

**THE AUDIT CHAMBER  
OF THE REPUBLIC OF ARMENIA**



**CONCLUSION**  
**ON EXECUTION OF THE RA STATE BUDGET**  
**FOR 2020**

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## 1. General

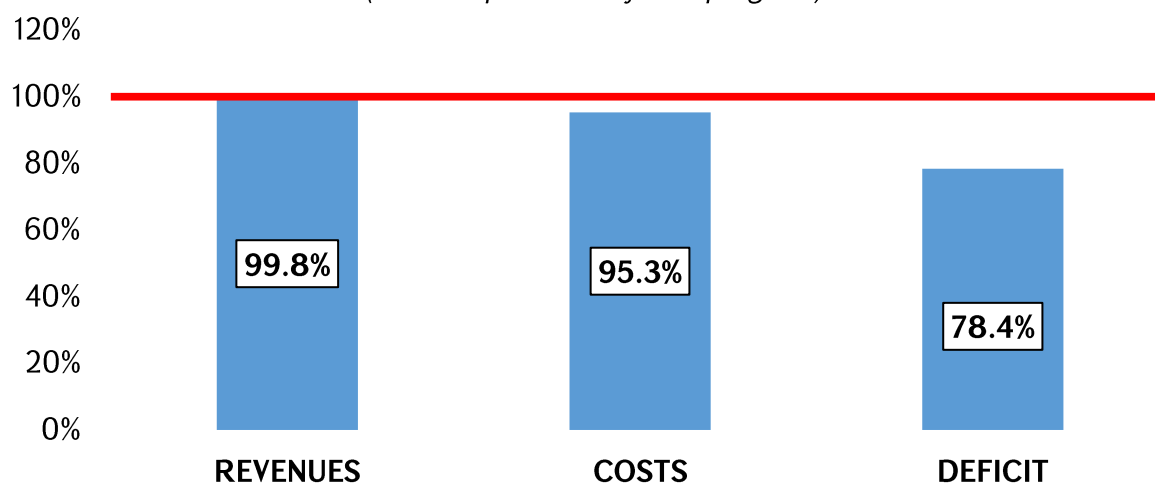
### 1.1. On the Report of the Government of the Republic of Armenia on the Execution/Performance of the State Budget of the Republic of Armenia for 2020

*Thousand AMD*

Program	Adjusted program	Actual
Revenues 1,695,009,852.1	Revenues 1,563,075,416.8	Revenues 1,560,655,340.8
Costs 1,855,697,119.5	Costs 1,989,032,727.2	Costs 1,894,647,093.4
Deficit 160,687,267.4	Deficit 425,957,310.4	Deficit 333,991,752.6

#### State Budget Execution

*(in % compared to adjusted program)*



According to the report of the Government of the Republic of Armenia on the execution of the state budget of the Republic of Armenia for 2020 (hereinafter referred to as the Report), the revenues of the state budget of the Republic of Armenia for 2020 are envisaged as 1,695,009,852.1 thousand AMD by the Law On 2020 state budget (hereinafter referred to as the Law). During 2020, the state budget revenues were reduced by 131,934,435.3 thousand by the decisions of the RA



Government. As a result, the adjusted revenue program of the RA state budget for 2020 amounted to 1,563,075,416.8 thousand AMD. In 2020, 1,560,655,340.8 thousand in revenues was transferred to the RA state budget, ensuring 99.8% execution of the program specified by the government, and 92.1% execution of the amount provided for by the Law.

The total revenues of the state budget for 2020 amounted to 25.2% of GDP (23.9% in 2019).

According to the Law, the total expenses of the state budget of the Republic of Armenia for 2020 are envisaged at 1,855,697,119.5 thousand AMD, which increased by 133,335,607.7 thousand AMD in 2020 according to the decisions of the Government of the Republic of Armenia. As a result, the adjusted expenditure program amounted to 1,989,032,727.2 thousand AMD: The actual expenses for 2020 amounted to 1,894,647,093.4 thousand AMD or 95.3% of the adjusted program, and 102.1% of the one provided by the Law.

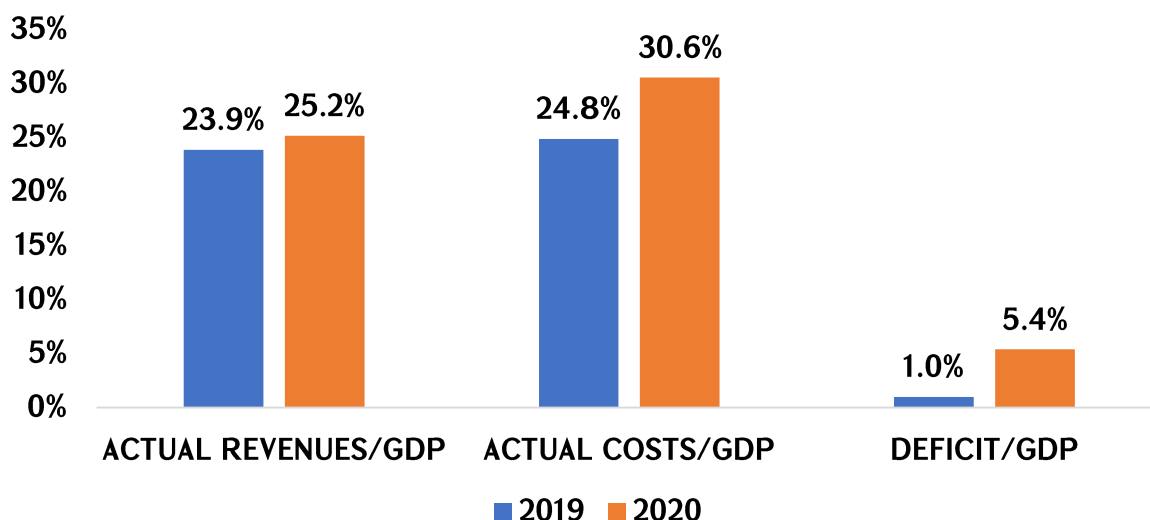
The actual state budget expenditures / GDP ratio for 2020 was 30.6% (in 2019 - 24.8%).

