well as the connection of the newly built electrical substation to the city distribution network were not performed. All power equipment needs to be inspected, since the warranty period has expired, electrical switches and other equipment have been stolen.

The principle of cost-effectiveness of performance audit was not followed since the resources spent for the construction of the new station are the funds provided by the financial protocol, which have already been spent, and the constructed property was not put into operation in 2019 according to the proper quality, quantity and timeline.

#### **MINISTRY OF TERRITORIAL ADMINISTRATION AND INFRASTRUCTURE - WINTER AND YEAR-ROUND MAINTENANCE AND EXPLOITATION OF INTERSTATE AND NATIONAL ROADS**

<b>Audit Subject</b>		
RA Ministry of Territorial Administration and Infrastructures		
<b>Period of the Audit Performance</b>		<b>Period to be Audited</b>
November 9 , 2019 – February 26, 2021		January 1, 2017 – December 31, 2019
<b>Subject Matter of the Audit</b>		<b>Audit Methodology</b>
Winter and year-round maintenance and exploitation of interstate and national roads		Compliance Audit
<b>System-oriented recommendation</b>	<b>Result-oriented recommendation</b>	<b>Issue/problem-oriented recommendations</b>
2	-	2
<b>Conclusion summary</b>		<b>Link</b>
Qualified opinion		

## Most significant facts

### Winter and summer day-to-day (scheduled) maintenance of interstate and national roads sub-program.

In the list of state-owned public roads of the Republic of Armenia approved by the RA Government Decision # 265-N on February 13 of 2014, the classification of some roads according to their determination does not correspond to the requirements of the clauses 6, 7, 8 and 9 of article 3 of the RA *Law on Motor Vehicle Roads*. As a result, 387 km of the roads classified as interstate highways are in fact national roads and the prices calculated for their maintenance per performance plans and offered by the contractors for the maintenance exceed the same length of national roads by AMD323,347.0 thousand. About 167.8 km of roads are of local significance, and according the performance prices calculated for maintenance exceed the prices offered by the same contractors for maintenance of the same type and condition of roads by AMD 223,162.0 thousand. 34.5 km of roads are inter-field roads and AMD46,777.0 thousand was paid in 2017-2019 for their maintenance, but the maintenance of such is not envisaged by the RA legislation and is not carried out.

According to the performance plans for road maintenance AMD2,041,260.0 thousand were calculated and paid for 569.3 km roads classified as national roads, that in fact are roads of regional significance, where the RA regional administration bodies are the organizations entitled for their management. 58.7 km are field path roads, for the maintenance of which according to the performance plans AMD101,701.5 thousand have been calculated and paid, while the RA legislation does not envisage service of those roads. 7.6 km of repaired roads belong to Hrazdan city, and for maintenance of such according to the performance plans AMD 22,469.0 thousand was calculated and paid.

- In absence of snowfall AMD122,474.0 thousand should have been reduced from the performance plans, but as a matter of fact this was not carried out.
- Contracts for road repair (mainly repair of road pits) were signed within the framework of 10 tasks where the maintenance contracts were already in place (contracts signed with the same companies), while the obligations under the maintenance contracts already cover the implementation of repair works, in other words the same tasks were ordered to the same contractors and additional AMD185,339.0 thousand was paid to the contractors for duplication of repair contracts. At the same time, despite the fact that the repair contracts set one-year guarantee period, the condition of the roads was not inspected after the repair, but instead was left in the same condition as before the repair works, as a result additional AMD78,088.0 thousand was spent.
- Despite the fact that 3 interim monitoring summaries were completed for each month of maintenance tasks, only one monitoring tour monthly is verified by business trip records.
- According to the provisions of point 22 of the “Requirements for road marking and rules of its application” approved by the RA Government Decision # 113-N on January 10, 2008, the marking of roads, except for 4th category roads, should be done using reflective paints. In addition, the coefficients of brightness, reflectivity and illumination of the marking are also defined. During receiving of the marking task services, the above-mentioned indicators (the coefficients) were not checked. The features ensuring the brightness, reflectivity and illumination of the used paints required by the above mentioned regulation are not attested in any document (certificate, passport, etc.)

### Periodic maintenance (medium repair) sub-program of interstate and national roads.

- The M-4, Yerevan-Sevan-Ijevan-Azerbaijan border interstate highway is categorized to technical category 1 in accordance with the requirements of Republic of Armenia Construction Norms IV-11.05.02-99, the upper layer of the road should be built with use of type A category 1 asphalt concrete mixture, during the tasks carried out within the framework of 2 contracts, the asphalt top layer was



constructed with type A category II asphalt concrete mix, or in other words 178,845 square meters of asphaltting works in the amount of AMD701,175.5 thousand do not comply with the requirements of the current construction norms.


- According to the requirements of clause 3 of article 15 as well as Annex C of Republic of Armenia Construction Norms IV-11. 05.02-99 during receiving of the task results, along with a number of other indicators, the road surface, the car tire-pavement adhesion characteristics or in other words the roughness (unevenness) of the road surface should be inspected. During receiving of tasks in 2017-2019 within the framework of all projects among the mentioned mandatory characteristics the roughness of the pavement has not been checked; during receiving results of tasks equal to AMD3,071,828.0 thousand the evenness of the top layer was not inspected.
- According to the requirement of clause 4.1.19 of State Standard requirements 9128-2013 the deviation of bitumen content in asphalt concrete mix should not exceed  $\pm 0.5\%$  of the mass defined by the project (mixture recipe), the deviation of asphaltting works has exceeded 0.5%, in the tasks equal to AMD250,203.8 thousand completed within the framework of two contracts, or in other words these works do not meet the requirements of the current standards.
- Within the framework of six contracts where the contractor didn't fulfill the tasks according to the terms and conditions of the contract, and the requirements of norms and standards, the client did not use the right reserved to him under sub-clauses **b** and **c** of clauses 3.1.4. of the contracts and did not terminate the contracts unilaterally, as well as did not require compensation for losses and did not initiate the process of including the companies in the list of organizations not eligible to participate in the State procurement process specified in Clause 6, Part 1 of Article 6 of the RA Law on Procurement. In the meanwhile, in 2020 the Ministry signed new contracts and agreements with these companies. Furthermore, in the scope of three of the mentioned contracts, not having such authority, the Client suspended the contract, giving the contractor an opportunity to avoid the above-mentioned penalties or fines, and though not having the obligation to pay advance amounts, transferred the entire contract amount to the contractor as an advance payment.
- According to the results of the laboratory examination of the samples of top layer of asphalt concrete pavement constructed within the framework of one agreement for 21,000 sq. m. asphalt concrete pavement construction, the average densities of the mix is less than minimal indicator required for receiving the construction tasks according to RA Construction Norms IV-11. 05.02-99, however tasks equivalent to AMD96,012.0 thousand were not rejected (were accepted).
- According to the clause i) of point 2 of Article 6 of the RA Law on Urban Development as well as the requirements of clause 1.3 of the directive of the technical control of the construction quality approved by the order #44 of RA Minister of Urban Development in 1998 the construction customer is obliged to ensure the technical quality control of the construction in the manner prescribed by law. In the framework of certain tasks equivalent to AMD2,583,614.0 the client did not carry out implementation of technical quality control in accordance with the legislation.

#### **Sub-project of maintenance of metal crush barriers and repair of its damaged parts**

- In 2016-2018 new metal crush barriers with the total length of 167,163 meters were installed on national and interstate highways, 21,856 meters of it had 3 years warranty period, and the remaining part had 1 year guarantee. From the very next year of installation, the barriers that were still under warranty were handed over for maintenance, in case when according to regulation approved by the order # 79-N of the RA Minister of Transport and Communication dated Feb 24, 2011, maintenance of metal barriers and their receiving, maintenance of separate fencing devices located on the motor vehicle roads and the procedure of their receiving as well as the elimination of defects in accordance with the requirements of Construction standards (GOST) is the responsibility of the construction implementer at his own expense.

#### **POLICE**

##### **Audit Subject**

RA Police		
Period of Audit Performance		Period to be Audited
June 8, 2020 – March 31, 2020		January 1, 2018 – December 31, 2019
Subject Matter of the Audit		Audit Methodology
Financial and Economic Activity		Compliance Audit
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations
1	-	5
Conclusion Summary		Link
Qualified Opinion		

### Most significant facts

According to the agreement of trust management of the property signed between the Security Dream LLC and the RA Police, the actual expenses incurred for the operation of the trust management systems, operation, management and maintenance should be reimbursed.

Inspection of the monthly reports on the calculation of the 2018-2019 "income tax and social payment" submitted by Security Dream LLC to the State Revenue Committee of the Republic of Armenia revealed that Security Dream LLC claimed from Police and received reimbursement for the expenses under the state compensation benefit plan (amounts deductible from income tax), which make about AMD42,692.2 thousand (AMD14,763.7 thousand in 2018 and AMD 27,628.5 thousand in 2019). According to the reports total surplus of about AMD74,133.9 thousand was received as compensation from the salary funds.

The trust manager, in its turn, signed a service agreement with another organization, which was to provide service for speed camera and video cameras, in line with other services. Only the video camera payment made AMD376,008.0 thousand annually, which includes AMD141,000.0 thousand for service of the annual software licenses (subject of copyright) of 141 motherboards. It is noteworthy that no license or intellectual property object is registered in the name of that company in the organization in charge, as a result, the need for those expenses was not proved.

The trust manager has signed an agreement for provision of maintenance services with another organization and received about AMD80,636.3 thousand from Police as compensation for the expenses incurred. During the audit it was found out that the organization was registered (established) 7 days before the signing of the trust management



agreement. In 2018-2019 the company had only one or two employees (with a salary of AMD78 thousand), during that period it had no achievements.