According to the law, the deficit of the RA state budget for 2020 was approved at 160,687,267.4 thousand AMD. The envisaged deficit of the state budget of the Republic of Armenia for 2020 has increased by 265,270,043.1 thousand AMD during the year by the adjusted program. In the amount of 425,957,310.4 thousand AMD.

As a result of the execution of the state budget of the Republic of Armenia for 2020, 333,991,752.6 thousand AMD deficit was registered, which makes 78.4% of the annual adjusted program, and 207.9% of the one provided by the Law.

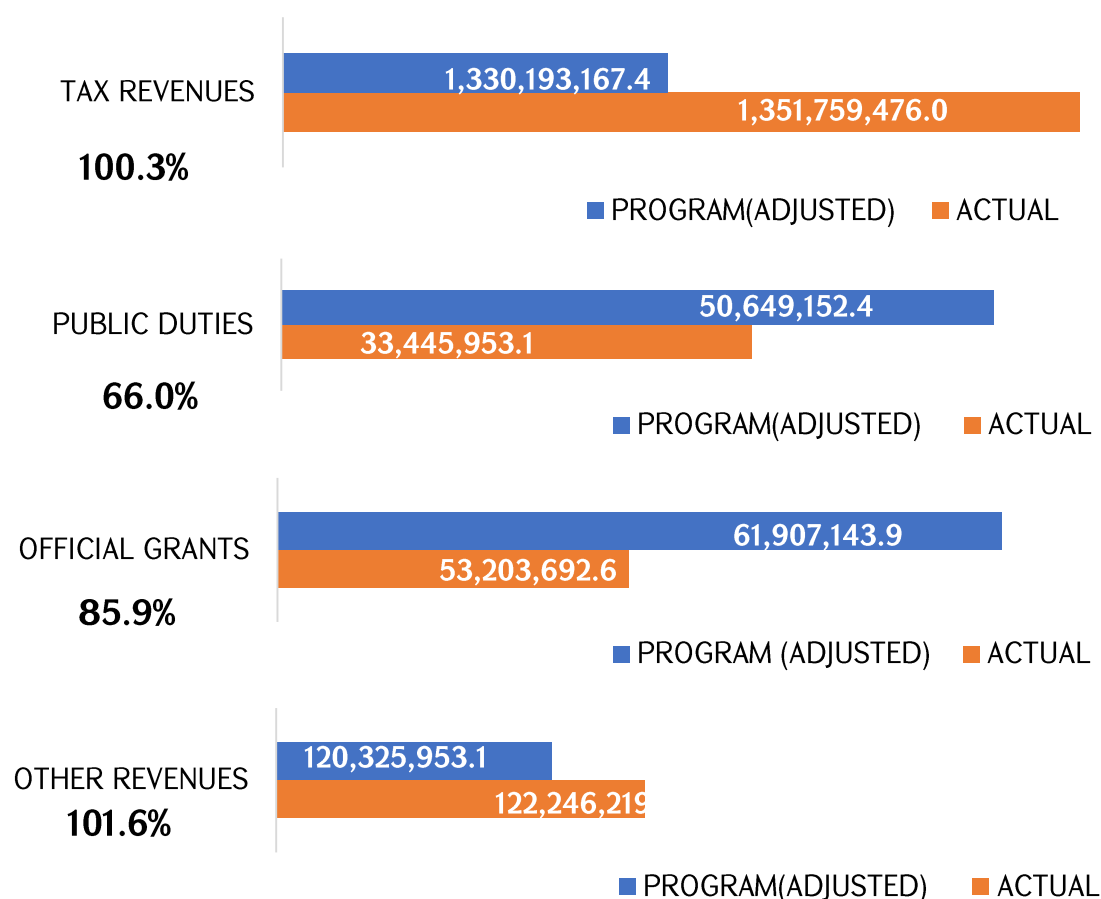
The 2020 state budget execution resulted in 333,991,752.6 thousand AMD deficit, totaling 78.4% of the adjusted program and 207.9% of the budget stipulated by the Law.

The deficit/GDP ratio made 5.4% in 2020 (1.0% in 2019).



### 1.1.1. On State Budget Revenues for 2020

#### Execution of the State Budget Revenues for 2020 (thousand AMD)



RA state budget revenues stipulated by the Law were to total 1,695,009,852.1 thousand AMD.

Due to the impact of the pandemic and the emerging need to implement anti-crisis actions to mitigate its influence, the legal requirements of the martial law, as

well as given the requirements of the Article 9, Paragraph 2 of the Law, in order to conduct a consolidated registration of the state's funds, The Government, within the scope of its responsibilities, has made changes to the program indicators to the state budget revenues, as a result of which the annual adjusted indicator made 1,563,075,416.8 thousand AMD.

The actual revenues of the state budget for 2020 amounted to 1,560,655,340.8 thousand AMD and comprised 99.8% of 1,563,075,416.8 thousand AMD of the adjusted program, of which the actual revenues of tax revenues and public duties amounted to 1,385,205,429.1 thousand AMD, which in its turn made 100.3% of the adjusted program indicator of 1,380,842,319.8 thousand AMD.

88.8% of the actual state budget revenues were generated from tax revenues and public duties, 3.4% from official grants, 7.8% from other revenues. The 2020 state budget revenues were reduced by 0.3% or 4.8 billion AMD as compared to 2019.

The comparative indicators of the revenues controlled by SRC for 2020 and the previous year are as follows:

		(million AMD)				
N/A	Indicator	2019		2020		
		January-December	Share	January-December	Share	Pace of Growth
<b>1</b>	<b>Tax Revenues and Public Duties Transferred to the State Budget</b>	<b>1,464,300.1</b>	<b>100.0%</b>	<b>1,385,205.4</b>	<b>100.0%</b>	<b>94.6%</b>
<b>1.1</b>	VAT	474,377.1	32.4%	471,588.0	34.0%	99.4%
<b>1.2</b>	Profit Tax	181,265.6	12.4%	148,763.3	10.7%	82.1%
<b>1.3</b>	Income Tax	410,348.2	28.0%	411,514.5	29.7%	100.2%
<b>1.4</b>	Excise Tax	127,535.3	8.7%	123,555.7	8.9%	96.9%
<b>1.5</b>	Turnover Tax	28,998.2	2.0%	26,599.2	1.9%	91.7%
<b>1.6</b>	Licensing Tax	4,085.9	0.3%	47.6	0.0%	1.2%
<b>1.7</b>	Environmental Tax and Natural Resource Usage Fee	58,261.5	4.0%	53,051.4	3.8%	91.1%
<b>1.8</b>	Customs Duty	95,146.7	6.5%	68,267.3	4.9%	71.7%
<b>1.9</b>	Social Fee	18,671.7	1.3%	24,758.1	1.8%	132.6%
<b>1.10</b>	Other State Revenues	21,206.3	1.4%	24,035.7	1.8%	114.8%

<b>1.11</b>	Public Duties	45,859.6	3.1%	33,446.0	2.4%	72.9%
<b>1.12</b>	Tax Transition Overpayment	-1,456.0	-0.1%	-373.6	0.0%	

The public duties in 2020 were stipulated by the Law to be 44,714,374.7 thousand AMD, were increased by the adjusted program making 50,649,152.4 thousand AMD and were actually executed at 33,445,953.1 thousand AMD or 66.0%.

The official grants of the 2020 state budget were stipulated at 35,324,420.2 thousand AMD by the Law, 61,907,143.9 thousand AMD by the adjusted program, while the actual indicator was executed by 53,203,692.6 thousand AMD which makes of the adjusted program.

Other revenues of the state budget in 2020 were stipulated by the Law to be 57,432,719.1 thousand AMD, 120,325,953.1 thousand AMD by the adjusted program. The actual indicator made 122,24 thousand AMD, making 101.7% of the adjusted program.

In 2020, about 17,099,642.02 thousand AMD interest payments (in 2019 - 12,708,350.5 thousand AMD) was received from the allocation of temporary free budgetary funds and deposits in banks and other financial institutions. Compared to 2019, the mentioned revenues increased by 34.6% or 4,391,291.5 thousand AMD.

In 2020, the state budget revenues from the dividends paid by 106 state-owned joint-stock companies amounted to 3.6 billion AMD, of which 55.7% was the share of the dividends paid by "Hayaeronavigatsia/ Armenian Air Navigation" CJSC.

### 1.1.2. On State Budget Expenditures for 2020

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According to the Report, the total actual expenses amounted to 1,894,647,093.4 thousand AMD, ensuring 95.3% execution of the adjusted program.

The number of programs of the state budget of the Republic of Armenia for 2020 is 198, while the number of actions is 1099.

The study of the implementation of the state budget programs of the Republic of Armenia for 2020 (by program classification) revealed that:

#### **109 ACTIONS**

**Were stipulated by the Law but not actually implemented (no payments were made)**

The total amount of the Actions stipulated by the Law made 67,334,025.8 **thousand** AMD.

#### **250 ACTIONS**

**Were not stipulated by the Law but were actually implemented**

The actual amount of the actions made  
**123,178,951.6** thousand AMD.

#### **1 ACTION**

**Was overexecuted**

The overexecuted action "Revenues from the alienation of non-financial assets", which exceeded the adjusted program by 630,429.4 thousand AMD or by 71.7%.

## 68 ACTIONS

**Actual performance is less than 50% of the adjusted program  
(not implemented programs are not included)**

The total adjusted program indicator of the actions/measures made 37,669,907.1 thousand AMD, while the total actual performance is 13,066,290.6 thousand AMD or 34.7% of the adjusted program.

As compared to the adjusted program the lowest performance of the measures (0.2%) was recorded in the framework of "Social assistance to individual social groups to respond to crises due to coronavirus (COVID-19), mitigation and elimination of emergencies" measures implemented by the Social Security Service of the Ministry of Labor and Social Affairs of the Republic of Armenia.

## 17 ACTIONS

**They were not provided by law, they were provided by the adjusted program, but they were not actually made, that is, no payments were made.**

(The total amount of the adjusted program of actions/measures comprised **1,496,476.9** thousand AMD)

The structure of actual expenditures of the 2020 RA state budget (according to economic classification) is as follows: 88.1% were current expenses, 11.9% were transactions with non-financial assets (in 2019, the share of current expenses and transactions with non-financial assets in expenses comprised 88.2% and 11.8%, respectively). As compared to 2019, in 2020 the total actual expenses increased by 16.3% or in 265,210,231.0 thousand AMD.

**FROM COST ANALYSIS OF 2020 RA STATE BUDGET (ACCORDING TO ADMINISTRATIVE CLASSIFICATION) IT BECAME CLEAR THAT AS PERFORMERS 5 STATE BODIES SHARE THE 69.1% OF TOTAL ACTUAL EXPENSES**

The 22.4% of the total actual expenditures of the 2020 RA state budget fall to the Social Security Service of the RA Ministry of Labor and Social Affairs. It is foreseen to allocate 387,553,093.8 thousand AMD to the Social Security Service of the RA Ministry of Labor and Social Affairs. AMD, with adjusted program - 434,323,505.0 thousand AMD and the actual expenditure was made in the amount of 425,078,271.7 thousand AMD or about 97.9% of the adjusted indicator.