2. The study of the process of collecting fines imposed by the Traffic Police for traffic violations detected by video cameras revealed that throughout 2018-2019, 235 and 91 individuals respectively committed annually 100 and more violations (total 36,210 and 14,169 violations), with the fine amount of AMD328,251.5 and AMD143,017.5 thousand respectively. However, no payments were made to the Traffic Police from the fines imposed for these violations, and no revenue from these fines was subsequently ensured by the Judicial Acts Compulsory Enforcement Service. For example, in 2018, an individual committed 210 violations with a total fine amount of AMD11,015.0 thousand, or another individual committed 178 violations with the ticket fine amount of AMD8,646.0 thousand; in 2019, an individual committed 248 violations with the ticket fine amount of 6,469.0 thousand.

It was revealed that after not paying upon the tickets within the time limit in 2018 and 2019, respectively, for 672 and 162 cases (AMD5,195.5 thousand and AMD1,526.0 thousand) they were not sent to the Judicial Acts Compulsory Enforcement Service for confiscation of the fines.

In addition, the analysis of the electronic database of the Traffic Police revealed that in 2018 and 2019, respectively, 8 and 18 individuals committed violations with fine amount of AMD1,000.0 thousand, totaling into more than AMD26,946.5 thousand and AMD35,305.5 thousand respectively, however later they paid only small part of the above mentioned amount to the Traffic Police and the Judicial Acts Compulsory Enforcement Service. In particular, one individual committed 280 violations, for which he got fines equal to AMD10,224.0 thousand, but paid only AMD7.0 thousand. Another individual committed 1,085 violations, for which he received tickets for AMD7,481.0 thousand, but again paid only AMD8.0 thousand.

### **Procurement process**

- In 2019 contracts in the amount of AMD678,874.3 thousand for the purchase of clothing were signed. Some of the mentioned outfits were not supplied. In general, outfit of about AMD216,719.9 thousand were not supplied. According to the current legislation, the contract was subject to termination, and the amount equal to 10% of the contract guarantee amount of AMD21,671.9 thousand should be paid to the state budget. The police did not take actions to collect the contract guarantee amount within the established timeframe. Moreover, 5 of the contracts signed by the police in frames of the penalty agreements did not specify the timeframe of actions. As a result, the amount of AMD21,671.9 thousand contract guarantee was not transferred to the state budget.

At least AMD 2,941.1 thousand penalties were not calculated or collected for the delayed days of delivery of goods.

The police did not apply to the body controlling the state procurements within the established period to include the above-mentioned suppliers into the list of companies not entitled to participate in the procurement procedures, but applied with a delay, which was the basis for rejecting the police application by the procurement grievance and inspection

body. As a result, some of the above suppliers participated in next year's procurement processes and won the competition.

- In 2018-2019 contracts of with a total cost of AMD1,117,072.6 thousand were signed for the provision of postal services between the RA Police and "Haypost" CJSC. According to the records, the price for 1 piece of universal postal service weighing 20 grams was AMD350 drams and one item exceeding 20 grams or with end point address outside of Armenia was AMD2,370. By the price list set up by RA Minister of Transport and Communication on December 28, 2001 the cost of prioritized letter with return address weighing up to 20 grams is AMD280 drams, and the cost of one item with end point address outside of Armenia weighing more than 20 grams is AMD1,970 dram; or in other words the RA Police paid extra AMD70 and ADM400 dram per item for postal service. The prices of providing additional services are not defined in the contracts and it is not possible to assess the justification of the amounts paid in excess of the tariffs.

It is remarkable to compare it with the tariffs of the contracts signed between "Haypost" CJSC and the Judicial Acts Compulsory Enforcement Service revealed that the price of one item, depending on the price of the stamp, varies from 70 drams to a maximum of 280 drams.

- The Police also failed to calculate and charge the "Polish Security Printing Works" Joint Stock Company the penalties in the amount of AMD2,998.8 thousand for delays in terms of deliveries stipulated in the contract signed with the RA Police for printing of Identification cards.

- During the tender for purchase of a diesel generator for the needs of Police, the lowest bid was AMD14,500.0 thousand for "KATANA KD 225" generator (without installation works, uninterruptible power supply equipment and warranty service). The evaluation committee did not recognize "a" company a winner due to non-compliance with the requirements of the technical part of the tender in regards of submitting the documents. The winner of the competition was the bidder whose offer took the 2nd place with an offer of AMD24,780.0 for the same diesel generator of the same "KATANA KD 225" brand. In order to sign a contract, the winning bidder submitted technical specifications, which, however, do not correspond to the technical specifications of the same generator offered by the previous bidder, as well as with specifications of the same "KATANA KD 225" diesel generator posted on the manufacturer's official website by at least 5 parts. Because of that, the evaluation committee should have recognized the proposed second bid of "KATANA KD 225" diesel generator non-compliant with the technical specifications of the procurement subject and reject the contract. Furthermore, instead of "KATANA KD 225" diesel generator, "H Group" LLC supplied another diesel generator to RA Police, which does not correspond to the technical description of the subject of the procurement defined in the contract.

- The procedure for purchase of traffic control devices did not comply with the requirements of the legislation; a contract with recognized winner in total amount of AMD197,000.0 thousand was signed, while the whole procurement process should be announced invalid and another announcement should be put in place.

- Contracts in the amount of AMD1,631,073.6 thousand were signed to carry out the tasks of road marking, semaphore maintenance and road signs installation with significant

incompliances in the procurement process (bank guarantees, previous experience, availability of at least 45 employees with relevant experience, etc.)


#### 4. Within the scope of state property

There is a number of inconsistencies in the use of state property, in particular in terms of rental prices, as well as in terms of timing. For example, the rent price for 1 square meter on the roof of the same building for installation of mobile radio-relay antennas and wires is 4.0 thousand drams for one renter and 15.1 thousand drams for another renter.

#### 5. Licensing process

The audit revealed that the methodology, description and checklists of inspections of security activities are not approved by RA Government decisions, the requirements of Article 30 of the RA Law on Private Security Activities are not fulfilled as of the time of the audit and no State control is carried out over the activities of licensed private security and bodyguard services companies.

### PENITENTIARY SERVICE OF MINISTRY OF JUSTICE

Audit Subject		
Penitentiary Service of RA Ministry of Justice		
Period of Audit Performance	Period to be Audited	
March 6, 2019 – March 31, 2021	January 1 , 2018- March 31, 2019	
Subject Matter of the Audit	Audit Methodology	
Financial Activities	Compliance Audit Inspection of the <b>Support to Prisoners</b> foundation was carried out in the scope of the Audit	
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations
6	1	6
Conclusion Summary		Link
Qualified Opinion		

#### Most significant facts

1. According to Sub-Clause 1 , Part 1, Article 32 and Article 51.19 of the RA Law on Penitentiary Service a penitentiary officer has no right to perform other paid work, except for scientific, teaching and creative works; a similar restriction is envisaged for civil servants as well. During the inspection it was

found out that 85 penitentiary-civil special officers simultaneously performed paid work in 96 other organizations.

2. Comparing the timesheet data of the employees of the Penitentiary Service with the periods of paid unpaid leave in 2018, as well as the periods of temporary disability to work, the periods of being out of the territory of the Republic of Armenia, it was revealed that 14 employees of the Penitentiary service of the RA Ministry of Justice were outside of Armenia, but have been counted for total of 103 working days and received salaries.

3. As a result of the comparison of minimum daily portions of food provided to the convicts, to persons held in penitentiaries, such as pregnant women, nursing mothers, juveniles, (or) sick detainees, it was revealed that in most categories of food there are significant deviations from the minimum quantities defined in Annex 1 clauses 1.1 and 1.4 of the Decision # 1182-N October 15, 2015 (there are cases of less than standard and more than standard provided.)

4. The requirements for the location of supply defined by the technical characteristics of the food supply agreements have not been complied with. In particular, according to the information provided about the delivery of food, the supply companies did not deliver food to "Goris" penitentiary institution, but instead the food prearranged for the latter was supplied to "Nubarashen" penitentiary institution.

5. Agreements of Energy Efficiency Programs implementation in 11 penitentiaries have been signed in 2015 and 2016 between the Penitentiary Department of the RA Ministry of Justice and Armenia Renewable Resources and Energy Efficiency Fund for total of AMD2,458,233.0 thousand. Energy saving works carried out in 6 penitentiary institutions and the volume of annual electricity consumption significantly exceeded the volumes of consumption envisaged after the energy saving works. The payments by the Penitentiary Service for energy services in 2017 increased by AMD305,999.6 thousand, and in 2018 -by AMD166,487.1 thousand, instead of the presumed reduction as a result of energy saving works.

#### **Support to Prisoners foundation**


1. According to the decision # 526-N of about the Law on Penitentiary Service of the Republic of Armenia of May 4, 2017 the goods, works and services specified in Article 8 and delivered by the Fund for the needs of the Penitentiary Service, may be purchased from "one source" only in case if the prices of goods, works and services are equal to or lower than their market prices.

According to the contract signed on April 20, 2018, between the Penitentiary Service and the Fund, the latter should supply clothing and bedding in a total amount of AMD169,893.4 thousand. In order to ensure the fulfillment of the obligations under the above-mentioned contract, not having the capacity to produce the mentioned products, the foundation signed a contract with another organization a month later, according to which the contractor undertakes the responsibility to prepare fabric molds and semi-finished products, but the technical specifications include description of final products.