In 2020, the expenditure of the RA Ministry of Defense made 20.5% of the total actual expenditures of the state budget, which is envisaged 308,862,429.4 thousand AMD, with adjusted program - 401,538,595.2 thousand AMD. The actual expenses of the RA Ministry of Defense comprised 388,395,912.3 thousand AMD or 96.7% of the adjusted program.

In 2020, the RA Ministry of Finance had the third largest share in total actual expenditures which comprised 11.8% or 223,076,759.8 thousand AMD, which is envisaged 234,248,291.3 thousand. AMD and 98.2% was made as to the adjusted program.

In 2020, the 7.4% of the total actual expenses or 139,814,889.1 thousand AMD fell to the RA Ministry of Health, the performance of which as compared to the adjusted program was 98.3%.

In 2020, the 7.0% of the total actual expenditures of the RA state budget was the share of the RA State Revenue Committee.

It is envisaged to allocate 98,713,646.4 thousand AMD to that body, with adjusted program - 133,700,947.3 thousand AMD and the actual expenses were made in the amount of 132,068,934.4 thousand AMD or about 98.8% of the adjusted indicator.

### 1.1.2. On State Budget Deficit for 2020

As compared to 2019 the actual financing of the state budget deficit in 2020 comprised 333,991,752.6 thousand AMD, in 2020 the size of the deficit increased by 422.3%. In particular, internal sources increased by 582.8% as compared to 2019, while external sources decreased by 160.5%.

The deficit for 2020 is planned in the amount of 160,687,267.4 thousand AMD. During the year, the amount of deficit financing increased; the adjusted program amounted to 425,957,310.4 thousand AMD: The performance was 207.9% as compared to the indicator approved by the Law, and as compared to the adjusted program comprised 78.4%.

*thousand AMD*

	Annual Plan	Annual Adjusted Plan	Actual	Percentage of Performance as Compared to the Annual Plan	Percentage of Performance as Compared to the Annual Adjusted Plan
<b>TOTAL Deficit</b>	<b>160,687,267.4</b>	<b>425,957,310.4</b>	<b>333,991,752.6</b>	<b>207.9%</b>	<b>78.4%</b>
<b>including</b>					
<b>A. Internal/Domestic Sources</b>	<b>211,254,710.8</b>	<b>422,707,450.7</b>	<b>359,378,951.5</b>	<b>170.1%</b>	<b>85.0%</b>
<b>B. External Sources</b>	<b>(50,567,443.4)</b>	<b>3,249,859.7</b>	<b>(25,387,198.9)</b>	<b>50.2%</b>	<b>-781.2%</b>

#### ON TREASURY JOINT ACCOUNT BALANCE

*As of December 31, 2020, the balance of the joint treasury account, including term deposits of 202,000.0 million AMD in the Central Bank, made 259,055.3 million AMD.*

*The balance of deposit accounts made 114,165.1 million AMD.*

*The balance of community budget accounts amounted to 45,881.3 million AMD.*

*The balance of extra-budgetary accounts made 378.8 million AMD.*

*The balance of SNCOs accounts comprised 19,035.8 million AMD.*

*The balance of PIUs accounts comprised 25,391.4 million AMD.*



*The balance of monetization accounts comprised 2,676.6 million AMD.*

*At the end of 2020, the total state resources amounted to 56,879.3 million AMD, of which 19,428.1 million AMD were in intermediate accounts.*

The total state resources at the end of 2020, including term deposits in the Central Bank, amounted to 56,879.3 million AMD, and in 2019 they amounted to 87,480.5 million drams (the indicator as compared to 2020 was 81,620.6 million AMD).

## EXTERNAL LOANS

In 2020 the law envisaged receiving external loan in amount of 171,778,813.5 thousand AMD from international organizations, foreign countries and commercial banks, which was changed during the year and amounted to 235,440,073.0 thousand AMD. In 2020 the receipt of foreign loans and borrowings actually amounted to 203,773,347.0 thousand AMD or the 86.5% of the envisaged indicator.

In 2020, 110,924,652.6 thousand AMD is planned to be repaid in terms of foreign loans, 103,116,276.2 thousand AMD was actually repaid. The performance as compared to the adjusted program was 100.0%.

Formerly, it had been recorded many times by the RA Control Chamber that all the budget funds provided to the Republic of Armenia within the framework of international agreements were not circulated by a joint treasury account. In 2015, the accounts of all PIUs were already in the joint treasury account. As of December 31, 2020, the balance of PIU accounts amounted to 25,391.4 million AMD.

## 1.2. RA Public Debt Analysis for 2020

As of December 31, 2020, the state debt of the Republic of Armenia amounted to 4,164.3 billion AMD (7,968.5 million USD), of which the external state debt of the Republic of Armenia amounted to 3,163.3 billion AMD (6,053.1 million USD), and the internal state debt of the Republic of Armenia amounted to 1,000.9 billion AMD (1,915.3 million USD).

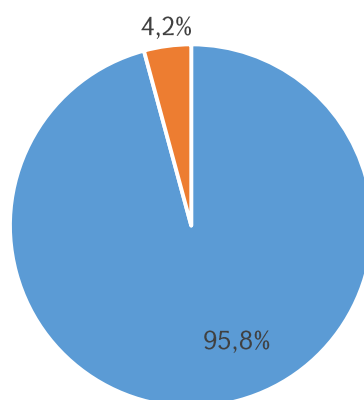
As compared to 2019, in 2020 the state debt of the Republic of Armenia increased by 18.6%, in particular, the external state debt of the Republic of Armenia - by 14%, the internal state debt of the Republic of Armenia - by 35.8% (in dram terms).