The total value of the contract is AMD 137,490.7 thousand. As a result it turns out, that it was possible to purchase the same amount of clothing and bedding with the same technical characteristics with AMD137,490.7 thousand instead of AMD169,893.4 thousand drams, and save AMD32,402.7 thousand. There is a similar misuse in bread supply agreements with Fund in the amount of AMD172,840.0 thousand. In particular, the Foundation supplied bread for 298 drams per kg, but at the same time purchased a certain amount of bread for 265 drams per kg.

2. As a result of the audit, a number of noncompliance in the use of the Fund's property were registered. In particular, the fulfillment of the obligations stipulated by the property use agreements, the implementation of investments arising from those agreements, exploitation of the convict manpower within the framework of those agreements, the calculation of rent payments.

## RESCUE SQUADS OF MINISTRY OF EMERGENCY SITUATIONS

Audit Subject		
Ministry of Emergency Situations		
Period of Audit Performance		Period to be Audited
September 22, 2020 – March 31, 2021		January 1- 2018 – December 31, 2020
Subject Matter of the Audit		Audit Methodology
Rescue Squads		Performance Audit
System-oriented recommendations	Result-oriented recommendations	Issue/Problem-oriented recommendations
10	6	6
Conclusion Summary		Link
The Principles of efficiency and effectiveness are not complied with		

*Note:*


- In the process of organizing the Rescue Service (hereinafter referred to as the RS) in 2018-2020 a number of discrepancies and waste of funds took place. The processes of planning, organizing work and performing the service have been carried out with many shortcomings. The RS did not provide the labor force and material support at the proper level, and non-efficient expense components and elements were revealed in the call center service process.
- The management and utilization of funds allocated for the process of organizing the RS during the reporting period was not effective and did not lead to the full implementation of the legally defined target results.
- When calculating the cost of one Rescue ride (expenditure/rescue ride quantity) for the purpose of cost-effectiveness assessment, the highest cost of rescue ride of the fire engine calculation in 2020 was registered in Gegharkunik Marz - AMD1,521.1 thousand. The lowest was in the city of Yerevan - AMD176.1 thousand. In 2018-2020 The average cost of output per unit was AMD331.3 thousand. During the reporting period AMD436,711.8 thousand was spent on false calls registered by the signaling devices, and the amounts for self-extinguished fires or extinguished by local forces amounted to AMD1,651,846.6 thousand.

• *The cost of call receiving and call recording, as another component to assess the cost-effectiveness was calculated. The cost of one call service response in Yerevan was 376 dram, and 488 in the marzes. The cost of one call recording was respectively AMD25.1 thousand and AMD44.1 thousand.*

### Most significant facts

- In the last decade, an increase in the number of emergencies has been registered in the Republic of Armenia, about 70% of which fall to man-made cases. The number of fire engines in 6 administrative districts of Yerevan lacks 27 units in comparison with the urban development norms, and in the meanwhile Malatia-Sebastia and Kanaker-Zeytun administrative districts have no stationed rescue detachments.
- No legal regulations have been established for the registration, processing and storage of information on natural and man-made emergencies, no procedure has been developed for setting the data maintenance rate. Emergency classification standards have not been developed, internationally widely used *Early warning systems* hasn't been put into practice.
- Most of the fire and rescue brigades on duty consist of 4, sometimes even 3 people instead of the 6 fire rescuers, while more than 20% of the overall staff is involved in the central apparatus of the service, and some departments there have more than 30 positions.
- Due to a large number of senior officers of the Central Office, as well as the lack of special written settings for distribution of premium pays of the RS in 2020 about 32% of the bonuses intended for service in special conditions (AMD592,785.4 thousand) were paid to the staff of the Central Aparatus, who were not involved in the special conditions of Service and did not directly participate in the fire-rescue works.
- 73.2% of the vehicles used within the RS are 10 years and older. Moreover, 51 of 114 vehicles produced in 2011-2020 belong to the Russian-Armenian Humanitarian Response Center and are provided to the RS for temporary on free of charge basis. Expenses for fuel and maintenance expenses were allocated for 174 old and withdrawn from service vehicles.
- The funding provided by the state budget for the provision of rescue staff uniforms in recent years is about 5 times less than projected, as a result the provision of personal protective equipment for firefighting and rescue personnel covered only 30% of the needs.
- In about 8% of the total fire rescue rides the fire was extinguished by local forces or by itself before the fire engine reached the location. And 7% of the total fire rescue rides were false alarms, half of it being recorded through fire alarm systems.
- The entire call registration process at the National Crisis Management Center was done manually; there was no automated call location identification, data transfer, call rating system, which would not only increase the efficiency of call recording and response, but also reduce the resources spent on false calls. The urgency degree of the call was actually decided by the dispatcher, based on the information received as a result of the alarm/call.
- Digital maps and geolocation systems were incomplete and had limited capabilities.
- No comprehensive productivity criteria were established to assess the effectiveness of the call response, some of the established criteria (standards) were obviously higher than the actual indicators, no monitoring and evaluation of the system performance was carried out.
- 6 of 16 detachments of the Civil Defense Forces Collective Center did not have a vehicle at all, and in 3 detachments there was one general-purpose vehicle, which is not intended for fire-rescue work. The overall number of rescue rides of these detachments in 2020 makes 84.
- 146 employees of RS, who are registered in the personnel log and receive salaries from the budget, performed everyday functions which are not assigned to the rescue worker in 11 places of special significance locations operating in the territory of the Republic of Armenia without any legal justification.

## MINISTRY OF HIGH-TECH INDUSTRY

Audit Subject		
RA Ministry of High-Tech Industry		
Period of Audit Performance		Period to be Audited
June 8, 2020 - February 26, 2021		January 1, 2017 through December 31, 2019
Subject Matter of the Audit		Audit Methodology
Maintenance expenses, use of budget resources for telephone/internet, ensuring budget revenue and use of state property		Compliance Audit
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations
1	-	1
Conclusion Summary		Link
Qualified Opinion		

### Most significant facts

In order to ensure the warranty prepayment to the World Information Technologies and Services Alliance (WITSA) required for the implementation organizational program of the 2019 World Conference on Information Technology the Government allocated USD750.0 thousand (or AMD362,049.0 thousand) within the scope of 2015-2019 "provision of financial assistance in form of monetary grants by the Government" agreements to the Union of Advanced Technology Enterprises (UATE) NGO, which is considered the legal successor of the Union of Information Technology Enterprises.

According to the agreement #14 the UATE NGO took the responsibility to transfer the above mentioned AMD362,049.0 thousand back to the state budget of the Republic of Armenia before October 30, after it is collected from admission tickets (participation fee), sponsorship packages and other incomes of the conference, but instead of prioritizing the warranty prepayment compensation the money was used for other purposes without prior agreement with the Ministry.

The agreement signed between the Ministry and the NGO did not determine the criteria for attracting additional funds from the sponsors of the event, the criteria for making expenses, the mechanisms for raising additional funds were not defined, besides the NGO did not submit a report on the implementation of the event program in timely manner and according to order.

UATE NGO applied to the RA Deputy Prime Minister with a request to review the obligation of returning the AMD348,530.6 thousand to the RA state budget envisaged by the contract, suggesting instead that the money not returned by the organization be reflected in a form of other obligations by the company. Although, in response to the letter of the RA Deputy Prime Minister the RA Ministers of High Technology and Finance specify that the amendment proposed by the UATE NGO is problematic from the point of view of numerous legal acts and the policy adopted by the RA Government, since it does not follow the principles of efficiency and effectiveness protected by Law of the Republic of Armenia "On Budget System", the Government of the Republic of Armenia, by Decision 1927#-N of




December 26, 2019, authorized to annul the obligations of UATE NGO of AMD348,530.6 thousand allocated by the Government to guarantee advance payment to the World Information Technologies and Services Alliance (WITSA), that was not returned to the RA state budget by then.

2. The expenses incurred by UATE NGO within the framework of the World Conference on Information Technologies - 2019 exceeded the budget estimation defined for organizing the event approved by the RA Prime Minister's decision # 238-L of March 14, 2019 by AMD791,094.2 thousand. The company did not provide justifications for the expenses that exceeded the budget, and the budget cost estimate provided by the decision of the Prime Minister was not changed.

3. In the framework of preparation of information technology booths for events like "Digitech 2019" exhibition, "Innoweek.uz 2019" innovative and investment conference, "Singapore Week of Innovation and Technology (SWITCH)" exhibition and participation in "QITCOM" exhibition total 14 agreements were signed as "non-purchasing expenses", which, however, are not considered as such, according to the requirement of Part 1 of the Article 2 of the RA Law on Procurement.

4. For the rent of the "Digitech 2019" exhibition pavilion, the Ministry signed a services agreement with UATE NGO on November 12, 2019 with a total amount of AMD21,000.0 thousand and within this framework leased an area of 250sq/m on the first floor of Yerevan Expo center on October 6-9 from the UATE NGO in the amount of AMD21,000 per day per sq. m. The whole area of Yerevan Expo center with its adjacent areas (3300 sq. m.) was leased by the UATE NGO for the period of September 25, 2019- October 9, 2019 from Yerevan Scientific Research Institute of Mathematical Machines at the cost of AMD10,000.0 thousand or AMD202 for 1 sq. m. a day. The Ministry rented the area of Yerevan Expo in a mediated manner and paid AMD21,000 per sq. m per day or 103.9 time more than the actual price.