The debt of the Government of the Republic of Armenia amounted to 3,923.9 billion AMD (7,508.5 million USD) or 63.5% of the GDP in the state debt of the Republic of Armenia and 240.4 billion AMD (459.9 million USD) or 3.9% of GDP was the debt of the Central Bank of Armenia.

In 2020, the state debt of the Republic of Armenia amounted to 67.3% of GDP.

### 1.2.1. RA Domestic Debt for 2020

As of December 31, 2019 the structure of the internal/domestic state debt of the Republic of Armenia is as follows:



- ռեզիդենտների կողմից ձեռքբերված պետական գանձապետական պարտատոմսեր
- ռեզիդենտների կողմից ձեռքբերված արտարժույթային պետական պարտատոմսեր

Government treasury bonds acquired by residents

Foreign currency government bonds acquired by residents

Expenditures on domestic interest payments in 2020 amounted to 86.9 billion AMD, increasing by 24.5% or in 17.1 billion AMD as compared to the previous year.

### 1.2.2. RA External Debt for 2020

As of December 31, 2020, the external debt of the Republic of Armenia amounted to 6,053.1 million USD, of which 5,593.2 million USD was the external liability of the Government of the Republic of Armenia, and 459.9 million USD was the liability of the Central Bank of Armenia (hereinafter CB).

The structure of the external debt is as follows:

1. Government external loans and borrowings: 4,665.2 million USD,
2. State bonds in foreign currency allocated by the Government (acquired by non-residents) - 919.4 million USD,
3. External guarantees provided by the government - 8.6 million USD,
4. External debt of the Central Bank - 459.9 million USD.

During 2020, out of 416.1 million USD disbursements made by the RA Government on foreign loans:

- 94.3% or 392.6 million USD are contributions to international organizations, which are dominated by the receipt in amount of 316.6 million USD provided by one organization, the International Monetary Fund/IMF.
- 5.7% or 23.5 million USD are the disbursements made on loans provided by foreign countries, of which 58.2% are loan disbursements provided by Germany and 41.8% are loan disbursements provided by France.

In 2020, external debt service expenditures of RA Government totaled \$ 474.6 million (162.9 million USD are interest payments and 311.7 million USD are repayments).

In 2020, 61.4 million USD or 37.7% out of the 162.9 million USD interest payments actually paid on the external debt of the Government of the Republic of Armenia are interest payments on foreign currency government bonds, and \$ 101.6 million or 62.3% are interest payments on foreign loans attracted by the Government of the Republic of Armenia from international organizations, foreign countries and commercial banks.

In 2020, 214.0 million USD was directed to the repayment of foreign loans attracted by the Government of the Republic of Armenia of which 68.0% or 145.6 million USD is the share of repayments to international organizations, of which 64.7 million USD to the International Development Association (IDA) and 33.7 million USD is the money to repay the loans of the Asian Development Bank.

### **1.2.3. The Macroeconomic Indicators Characterizing the External Debt Burden of the Republic of Armenia**

The analysis of the macroeconomic indicators characterizing the external debt burden of the Republic of Armenia in 2020 revealed that the Republic of Armenia is characterized as a country with an average/medium debt burden in three of the five indicators.

It is noteworthy that before 2018, the Republic of Armenia was characterized as a country with a low debt burden by all indicators.

## The Macroeconomic Indicators Characterizing the External Debt Burden of the Republic of Armenia<sup>1</sup>

Name of the Indicator:	Limits of indicators by classification groups	Actual Indicators				
		2016	2017	2018	2019	2020
External State Debt <b>NDP/GDP</b>	Countries with the heaviest debt burden >80%					
	Countries with medium debt burden 48%-80%					
	Countries with low debt burden < 48%	38.0%	41.0%	39.5%	36.7%	41%
External State Debt <b>NDP/Export</b>	Countries with the heaviest debt burden >220%					
	Countries with medium debt burden 132%-220%					135.7%
	Countries with low debt burden <132%	114.3%	109.6%	105.3%	88.9%	
External State Debt Service / <b>Export</b>	Countries with the heaviest debt burden >30%					
	Countries with medium debt burden 18%-30%				28%	19%
	Countries with low debt burden <18%	6.6%	6.7%	7.9%		
External Debt <b>Interest Payment / Export</b>	Countries with the heaviest debt burden > 20%					
	Countries with medium debt burden 12%-20%					
	Countries with low debt burden <12%	3.6%	3.3%	3.6%	3.3%	3.1%
External State Debt / <b>Export</b>	Countries with the heaviest debt burden >275%					
	Countries with medium debt burden 165%-275%				218.4%	237.9%
	Countries with low debt burden <165%	137.3%	127.6%	118.5%		
External State Debt / <b>GDP</b>	Limit 50.00%	45.6%	47.7%	44.5%	42%	51.2%
RA External State Debt Service / State Budget Revenues	Limit 22.5%	9.4%	11.3%	13.4%	22.9%	14.6%

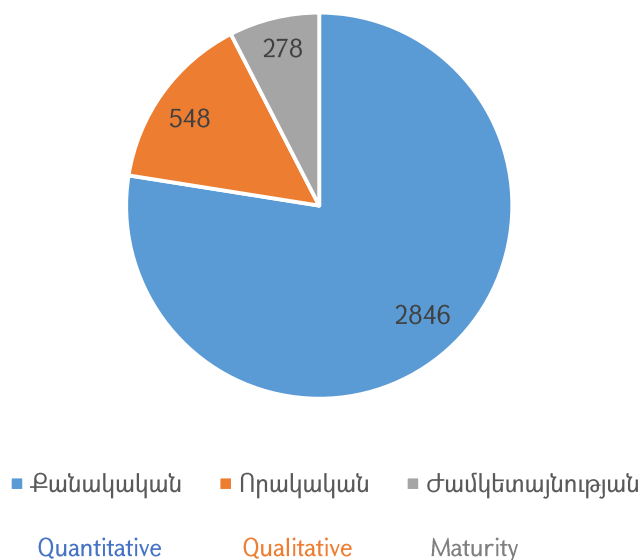
<sup>1</sup> <https://www.imf.org/external/np/mae/pdebt/2000/eng/index.htm#box4>