#### CADASTRE COMMITTEE

Audit Subject		
RA Cadastre Committee		
Period of Audit Performance	Period to be Audited	
September 24, 2019- March 31, 2020	January 1, 2017 – December 28, 2018	
Subject Matter of Audit	Audit Methodology	
Ensure the state unified database of property and cadastre system activity, as well as recognize the rights of the state in regards of a property	Compliance Audit, Performance Audit	
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations
9	-	-
Conclusion Summary		Link
<ul style="list-style-type: none"> <li>• Qualified opinion</li> <li>• Principles of economy and efficiency are not complied with</li> </ul>		

#### Most significant facts

- The system of the Committee lacks systematized information on the reasons for suspensions or rejections of state property registration applications as a result of collaboration of cadastral maps,



mechanisms for classifying the reasons for suspensions and rejections of state property registration process, information on suspensions and rejections of state property registration process as a result of mistakes made by a licensed specialist, which do not allow the Committee to fully realize its functions and objectives.

- After the structural change in November 2018 (merging the territorial divisions of Yerevan, the regions and Vayots Dzor regional subdivisions), the joint **regional division**, moved from the area that was given to the Committee for free use on 1/3 P. Byuzand st. (area 1,698 sq.m.) to 35/2 Komitas. During the above mentioned period, "**Kentron**" service office carried out its activities on 28 Khorenatsi st. in Yerevan, (area 492 sq. m. on rental basis). During the period of December 1, 2018-March 1, 2020 the annual savings as a result of optimal use of the areas occupied by the Committee in the city of Yerevan makes AMD30,996.0 thousand (while in the period December 1, 2018-March 1, 2020 it makes AMD41,328.0 thousand).

- In the framework of the structural development, a number of agreements were signed through bidding procedures, and as a result programs or services were procured, which as a rule were not used, with appropriate quality, quantity and in timeline, and therefore the maximum results were not achieved, which did not comply with cost-effectiveness rules.

- An agreement of software package development services was signed in the amount of AMD3,590.0 thousand (development of the technical characteristics for competition announcement for acquisition of the software package for integration of the Committee's ARPIS electronic system and the "electronic consulate" system of the RA Ministry of Foreign Affairs). As of March, 2020 the software was under trial period and hadn't been used.
- A 1000 copies of printed versions of A and B volumes of "National Atlas of Armenia" were purchased in the amount of AMD8,500.0 thousand. On July 19, 2019 The Chief of Staff of the Prime Minister of the Republic of Armenia gave written instructions to the Committee to distribute the atlases to various state bodies in a certain proportion. The distribution was not carried out, and the atlases were dropped in *Center of Geodesy and Cartography* SNCO.
- Software package development services were procured in the amount of AMD9,850.0 thousand under the contract (changes and addendums in the electronic evaluation system.) As of March 16, 2020 Part 2 of the software package (creation of a roster system for persons and organizations with evaluation qualification) was still in the trial phase and had not been used by the Committee.

- During provision of real estate services in Yerevan, the service fees were not charged prior to commitment, which brought its negative consequences, in particular, the financial obligations were fulfilled with delays or were incomplete.

- In most cases, when trading buildings, the expenses incurred by the communities were not added to the price, as well as the payment receipts were not reflected in the electronic information system of cadastre.

- During some auctions of land overloaded with unsanctioned structures (buildings), the applicants didn't conform with the requirement to provide a conclusion from a licensed body that the structure or construction was dismantled.

## MINISTRY OF EDUCATION, SCIENCE, CULTURE AND SPORTS- MUSEUMS AND EXHIBITIONS

### Audit Subject


RA Ministry of Education, Science, Culture and Sports

### Period of Audit Performance

### Period to be Audited

September 22, 2020 – March 31, 2021


January 1, 2019 – December 31, 2019

Subject Matter of Audit		Audit Methodology	
Museums and Exhibitions		Performance Audit	
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations	
2	1	3	
Conclusion Summary			Link
Principles of economy and efficiency are not complied with			

#### Most significant facts

- The Department did not properly receive information on the projected indicators and their implementation according to the agreements, and as a result the information provided to the Ministry contains incomplete, inaccurate or incorrect entries, there are multiple errors in personal data, social security numbers, identification numbers in the human resource database. As a result, the outcomes of the performance audit are evaluated as non-effective in the scope of cost-effectiveness and objective-effectiveness.
- Following the RA Ministry of Finance 2019 order # 254-N and reports the non-financial data entered into the "LSREP" system there are discrepancies of non-financial data both in indicators provided in 2017-2019 by the Ministry for human resource databases and per museum productivity, quantity summary indicators as well as in the summaries provided by the museums in 2019 at the synthetic and analytical levels of annual financial information summary.
- As a comparison, in 2017-2018 in conditions of decreasing of the annual non-financial outcome indicators and the annual adjusted budget plan of the Ministry the actual finance amounts of the state budget increased by almost 107 million drams, and in contrary in 2018-2019 in conditions when annual non-financial outcome indicators and the annual adjusted budget plan had significant growth the actual financing of the state budget decreased by about by 328 million drams.
- In 2019 a total of 120 employees of 15 museums under the Ministry were outside of the Republic of Armenia during a total of 780 working days, the salaries were calculated and paid in the total amount of AMD4,253.9 thousand. Accordingly, the performance report showed that the principle of cost-effectiveness as for the above-mentioned amount was not observed.
- Only 48.2% of the personnel of 21 museums under the Ministry are staff members performing professional duties in the area of museums. At the same time, in regards of 107 employees of 12 museums the audit revealed cases where the same individuals were employed by the same organizations, registered in the same address, besides, in 2019 three full-time personnel members at the same time worked as full-time staff in other museums.
- Procurements in the museums under the Ministry are carried out mainly through the "Purchase from one person" procurement procedure, statements of "signed contract" are not published in *Procurement.am* bulletin, copies of the original minutes of the bid opening sessions during the procurement process are published with delays.
- The museums under the Ministry lack electronic records on the activities carried out for the procurement and their grounds, in particular, there are no records of bid invitations sent to the participants, no competition was announced for the procurement of telephone/internet services envisaged by the 2019 annual procurement plan, but instead they continued to procure services based on the contracts of previous years.

## VANADZOR MUNICIPALITY

Audit Subject		
Vanadzor Municipality		
Period of Audit Performance		Period to be Audited
September 14, 2020 – March 31, 2021		January 1, 2019 – December 31, 2019
Subject Matter of Audit		Audit Methodology
Financial Activity		Financial Audit, Compliance Audit
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations
4	10	13
Conclusion Summary		Link
Qualified Opinion		

*Note: The revenue of Vanadzor municipality in 2019 amounted to AMD2,971,182.5 thousand, the expenses amounted to AMD2,979,770.6 thousand. As a result of Financial Audit 18 cases were revealed with misreporting in the total amount of AMD283,439.1 thousand, while AMD251,505.9 thousand are the noncompliance cases found as a result of the compliance audit. As a result of the compliance audit 17 cases were revealed with noncompliance with the total amount AMD336,659.9 thousand.*

## Most significant facts

## 1. Garbage removal and sanitation.

- According to Vanadzor community 2019 budget the adjusted budget plan for *Utilities* allocations amounted to AMD301,236.3 thousand. The actual expenses amounted to AMD269,842.9 thousand.
- According to the outline approved by the Council of Elders, sanitation and garbage collection services were divided into six zones, but in reality the community sanitation services and household garbage removal were divided into seven zones (noncompliance with the Community Council of Elders decision #63-A of December 23, 2015.)
- The water-washing works of the pedestrian sections of the streets defined in the sanitation outline have not been carried out (noncompliance with the clause 3, Part 1 of Article 3 of the RA Law on Garbage Removal and Sanitation.)
- The scheme approved by the Council of Elders lacks the approximate calculation of the volume of household waste generated in the community, the calculations of the requirements for the machinery/vehicles needed (noncompliance with the Article 13 of the RA Law on Garbage Removal and Sanitation.)

- Useful waste materials have not been sorted in the community, no conditions have been guaranteed for its reuse and recycling, which would reduce the amount of waste disposed in garbage dumpsite (noncompliance with the Clause 6, Part 1 of Article 4 of the RA Law on Garbage Removal and Sanitation.)
- Garbage collection containers do not have lids, garbage trucks are not disinfected at the garbage dumpsite, the garbage dumpsite does not have household garbage zone, the garbage dumpsite area is not isolated from the surrounding area by a fence (noncompliance with the Sanitary Regulations and Rules approved by Order #25N of the RA Minister of Health on December 22, 2009.)
- Sanitation and Garbage Removal service operators did not disinfect the bins once a month with special solutions, the vehicles were not washed with disinfectants after leaving the garbage dumpsite, the garbage was not placed in a licensed garbage dumpsite in accordance with the law and etc. (noncompliance with the documented requirements for technical conditions in contracts of delivery of Garbage Removal and Sanitation services.)

## **2. Major Repair of Structures and Buildings**

The works carried out in Vanadzor Municipality in 2019 under the *Major Repair of Structures and Buildings* program refer to the "Museum of Fine Arts after Carlos Abovyan" CNCO, the reconstruction of Vanadzor community rainwater sewage and manholes, major repair of Vanadzor Hayk Square and installation of musical animated lightshow fountain and disassembling and restoration of the external lighting network of Halabyan Street bridge.

According to Vanadzor community 2019 adjusted budget plan for *Major repair of Structures and Buildings* allocations amounted to AMD715,496.3 thousand. The actual expenses amounted to AMD363,625.2 thousand.

In overall, the audit revealed total of AMD10,919.4 thousand in misreports and noncompliance, in particular:

- The receiving documents submitted under the construction agreement did not correspond to the volumes of works performed.
- The volume and category of material described in the volume-estimation worksheet did not correspond to the volume and category of materials actually used.