### 1.3. On Execution/Performance of the 2020 RA State Budget Output Programs and of the Outcome (Non-financial) Indicators of Measures

3,672 outcome (non-financial) indicators were defined by the objects of the 2020 RA state budget execution audits within the framework of 1,377 program actions/measures<sup>2</sup> (in 2019, 3,246 indicators within the framework of 1,473 program actions/measures). The program activities, by types, had the following distribution:

Type	Quantity	Share
Rendering of Service	742	53.9%
Provision of Transfers	430	31.2%
Transactions with Non-financial Assets Used by State Bodies	134	9.7%
Transactions with Non-financial Assets Used by Other State Organizations	48	3.5%
Measures Related to Assets Directly Used by the Public	21	1.5%
Implementation of Financing Costs	2	0.1%
<b>Total</b>	<b>1,377</b>	<b>100.0%</b>

Non-financial indicators, by types, had the following distribution:



<sup>2</sup> The measure of the program is the intervention of the state, which can be the provision of services, performance of works, provision of goods or transfers by state bodies, state or other organizations, capital (non-financial), creation (acquisition) or alienation of financial assets, as well as by other forms prescribed by law (RA Law "On Budgetary System, Article 1.2, Part 18).

**! 244 program activities/measures (the 17.7% of the total) were not defined as any non-financial indicators.**

The lack of measurability makes it impossible to assess the effectiveness of these measures.

In previous years, the RA Audit Chamber proposed to the Ministry of Finance to set non-financial indicators for those policy measures for which such measures have not been defined yet.

The recorded picture does not correspond to the fact that from 2019 the transition to the 100% program budgeting rate has been made.

**! For 762 program activities (the 55.3% of the total) only one type (mainly quantitative) non-financial indicator was defined, which is not enough to fully evaluate the results of program activities/measures, and therefore also to fully evaluate the effectiveness of their implementation.**

**! The full composition of non-financial indicators was defined for only 97 program activities/measures (the 7% of the total).**

The number of the most valuable non-financial indicators of qualitative type is still small, making 14.9% of the total.

## **1.4. On Activity of the RA Public Sector Internal Audit System for 2020**

Despite the reforms launched in the field of internal audit in recent years, the Audit Chamber notes that only 29 out of 50 state bodies were audited during the year in 2020. That is, **in 2020, the 42% of state bodies did not have an internal audit.**

In 2020, **the number of internal audit tasks continued to decline.** In particular, 869 internal audit tasks were performed, which as compared to 2019. **decreased by 39.2%** (in 560 pieces) and as compared to 2018 **it decreased by 63.9%** (in 1525 pieces).

**Not only the quantitative but also the qualitative decline is concerning.**

The Audit Chamber recorded that in 2020, as compared to the previous year, both "Assessment of the effectiveness of internal audit results" and "Assessment provided

to the internal audit by the audited bodies" experienced decline by decreasing from 3.3 points to 3 and from 3.5 points to 3.2, respectively.

It must be noted that **the qualitative decline occurs when the internal audit function is delegated to private organizations.**

In particular, **in 14 cases (48.3%) out of the 29 state bodies that conducted internal audits, this function was performed by private organizations**, and in 15 cases it was conducted by the subdivisions of state bodies.

Quantitative indicators related to inconsistencies, registered as a result of internal audit activities in the public sector, submitted recommendations, cases transferred to law enforcement agencies, as well as the number of internal auditors experienced a significant decline.

Indicator	2018	2019	2020
Number of Inconsistencies /Discrepancies Detected <sup>3</sup>	8388	6298	2742
Number of Recommendations/Suggestions	5811	4965	2349
Cases Transferred to Law Enforcement Agencies	67	152	57
Number of Internal Auditors	290	265	203 <sup>4</sup>
of which: Qualified	238	219	174

By analyzing the type structure of internal audit, it was recorded that 0 task on the type of "Audit of Informational Technologies" was performed during 2018-2020. **Meanwhile, since the launch of the new coronavirus (COVID-19), the risks of cyber security have increased significantly due to the significant increase in the number of online functions.**

Besides, if in 2018 and in 2019 "Audit of Performance" type of 46 and 55 internal audit tasks was performed in state bodies, respectively, then in 2020 0 Audit of Performance was performed. And this is in the case when the strategy of state finance management for 2019-2023 stipulates that performance audits should comprise **at least 30%** of the annual programs of internal audits.

Taking into account the abovementioned, the shortcomings of the internal control system of state bodies may not be detected in time and should not be prevented, in the conditions of which the financial discipline is weakened, a favorable environment is created for inconsistencies and distortions, the relationship between the external auditor (represented by the Audit Chamber) and the internal auditor is broken.

<sup>3</sup> Presented in the final reports.

<sup>4</sup> Includes employees of private organizations.



## 1.5. On Procurement Process

According to the 2020 procurement report of the RA Ministry of Finance, by contracts signed in the 2020 budget year for state needs, it is planned to implement purchases in amount of 540,261,424.2 thousand AMD without foreign loans and grant programs, but 503,100,698.3 thousand AMD was actually paid. Non-purchasing contracts are also included this indicator.