In addition, the delivery and acceptance of dismantled materials did not take place and the protocol of delivery and acceptance as well as protocol of assessment of quality-suitability was not created (noncompliance with the Clause 1.16 of order 142-A of RA Minister of Finance on March 9, 2016 about the "Standard Model Paperwork Guideline for Paperwork of Activities of Public Sector Organizations".)

## **3. Salaries of Personnel of the SNCOs subordinate to Vanadzor municipality**

Noncompliance have been revealed in the remuneration of employees of the educational and cultural organizations of Vanadzor Municipality, the human resource database approved by the decision of the Council of Elders and wages paid to the staff, in particular:

- In some kindergartens, more numbers of positions of teacher, nurse, housekeeper, assistant teacher, clerk, sanitary nurse, tailor are set than the standard staff list approved by the Minister, and in some NGOs, less positions of clerk are set. As a result, there was an incorrect planning of the annual salary fund (noncompliance with the order# 29-N of January 26, 2007 of the Minister of Education and Science of the Republic of Armenia "On approving the Standard personnel list, group size, standards of the RA for Public and Community pre-school educational institutions.")
- An employee of two SNCOs of Vanadzor Municipality simultaneously held the positions of director (1 position) and chief choreographer (1 position). Furthermore, he was also engaged in teaching

activities, combining it with the position of director (noncompliance with the provisions of Part 5 of Article 139 of the RA "Labor Code").

- Some employees crossed the RA state border without absence/leave slips during working days. However, the salaries of the mentioned employees were calculated and paid (noncompliance with the 2019 working timesheets of the educational and cultural organizations of Vanadzor Municipality.)

#### **4. Procurement for the Municipality and the SNCOs subordinate to Vanadzor municipality**

The following noncompliance have been revealed in the procurement process carried out by the Municipality and the SNCOs under its subordination in 2019.

- A competition (tender) has been announced for the purchase of a multifunctional car for the needs of the municipality. The technical characteristics of the vehicles were made incorrectly, referring to the specific model / KAMAZ and KO-806 / and specific source, which did not ensure the expansion of the circle of participants and equal conditions for possible participants (noncompliance with the provisions of clause 2 of Article 3 and clauses 1, 2 and 5 of article 13 of the RA Law on Procurement.)
- Computer equipment was purchased for the needs of the municipality with the total cost of AMD2,545.4 thousand and camera with a total cost of AMD609.0 thousand, where in the technical specifications the country of origin (China) was mentioned violating the procurement legislation. In the meanwhile, the given goods are not considered an exception; their specifications were possible without the given reference (noncompliance with the provisions of clause 5 of article 13 of the RA Law on Procurement.)
- For Procurement of food in the SNCOs the maximum price per unit previously planned for procurement of a similar product, work or service was not taken into account in the bids (noncompliance with the provisions of *Procurement Planning Process* and clause 2 of part 5 of paragraph 3 of the Decision #526-N of the Government of the Republic of Armenia on May 4, 2017.)
- Negotiations were not held with the winning bidders in order to reduce the bid prices in order to determine the successful bidders selected during the procurement of food at SNCOs (noncompliance with the provisions of clause 5 of part 40 of the Decision #526-N of the Government of the Republic of Armenia on May 4, 2017.)
- Waste of funds (expropriations) were revealed during comparison of food supply prices, in particular beef prices, while comparing the price in the bid records provided by the committee and the winning bid price (noncompliance with the monitoring results provided by the State Commission for Protection of Economic Competition in 2019).

In addition to the above described problems, there are the following shortcomings in the Municipality oversight process over the SNCO activities:

- Procurement planning and implementation: It turned out that no common principle was used to determine the estimated prices, furthermore there was no significant difference between the estimated prices and the winning prices. In addition, in 2019, according to the agreements signed with the suppliers, there was a certain price reduction (for beef), but the same supplier took a distinctive approach to SNCOs.
- Principle of supporting competition among the tenderers by expanding the number of proposals. In the implemented tenders, a low level of competition/participation is observed, which, in turn, leads to non-objective price offers.
- Funding provided to SNCOs for the food procurement: Comparing the funds allocated to SNCOs for the purchase of food with the number of students, it turns out that there are some differences

between them, i.e. the amount of food per student differs in the SNCOs with the same number of students, which varies within the amount of AMD53.2 - AMD99.5 thousand.

The Audit Chamber submitted recommendations to eliminate the shortcomings in the mentioned processes to the representatives of Vanadzor Municipality and SNCOs.

## **5. Revenue from land tax, property tax and garbage removal fees**

The following noncompliance was revealed in land tax, property tax and garbage removal payments.

- Due to the incomplete planning of the annual budget by the municipality not including the amounts of real debts in the planned agenda, a high performance indicator was presented on the land budget and property tax in the 2019 community budget. As well as inaccuracies were found in the land tax/property tax database (noncompliance with the Sub-Clause E Part 7 of Article 31 of the RA Law on Budget System).

In order to eliminate the mentioned inaccuracies, the Audit Chamber made recommendations to the Municipality to take into account the annual debts and the annual index valuations while estimating the community property tax and land tax in the future, as well as together with the State Property Cadastre make database verifications for land tax and property tax and find out and register not accounted land/buildings.

- During the inventory of buildings and constructions, it was revealed that the Municipality did not provide the necessary information to the Cadastre for the registration of six buildings located in the administrative territory of the Community (noncompliance with the Sub-Clause 3, Clause 1 of Article 14, of the RA Law on Property Tax.)
- The municipality did not issue a written notice to the owners of 22 half-constructed buildings located in the community, in accordance with the law, to extend the term of the construction permit, to complete the construction during that period or to sell the owned urban development object. Besides, the Municipality did not put the construction developer through administrative punishment, as a result the half-constructed buildings did not become a source of income for the Community (noncompliance with Articles 123 and 125 of the RA Government Decision #596-N of March 19, 2015.)
- The municipality did not apply to the body conducting the real estate cadastre to change the designation category of 8 buildings located in its territory from residential designation into public, (noncompliance with the Sub-Clause 3, Clause 1 of Article 14 of the RA Law on Property Tax.)
- In 2019 community vehicle property tax database there are 7,499 cars owned by foreign citizens (these are the cars registered by citizens of the EAEU countries (mainly Kazakhstan), who received temporary registration in Vanadzor, registering the property as a foreign owner and as a result taking the mentioned vehicles with them to their country.) The annual amount of the property tax for these cars is AMD124,829.1 thousand, while the debt to the community budget as of December 31, 2019 amounts in AMD 52,208.4 thousand. Taxpayers with these characteristics can be considered risky by the municipality; the debt to the municipality budget is unsecure.
- During the audit it was revealed that there are debts on land tax, property tax, garbage removal fee, calculated for period earlier and passed the statute of limitation defined by the RA legislation (noncompliance with Clause 2 of Article 44 of the RA Tax Code).

In the scope of the above mentioned issues, the Audit Chamber recommends that the Municipality subdivide the taxpayers into categories in the database, considering the analysis of debt term and on the criteria of taxpayer not physically residing at the address registered. Carry out effective control processes with the mentioned strata in the direction of debt collection.

**AUDIT OF ACCRUAL AND ALLOCATION PROCESS OF IMPORT CUSTOM DUTIES (OR OTHER SIMILAR DUTIES, TAXES OR CHARGES) AND THE PROCEDURE FOR TRANSFERRING THE AMOUNTS TO THE STATE BUDGETS OF MEMBER STATES (IN COOPERATION WITH THE SUPREME AUDIT BODY OF EURASIAN ECONOMIC UNION.)**

Audit Subject		
Customs and Taxation Bodies of EAEU member states		
Period of Audit Performance		Period to be Audited
November 1, 2020 - February 19, 2021		2 January 1, 2019 – December 31,
Subject Matter of Audit		Audit Methodology
Import custom duties (or similar duties, taxes or charges) from EAEU member states, its accrual and allocation, ensuring proper procedures of transferring to the state budgets		Financial, Compliance, Performance Audits
System-oriented recommendations	Result-oriented recommendations	Issue/problem-oriented recommendations
1	-	2

Note: The Supreme Audit Institutions of the EAEU Member States have carried out joint control measures over the accrual and allocation of import custom duties by the authorized bodies of the Member States and their transferring to the member-state budgets. According to the Agreement on Conduct of Joint Audit by the Supreme Audit Institutions of the EAEU Member States, due to the pandemic, these joint measures in 2020 were implemented by the Audit Institutions of each Member State in its country, and the results of the joint audit were summarized online.

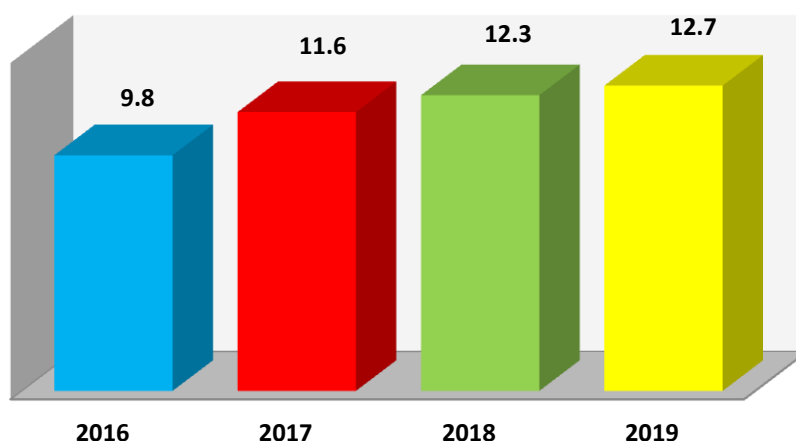
Summary of the results of the joint audit and the approval of the report was made at the joint forum of the board of supreme audit bodies, which was held on February 19, 2021 through a video conference. In 2019, the ratio for the distribution of import custom duties to be transferred to the state budgets of the EAEU member states was set as follows:

- For the Republic of Armenia - 1.220%
- For the Republic of Belarus - 4,560%
- For the Republic of Kazakhstan - 7,055%
- For the Republic of Kyrgyzstan - 1.900%
- For the Russian Federation - 85,265%.

The dynamics of import custom duties flows to the state budgets of the parties over a number of years is presented in the form of a histogram below.

**Import duty flows of the parties' budgets, total USD**





In 2019, the total amount of import customs duties paid to the budgets of the EAEU member states amounted to 12.7 billion US dollars, in general, compared to 2018 there is an increase in revenue by USD443.5 million or 3.6%. The analysis of the data shows an increase in import customs duties in 2019 compared to the previous analyzed periods.

The largest increase in import customs duties was registered in the Republic of Kazakhstan, which was 15.3% compared to 2018, in the Republics of Belarus and Kyrgyzstan, it was 6.0% in each, in the Russian Federation - 5.3%, and in the Republic of Armenia - 2.5%.

The balance of trade between the EAEU member states in 2019 was positive in Armenia, Kazakhstan and in Kyrgyzstan - \$ 24.1 million, \$ 221.3 million - \$ 80.7 million accordingly, while in the Republic of Belarus and in the Russian Federation the balance was negative - \$ 92.2 million and \$ 232.6 million.

### Most significant facts

The amount of imports customs duties paid by the mining companies in the Republic of Kazakhstan in 2014-2018 has not been distributed among the EAEU member states by the Liable Body of the Republic of Kazakhstan. As a result, the recommendation given by the supreme audit bodies based on the results of the 2019 audit was not fulfilled.

Cases of delays of the report on the accrual and allocation of import customs duties by the General State Treasury of the Republic of Belarus, the Committee of Treasury of the Ministry of Finance of the Republic of Kazakhstan and transferring of import customs duties by the Central Treasury of the Ministry of Finance of the Republic of Kirgizstan had been revealed (after 16:00 local time).

The exchange of information on the payment of import customs duties in 2019 between the central customs authorities, as well as its submission to the Eurasian Economic Commission, was carried out electronically in the form of a graphic electronic copies of document – through transferring them to EAEU member states budgets.

In 2019 no information was exchanged between the Central Customs authorities using the general process of the Union's integrated information system.



## PART 2. INFORMATION ON IMPLEMENTATION OF INTERNAL PROCEDURE PLAN OF THE AUDIT CHAMBER AND EXTERNAL AUDIT CONCLUSION

The Audit Chamber organizes its activities through regular and extraordinary sessions. During the reporting period, the Audit Chamber held 22 sessions, 10 of them were extraordinary. The agendas of all the sessions of the Audit Chamber were sent to the National Assembly and the Government two days before the sitting in the manner prescribed by law. During the same period, the Audit Chamber adopted 253 decisions, the majority of them - 206 are related to the audit process, 13 are related to the methodological and legal support of the Audit Chamber, 15 - to personnel management issues, 19 - to its financial activities. The decisions made at the sessions of the Audit Chamber (except for individual legal acts, auditing and inspection tasks) were published on the official website of the Audit Chamber [www.armsai.am](http://www.armsai.am) within three working days.

The content published on the website is briefly presented below.

About the materials published in 2020 on the official website	
Content	Number of publications
Decisions of the Audit Chamber	101
Media reports of the sessions of the Audit Chamber	22
International arena and cooperation	5
Vacancies and announcements for hiring of expert	36
Other information	12

During the reporting period, the media actively covered the press releases of the Audit Chamber and the results of the audits. The Audit Chamber has been mentioned more than 2,313 times by the online media<sup>5</sup>.

The maximum number of staff positions in the Audit Chamber is 155. Some data on the human resources of the Audit Chamber are presented in the tables below.

### Employees according to age groups

I. Employees according to age groups	Number	Percent
1. Younger than 30	11	7.6%
2. 30-40 years old	35	24.5%
3. 40-50 years old	41	28.6%
4. 50-60 year old	28	19.6%
5. Older than 60	28	19.6%
II. 15 plus years of experience in state organizations	21	
III. Middle age	41	

### Staff turnover

<sup>5</sup> Source - *Rumorsmonitoring.com*

<b>Total staff turnover</b>	<b>55</b>
<b>1. Staff turnover in the positions of state service</b>	<b>42</b>
<i>Resigned from state service</i>	<i>19</i>
<i>Hired by the state service</i>	<i>23</i>
<b>2. Turnover of the contractual employees</b>	<b>13</b>

#### Number of employees trained

Training programs	Participants
<b>State service /civil service training</b>	15
<b>About program budgeting</b>	5
<b>Online courses of «Excel» software through GIZ assistance</b>	20

In 2020, about AMD1.028.5 billion were allocated for the maintenance of the Audit Chamber, making 99.7% of the program. The AMD18.9 million from reserve fund of the Audit Chamber was used fully(100%). AMD23.4 million drams were allocated for capacity building of the Audit Chamber, making 99.5% of the program.

Pursuant to Part 3 of Article 23 of the RA Law on the Audit Chamber, the 2019 financial report of the Audit Chamber for 2020 was subject to an external audit by an external audit organization selected on a competitive basis by the staff of the National Assembly. This audit report has been published on the official website of the Audit Chamber.

The 2020 financial report will be subject to an external audit in 2021 by the same procedure, upon completion of which the Audit Chamber will publish the audit report on its official website.

Within the framework of Part 3 of the 2020 Activity Program, the professional working group was formed in the Audit Chamber that carried out self-assessment of the 2019 performance of the RA Audit Chamber using the SAI-PMF methodology of international standards of supreme audit bodies. This was the second self-assessment. The previous SAI-PMF self-assessment work was carried out in 2018 by the Audit Chamber for 2016-2018 performance certification, which underwent an independent certification process by the International Organization of Supreme Audit Institutions (INTOSAI) Development Initiative (IDI). According to the independent certification of IDI, the rating grade of the Audit Chamber was in the range of 1-2 points (SAI-PMF rating scale is in the range of one to four points). However, the 2019 report of the Audit Chamber as a result of self-assessment of the activity, the performance rating increased by one unit, becoming 2 points. This self-assessment report has been sent by the Audit Chamber to the IDI for independent certification, and upon its receipt the Audit Chamber will determine the procedure of results to become public among the beneficiaries.

The reporting year was important in terms of establishing pivotal methodological basis for audit necessary for the Audit Chamber. In particular, the Audit Chamber developed and approved the following

- Financial and compliance audit methodologies.
- Guidelines for audit of three, six, nine months and annual state budget execution.
- Audit recordkeeping guide.
- Guidelines for drafting the current conclusion and the accompanying documents.
- Guidelines for using the necessary information from the electronic payment-settlement and reporting state treasury systems of the Ministry of Finance of the Republic of Armenia for the auditing purposes.

- The concept paper of creating a quality control management system in the Audit Chamber.


In 2020, the Audit Chamber also carried out extensive work to improve internal legal acts. The following has been developed and approved

- Rules of ethics applicable to auditors in the context of internal professional relationships.
- Landmark criteria based on international legal practice related to the activities of the members of the Audit Chamber.
- Professional development ongoing program of the Audit Chamber.

Amendments have been made to:

- Procedure of the Audit Chamber.
- Charter of the Audit Chamber.
- Risk-based methodology for drawing up the Audit Chamber activity program

Based on the risk-based methodology for drawing up the Audit Chamber's activity program, the Audit Chamber developed and approved the Audit Chamber's activity program for year 2021, which is published on the Audit Chamber's official website.

	Link
The RA Audit Chamber's activity program for year 2021	

## STRATEGIC DEVELOPMENT PLAN

The Audit Chamber, with the professional support of the SIGMA Joint Programme of the European Union (hereinafter referred to as the EU) and the Organization for Economic Co-operation and Development (OECD), has developed, approved the 2020-2023 Strategic Development Plan and activity program for its implementation. The strategic document has defined four main goals for the next three years.

1. Improving the legal framework
2. Improving the impact of audits
3. Advancement of professional capacities and auditing skills
4. Strengthening the ways of communication and cooperation.

For the implementation of the above-mentioned goals, 13 sub-goals have been defined and 78 measures conditioned by them, with clear results.

The Audit Chamber actively is involved in cooperating with the Audit Chambers of international organizations and supreme audit bodies with extensive experience in the implementation of the audit activities.

## INTERNATIONAL COOPERATION

The scope of international cooperation of the Audit Chamber includes implementation of joint programs with international organizations as well as bilateral and multilateral cooperation in

professional platforms. Despite the challenges set forth by the pandemic in the reporting year, the areas of international cooperation have been diverse, and communication has been largely through the use of online high technology solutions.

The high-level cooperation between the EU OECD Joint SIGMA and Audit Chamber continued in the reporting year. The following has been developed with the professional support of SIGMA program:

- The Audit Chamber's 2020-2023 Strategic Development Plan and activity program for its implementation;
- Rules of ethics applicable to auditors in the context of internal professional relationships;
- Landmark criteria based on international legal practice related to the activities of the members of the Audit Chamber.