Without non-purchasing contracts, the state bodies have actually signed 21,861 contracts, at the total cost of 230,019,600.0 thousand AMD.

The 39.4% of procurement contracts signed by state bodies in 2020 have been signed **by the way of one-person purchase, for which the total amount of contracts comprised 125,592,200.0 thousand AMD. As compared to 2019, the share of the total amount of one-person purchase contracts in the total amount of signed contracts increased by 4.39%.**

Indicators of average participation and savings are of great importance for assessing the efficiency of the procurement process

During 2020 the average participation rate in the organized procurement procedures, which testifies to the competition in the procurement sphere, has not changed as compared to 2019 and remains low at the level of 1.7 participants.

### Data on Participation according to 2020 Organized Procedures

Form of Purchase	Average Participation
Open Competition	2.3
Urgent Open Competition	3.1
Two-stage Competition	1.0
Framework Agreement	1.0
Quotation Request	2.2
E-auction	1.1
One-person	1.0
<b>TOTAL</b>	<b>1.7</b>

The **savings** resulting from the procurement procedures in 2020 amounted to 15,401.6 million AMD or 5% of the prices of concluded contracts.

In 2019 it comprised 21,212.7 million AMD or 6.1% of the prices of concluded contracts. In fact, in **2020 in the procurement process a setback had been registered related to the principle of savings.**

## 1.6. On Accounting of Public Sector

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In 2014 the Public Sector Accounting Standard has been approved in the Republic of Armenia, which defines the principles of preparation of consolidated financial statements. According to RA Law on Public Sector Accounting adopted still in 2014 it was defined that consolidated financial statements should be prepared since January 1, 2017. However, in 2021 a change has been made in the given law, according to which consolidated financial statements will be prepared for the first time in 2023 for the reporting period, i.e. in 2024.

As a result, the Audit Chamber does not have the opportunity to audit the consolidated financial statements of the Republic of Armenia.

Taking into account the mentioned issue, the 2021 action plan of Audit Chamber envisages to conduct a performance audit on this topic.

## 1.7. On Execution/Performance Process of the Measures foreseen by Public Finance Management System Reform Strategy for 2019-2023

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Reforms are somewhat slowing down in the field of public finance. As of the end of 2020 **12 measures** defined by the Strategy and subject to execution **were not implemented within the pre-defined deadlines**. The most important of these are:

- Development of a draft decision of the Government of the Republic of Armenia on the introduction of a unified planning system for automatically determining the estimated prices of items with similar characteristics.
- Development and introduction of new e-procurement system software.
- Implementation of a measure to outline the directions of further reforms of the tax system based on the priorities and opportunities of economic development.
- Approval of internal audit quality external evaluation methodology, methodology of implementing performance audit, the program for development of professional knowledge and skills of internal auditors.

## 1.8. Follow-up Process

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According to the RA Audit Chamber conclusion on the execution of the 2020 state budget, recommendations were submitted, some of which were resolved by the RA Government, in particular:

1. Cash flow forecasting and management methodology of a joint treasury account has been approved.
2. The indicator of share of domestic debt in total debt has been increased to 25% instead of the previous 20% in RA Government Debt Management Strategic Plan for 2021-2023.
3. List of internal management reports and their formats on RA Government Debt Management Strategic Medium-term Plan and the performance of annual program of loans have been approved.
4. Steps have been taken to conduct internal audits in the field of public debt management.
5. Provision of all state guarantees (including external ones) and management will be carried out by one organizational unit (Obligations Management to State Budget Department of the RA Ministry of Finance) allowing to eliminate the ambiguity of the scope of responsibility in the conditions of fragmentation of the organizational structure of the RA State Guarantee Management.
6. Steps have been taken in the direction of initiation of public debt payments, pre-entry of data, approval of contractual information and separation of powers of finalization of registrations.

## RECOMMENDATIONS

Fix requirement in legislative manner, that each body responsible for collecting state budget revenues should develop a methodology for forecasting the revenue it collects.

The Ministry of Finance is recommended, as an authorized body, to develop general requirements for revenue forecasting methodologies, which may include a description of the forecasting method algorithm, definition of forecasting methods and algorithms based on the characteristics of each revenue type, etc.

1

It is recommended that the state bodies responsible for revenue collection, in accordance with the above-mentioned methodologies, make forecasts according to types of revenue in each reporting period, submit them to the Ministry of Finance in due time, with appropriate justifications.


The Ministry of Finance is recommended to summarize the presented forecasts, to take them into account when planning the upcoming state budget revenues according to the types of revenues. To reflect these results in the law on the state budget, as well as to present the performances by the types of revenues in the state budget execution reports.


To take steps to increase the efficiency of the internal control system in the public sector and increase financial discipline during 2021 for expanding the coverage of internal audit in state bodies.


2


Increase the number of internal audits in type of "Information Technology Audit" for curbing cyber security risks in the public sector: by involving internal auditors with competencies in COSO's internal control and risk management approaches, COBIT information risks and ISO27001 information security concepts and cyber security risks.


Take steps to perform performance audits of at least 30% of annual internal audit programs.


- 


In order to increase the efficiency of the management of RA budget funds transfer the accounts of non-governmental organizations, state-owned joint-stock companies and funds from commercial banks to the treasury.
- 


Include the costs of servicing foreign currency government bonds acquired by residents in the cost of internal interest payments.
- 

Define non-financial indicators for those policy measures for which such are not yet defined.
- 

Define a more complete composition of non-financial indicators, increasing the coverage of non-quantitative non-financial indicators, with particular emphasis on expanding the coverage of non-financial quality non-financial indicators.
- 

The reporting process does not allow for the presentation of actual non-financial planning results, as well as for differences between planned and actual performance indicators, reasons for not reporting differences in future performance reporting.
- 

Execute the recommendations presented in the current conclusion approved by the RA Audit Chamber Decision of N28 / 2 as of 24.12.19. aimed at increasing the efficiency of the public debt management system.
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Take steps to prevent further delays in the process of consolidating the financial statements prepared on the basis of the public sector accounting standard and to submit the consolidated financial statements on time.
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Taking into account that the article of subsidies is on the one hand a significant expenditure account for the state budget, on the other hand, the great dependence of the community budgets on the mentioned

source, the effectiveness of the mechanism of their allocation acquires special importance.