Within the framework of the implementation of the three-year strategic development plan, an agreement was reached with the SIGMA program on joint work on improving the legal framework, developing a communication strategy and other cooperation activities.

SIGMA has also assumed the unique role of the organizer of multilateral cooperation between the Audit Chamber and the external stakeholders. In particular, on December 15, 2020 with the support of SIGMA an online presentation-session on the **Strategic Development Plan** was held, during it the invited guests were introduced to the Audit Chamber's 2020-2023 Strategic Development Plan and its Activity Program. The online session was attended by representatives of the external stakeholders of the Audit Chamber: representatives of the RA National Assembly, the RA Ministry of Finance, the World Bank, the United States Agency for International Development (USAID), the German Agency for International Cooperation (GIZ), the US Supreme Audit Institution, the Swedish National Audit Office and other international experts.

As a longtime partner of the Audit Chamber the German Agency for International Cooperation (hereinafter referred to as GIZ) in Armenia has continued its strong mission of supporting the Public finance management sector of the Republic of Armenia.

In particular, with the support of GIZ, Excel software training courses were organized for 20 employees of the Audit Chamber. GIZ also provided technical assistance in the audit processes of the Audit Chamber through involvement of a qualified auditor.

The cooperation between Audit Chamber and GIZ will continue in the coming years, in line with the objectives of the Chamber's three-year strategic development plan.

2020 marked the establishment of a multilateral cooperation basis between the RA Audit Chamber, the United States Agency for International Development (USAID) and the US Supreme Audit Institution (The U.S. Government Accountability Office, hereinafter referred to as the GAO). In particular, during the reporting year, the US Government, through USAID, signed an interdepartmental agreement with the GAO Center for Audit Excellence (CAE) for Technical Assistance to the Supreme Audit Institution, the Audit Chamber of the Republic of Armenia.

The "Technical Assistance to the RA Audit Chamber" program was launched in 2020 at a joint online event on June 23.

This is USAID Armenia's second interagency agreement with the GAO Center for Audit Excellence (CAE). Under the previous agreement scope, GAO conducted a needs assessment at the RA Audit Chamber to identify its strengths, weaknesses and needs. The agenda envisaged by the present program is based on the recommendations made as a result of the needs assessment and is in line with the Government of the Republic of Armenia's Public Finance Management (PFM) reform strategy. This three-year project at a total cost of \$ 1 million will be implemented with the professional capacity of GAO, which is considered the "gold standard" among the highest audit bodies.

During the reporting year, USAID assisted the Audit Chamber with the involvement of a qualified auditor in the Audit Chamber's work program, as well as with the translation of a number of ISSAI standards.

In the reporting year, in parallel with the deepening of the cooperation between the National Assembly of the Republic of Armenia and the Swedish Parliament, the Audit Chamber established close contacts with the Swedish National Audit Office. Arrangements have been made to sign a Memorandum of Understanding in the near future and to approve a joint three-year cooperation plan, based on which the Swedish National Audit Office will strengthen the Audit Chamber's capacity for performance audits, effective communication with stakeholders (especially the legislative) and other agreed areas.

The Supreme Audit Institutions of Armenia, Ukraine, Moldova, Georgia, Bulgaria, Greece, and Turkey each conduct special annual audits in their countries within the framework of the Cross-Border Cooperation Program of the Black Sea countries. During the reporting year, the Audit Chamber actively cooperated with its international partners and successfully completed the audits planned in the RA Ministry of Finance (as a control coordinator) and in the RA Ministry of Economy (as a national program body), the results of which are included in the Joint Audit Report to the European Commission under the responsibility and development of the Supreme Audit Institution of Romania.

The audit task anticipated implementation of control implementation of recommendations made during the previous years and carry out system audit based on the EU Commission Implementing Regulation 897/2014 and Audit Strategy and in the scope of financial agreement of Black Sea Basin Joint Operational Programme 2014-2020 for European Neighborhood Instrument (ENI) Cross Border Cooperation (CBC) programme 2014-2020 signed Between the European Commission, Republic of Armenia and the Ministry of Regional Development and Public Administration and European Funds-Romania on November 25 of 2016, January 11 of 2017 and February 6 of 2017. The task of audit implementation is continuous.

A number of activities have been carried out to exchange information and experience within the scope of bilateral and multilateral cooperation.

- Representatives of the Audit Chamber participated in online workshops organized by EUROSAI and INTOSAI to jointly address the challenges of the COVID-19 pandemic.
- The Audit Chamber delegation participated in the first online meeting of the INTOSAI Key Sustainable Development Indicators Working Group.
- The Audit Chamber delegation participated in the EUROSAI-OLACEFS joint online workshop.
- Representatives of the Audit Chamber participated in online seminars organized by ASOSAI on "Audit for the Implementation of Sustainable Development Goals" and "Response of the Supreme Audit Institutions to COVID-19".

### **PART 3. SUMMARY OF YEAR 2019 STATE BUDGET EXECUTION AUDIT**

*Note: Based on Sub-Clause , Part 1 of Article 28 of the RA Law on the Audit Chamber, the Audit Chamber's 2020 annual activity report includes summary on the 2019 state budget execution audit.*

*In 2020, the Audit Chamber carried out the state budget 2020 execution audit through financial and compliance audits of three, six, nine months and annual execution of the state budget. Based on the*

*results of the audits, the Audit Chamber prepared a conclusion on the execution of the 2020 state budget and gave an audit opinion. Next year's annual announcement will include information on the conclusion of execution of the 2020 state budget, for the first time, based on the audits implemented according to new mechanisms.*

The conclusion of the RA Audit Chamber on the state budget execution of the Republic of Armenia for year 2019 was approved by the decision of the RA Audit Chamber # 59-A of May 26, 2019. Number of issues are identified in the conclusion and seven suggestions are presented.

Starting from 2008, the Control Chamber, later the Audit Chamber, recommended that all budgetary funds allocated to the Republic of Armenia and the Communities be circulated in a single treasury account. In 2010 as a response to this recommendation, the RA government gradually started circulating part of the loans and grants through the treasury system (especially the funds allocated to state institutions called "Program Implementation Units"). From the end of 2018, that process involved funds of State Non-Commercial Organizations too. However, the accounts of Community Non-Commercial Organizations, state-owned Joint-Stock Companies and Foundations still remain in commercial banks, which does not reflect the requirements of management transparency and control over public funds and leads to increased risks in the process of their use.

In the scope of the execution of the state budget, a number of problems have been revealed, which are especially related to the processes of ensuring transparency, control and public accountability over the state budget execution. The Audit Chamber suggests:

- To include the indicators of budget tax revenue according to duty types and adjusted budget plan in the RA Law on State Budget as well as in the annual reports on the execution of the state budget.
- To take steps to include information of Annex 6 of the **RA Law on the State Budget**, the administrative expenses of the RA Central Bank for year 2019 into the Annual Report on Budget Execution or the RA State Budget Execution Package submitted to the Audit Chamber per.
- To include the service costs of foreign currency government bonds acquired by residents in the actual cost of servicing the domestic public debt in accordance with Article 14 of the RA Law about the Public Debt. This recommendation is based on the conclusion of the Audit Chamber that from 2014 to present, the RA State Budget Execution Reports, in the budget line item of Internal Interest Payments, did not include interest payments on foreign currency government bonds acquired by residents, which in 2019 amounted to AMD38.1 billion.

The Audit Chamber also analyzed the execution of non-financial indicators of the state budget. The analysis revealed the following.

- For 337 expenditure programs (22.9% of the total) non-financial indicators were not defined;
- For 735 expenditure programs (49.9% of the total) only one type (mainly quantitative) non-financial indicator was defined, which is not sufficient to fully evaluate the results of program activities, and therefore also to fully evaluate the efficiency of their implementation;
- Only 86 expenditure programs (5.8% of the total) had a full range of non-financial indicators;
- For a number of expenditure programs, although performance indicators are formally defined, the content of the latter does not allow to properly assess the performance of the activity;
- For a number of programs expenditures in case when the adjusted budget plan and actual indicators differ greatly from the estimated indicators, the outcome indicators remain the same in comparison with the planned indicators.

The Audit Chamber stressed the need to rectify the situation with non-financial indicators of the state budget, especially in the context of the transition to full program budgeting. As a result, it was recommended:

- Define non-financial indicators for policy procedures for which they have not yet been defined;
- Define a more comprehensive variety of non-financial indicators by expanding the coverage of non-quantitative type of non-financial indicators, with particular emphasis on expanding the coverage of qualitative non-financial indicators.

As a result of the study on the purpose classification of state budget expenditures, the Audit Chamber recorded:

- 79 programs envisaged by the RA Law on the RA State Budget, amounting to more than 46 billion drams, were not implemented, in other words, no payments were made upon them;
- 27 programs, equal to 1.1 billion drams, were not involved in the RA Law on the RA State Budget, were envisaged by the adjusted program, but were not actually implemented, i.e. no payments were made,
- The actual execution of 113 programs made less than 50% of the adjusted plan, causing a deviation of 35 billion drams from the annual adjusted plan.
- 306 programs were not envisaged by the RA Law on State Budget of the Republic of Armenia, but later the government increased them by 63.5 billion drams, and later it turned out that only 52.8 billion drams was actually spent on them.

According to the conclusion of the Audit Chamber "On the Execution of year 2019 State Budget of the Republic of Armenia " submitted by the RA Government to the National Assembly of the Republic of Armenia, the indicators for revenue, expenditures and the deficit corresponded to the provisions of RA Law on the year 2019 State Budget and reflected the actual execution of the state budget. Accordingly, the RA Audit Chamber provided an unqualified opinion on the state budget execution.