To this end, the Audit Chamber proposes to take the following steps within the framework of legislative changes:

Provide subsidies to communities on the basis of an agreement signed with the RA Ministry of Finance, which defines the conditions<sup>5</sup> for providing and using subsidies. The latter should contribute to the socio-economic development of the community, the recovery of community finances. As a main indicator, it is proposed to consider the indicator "percentage change of community tax and non-tax revenues as compared to the previous year". Increase of investment percentage in fixed capital, percentage increase in the number of people employed in SMEs, percentage decrease in the number of registered unemployed, etc. can be considered as other indicators. Establish liability measures for not meeting the conditions<sup>6</sup> of granting and using subsidies, including in the form of reduction of subsidy amounts provided in the following years.

To define non-financial indicator of "Ratio of budgetary security of the 20 most secure and 20 most insecure communities in Armenia" pursuing its reduction.

## 2. Information on Discovered Discrepancies, Distortions and Recommendations/Proposals

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The implementation of the 2020 state budget execution audits took place in the conditions of the following restrictions:

a) due to an unpredictable circumstance that makes the implementation of the accounts impossible due to the war unleashed by Azerbaijan; due to the military situation declared in the RA on the basis of the RA Government Decree N1586-N as of September 27, 2020, the audits of the implementation of the 2020 RA state budget for six months were suspended by the decision of the Audit Chamber N168-A as of September 30, 2020 and were resumed by the decision of the Audit Chamber N171-A as of November

<sup>5</sup> Do not refer to specific expenditure directions.

<sup>6</sup> With the exception of highly subsidized communities.

20,2020 (suspended for 37 working days), b) due to the new coronavirus (COVID-19), the state of emergency was declared in the Republic of Armenia on the basis of RA Government Decree N298-N as of March 16, 2020 (16.03.20-11.09.20), in the latter conditions, the transition to remote work mode significantly limited the contacts with the representatives of the auditing objects and the implementation of the auditing and monitoring procedures.

Despite the above-mentioned restrictions, in order to draw a conclusion on the implementation of the 2020 state budget, the Audit Chamber carried out 65 audits in 17 executing bodies, which share the 90.3% of the expenditure part of the RA state budget. The results of the audits are summarized in the current conclusions, which have been submitted in the manner prescribed by law to the RA National Assembly, the RA Government, as well as it was published on the official website of the Audit Chamber (with the exception of 8 current conclusions containing confidential information as defined by law).

The results of the audits were presented and discussed in the the sitting of the Standing Committee on Financial-Credit and Budgetary Affairs of the National Assembly of the Republic of Armenia and in the sessions of latter's Subcommittee on Accounting and Audit:

Due to the preventive role of the Audit Chamber, a number of discrepancies and distortions identified during the quarterly audits were corrected by the end of the year. Information on discrepancies, distortions or suggestions found is provided below.

## **2.1. Information on Discovered Discrepancies**

### *2.1.1. Presentation Format of Information on Discovered Discrepancies*

The Audit Chamber presents the information on the discrepancies found in this section of the report in accordance with the classification approach presented in Table 1. For each discrepancy, section 2.1.3 presents its class, a brief description, as well as the legal provision with the requirements of which the Audit Chamber has registered discrepancy.

It is not our intention to rewrite the full and detailed information on the discrepancies found in this report, as the latter contained in the current conclusions of the annual budget audits for three, six, nine months, of the 2020 state budget, which were published on the official website of the Audit Chamber ([www.armsai.am](http://www.armsai.am)) in the section of «Current Conclusions» (with the exception of current conclusions containing confidential information as defined by law).



*Table 1. Classification Scale of Discrepancies*

Class	Description:
<b>A1</b>	A key discrepancy that has caused or may result in a material misstatement of the financial statements or has arisen as a result of a weak internal control system over compliance with legal requirements; in which conditions the discrepancies can be massive, leaving a significant impact on the state budget execution process and on public interest.
<b>A2</b>	Other discrepancies/inconsistencies which were registered with the requirements of the RA laws.
<b>A3</b>	Other discrepancies/inconsistencies which were registered with the requirements of the RA by-laws:
<b>A4</b>	Other discrepancies/inconsistencies, which were recorded with the contractual requirements.
<b>AX+</b>	If the discrepancy has been recorded 2-3 times.
<b>AX++</b>	If the discrepancy has been recorded more than 3 times.

### *2.1.2. Summary Information*

2020 RA state budget execution audits were implemented in 17 state budget executing bodies and as a result of which 171 discrepancies/inconsistencies were recorded in 12 state budget executing bodies (Table 2) as of December 31, 2020. The Audit Chamber registered 6 key discrepancies/inconsistencies, as well as 23 other discrepancies/inconsistencies related to the requirements of the RA laws, 35 discrepancies/inconsistencies related to the RA by-laws and 14 discrepancies/inconsistencies related to the contractual requirements. The mentioned information according to sector breakdown is presented in Table 3.

*Աղյուսակ 2. Summary Information on Discrepancies/Inconsistencies According to Executing Bodies*

N	Name of Executing Body	Number of Discrepancies/Inconsistencies (piece)
1	RA Ministry of Education, Science, Culture and Sport (RA MoESCS)	44
2	RA