### ANNEX 1

#### List of audits moved from 2020 activity programs to 2021 activity program

1. Polyclinic medical services of the Ministry of Health;
2. Medical care for socially vulnerable individuals and of special groups of the Ministry of Health;
3. Provision of medical care for non-communicable diseases of the Ministry of Health;
4. Mather and child health protection of the Ministry of Health;
5. Procurement process of the Ministry of Defense,
6. Financial and economic activities of the State Revenue Committee;
7. Regulated activity of state budget revenue generation process by the State Revenue Committee;
8. Formation of lists of persons receiving pensions, appointment of pensions, implementation of pension payments in the Social Security Service of the Ministry of Labor and Social Affairs,
9. Financial and economic activity of the State Property Management Committee of the Ministry of Territorial Administration and Infrastructure;
10. Grant and credit programs for the improvement of the road network of the Ministry of Territorial Administration and Infrastructure;
11. Reconstruction of national roads of the Ministry of Territorial Administration and Infrastructure;
12. Gyumri City Road Credit-Grant Program of the Ministry of Territorial Administration and Infrastructure;
13. Credit and grant programs to increase the level of earthquake safety of schools of the Ministry of Territorial Administration and Infrastructure;
14. Provision of student allowances for primary, secondary, higher and postgraduate professional education of the Ministry of Education, Science, Culture and Sports;
15. Arts program of the Ministry of Education, Science, Culture and Sports.

## ANNEX 2

## Cooperation with Law Enforcement Bodies

#	Subject	When was provided	Period Audited	INFORMATION
<b>I. The Audit Chamber provided cases to the RA Prosecutor General's office</b>				
1.	RA Ministry of Labor and Social Affairs	May 30, 2021.	January 1, 2019.-December 31, 2019	In phase of study
2.	Hayantar SNCO of the RA Ministry of Nature Protection	February 25, 2021.	January 1, 2017.-December 31, 2018.	In phase of study
3.	Armenian Power Plant CJSC of RA Ministry of Territorial Administration and Infrastructure (confidential.)	May 25 2021	January 1, 2017.-December 31, 2018.	In phase of study
4.	Hayantar SNCO of RA Ministry of Nature Protection	June 29, 2020.	January 1, 2017.-December 31, 2018	11 Criminal Cases were launched, 1 was terminated, 2 were merged to existing criminal cases, 8 are in phase of investigation. Damage to the State only in 3 cases is total AMD7.6 billion
5.	"Sevan National Park" and "Hayantar" SNCOs of the RA Ministry of Nature Protection	June 8, 2020.	January 1, 2017.-December 31, 2018	Criminal Case was launched, in phase of investigation. Damage to the State is AMD22 billion

6.	Off-budget funds generation and usage by RA Ministry of Defense (confidential.)	December 30, 2019	January 1, 2009-September 30, 2018	Criminal Case launched, in phase of investigation. Damage to the State is AMD1,568.6 billion
7.	Avia petrol purchase, maintenance and use of RA Ministry of Defense	July 4, 2019.	January 1, 2009-September 30, 2018	Criminal Case was launched, in phase of investigation
8.	State Water Committee	April 1, 2019.	January 1, 2017-September 30, 2018	Criminal Case was launched, in phase of investigation. Damage to the State is AMD390 billion
9.	RA Civil Aviation Committee	April 1, 2019.	January 1, 2017-September 30, 2018 <del>ra</del>	Criminal Case was launched, in phase of investigation
10.	"High Voltage Electric Networks" CJSC (in terms of non-compliance with the minimum qualification criteria of subcontractors for installation and construction works)	February 8, 2019.	January 1, 2017-September 30, 2018.	Criminal Case was launched, in phase of investigation
11.	"High Voltage Electric Networks" CJSC (in terms of non-compliance with the dismantling of power lines)	February 8, 2019	January 1, 2017-September 30, 2018	Criminal Case was launched, in phase of investigation
12.	Hayastan All-Armenian Fund (on checking the process of purchasing asphalt, bitumen and fuel oil)	February 8, 2019.	January 1, 2015-December 31, 2017.	Merged with a criminal case investigated in the RA NSS Investigation Department
13.	Hayastan All-Armenian Fund (on inspection of the process of purchasing furniture and household appliances)	February 8, 2019	January 1, 2015-December 31, 2017	Merged with a criminal case investigated in the RA NSS Investigation Department

14.	Norakert village of Armavir Marz	October 1, 2018.	January 1, 2016-June 29, 2018	Merged with a criminal case in the investigation department of Armavir marz, in phase of investigation. Damage to the State is AMD5.3 billion.
15.	“Sevan National Park” SNCO of RA Mistry of Nature Protection	March 23, 2018	January 1, 2016-December 29, 2017	Criminal Case was launched, in phase of investigation. Damage to the State is AMD4.7 billion
16.	Cattle breeding development project	March 23, 2018	January 1, 2016- December 1, 2017	6 Criminal Cases were launched, that have been terminated
17.	Judicial Acts Compulsory Enforcement Service	March 22, 2018	January 1, 2016- December 29, 2017	7 Criminal Cases were aunched, in phase of investigation
<b>II. The Audit Chamber provided cases upon the request of the RA Prosecutor General’s office</b>				
18.	Penitentiary Service of the RA Ministry Justice	May 14, 2021	January 1, 2018- December 31, 2019	In phase of study
19.	Winter and year-round maintenance and exploitation of interstate and national roads	May 12, 2021	January 1, 2017- December 31, 2019.	In phase of study
20.	RA Ministry of Emergency situation	April 30, 2021	January 1, 2018- December 31, 2020	In phase of study

21.	Renewable Resources and Energy Efficiency Fund of Armenia	July 21, 2020	January 1, 2017- December 31, 2018	In phase of study
22.	RA Syunik Regional administration (Governor's office)	March 17, 2020	January 1, 2017- December 31, 2018	Criminal Case was launched, in phase of investigation
23.	Pharmacy licensing process	January 22, ,2020	January 1, 2017- September 30, 2018	In phase of study
24.	Community Agricultural Resource Management and Competitiveness grant program implemented by agribusiness development center	January 10, 2020	January 1, 2016- September 30, 2018	In phase of study
25.	RA Ministry of Emergency situations	January 10, 2020	January 1, 2017-October 1, 2018	Criminal Case was launched, in phase of investigation. Damage to the State is AMD6.1 billion.
26.	Community Agricultural Resource Management and Competitiveness grant program	January 15, 2020.	January 1, 2015- December 20, 2017	In phase of study
27.	State Social Security Service	December 26, 2019	January 1, 2018- December 31, 2018	In phase of study
28.	State Social Security Service	December 13, 2019	January 1, 2018- December 31, 2018.	In phase of study
29.	State support grant programs for the implementation of measures envisaged by the RA export-oriented industrial policy strategy	December 12, 2019	January 1, 2017- December 31, 2017	In phase of study
30.	"Bio-resources Management Agency" (Ministry Of Nature Protection Of The Republic Of	November 11, 2019	January 1, 2017- September 30, 2018.	2 Criminal Cases were launched, in phase of investigation. Damage to the State is AMD407.8 billion. The criminal cases were terminated upon lack of criminal actions.

	Armenia)			
31.	Khosrov Forest Reservoir SNCO	November 8, 2019	January 1, 2017- September 30, 2018.	Criminal Case was launched, in phase of investigation
32.	Inspection Bodies	July 25, .2019	January 1, 2017- September 30, 2018	In phase of study
33.	RA Ministry of Labor and Social Affair	July 9, 2019.	January 1, 2018- December 31, .2018.	In phase of study
34.	RA Ministry of Economic Growth and Investments	July 9, 2019.	January 1, 2017- December 30, 2018.	In phase of study
35.	Methodology of comprehensive tax inspections based on risk and application of criteria determining the risk of the RA State Revenue Committee	July 4, 2019	January 1, 2018- December 31, 2018	In phase of study
36.	"Health Programs Implementation Office" state institution of RA Ministry of Health	June 14, 2019	January 1, 2017- September 30, 2018	Criminal Case was launched, in phase of investigation. Damage to the State is AMD110.5 billion.
37.	"High Voltage Electric Networks" CJSC of the RA Ministry of Energy Infrastructure and Natural Resources	March 19, 2019	January 1, 2017- September 30, 2018	Criminal Case was launched, in phase of investigation. 2 persons are recognized as defendants. Damage to the state was AMD867 billion
38.	State Property Management Department	May 29, .2018	January 1, 2016- December 29, 2017	In phase of study
39.	Seeds Department SNCO	June 26, 2018	January 1, 2016- December 20, 2017	Criminal Case was launched, in phase of court proceedings. Damage to the State is AMD19 billion.

40.	State Service on Food Safety	June 26, 2018	January 1, 2016- December 20, 2017.	In phase of study
41.	State Water Committee	May 25, 2018	January 1, 2016- December 20, 2017	Criminal Case was launched. Damage to the State is AMD4.7 billion. Court decision was announced and entered into force.
<b>III. The Audit Chamber provided cases to the RA National Security Service</b>				
42.	Hayastan Foundation	November 20, 2019	January 1, 2013- December 31, 2017.	Merged with an already existing criminal case, in phase of investigation
<b>IV. The Audit Chamber provided cases to the RA Special Investigation Service</b>				
43.	State Revenue Committee	May 10, 2019	January 1, 2015- December 29, 2017	In phase of study
<b>V. The Audit Chamber provided cases to the RA Investigative Committee</b>				
44.	State Water Committee	July 29, 2020	January 1, 2016-December 20, 2017	In phase of study



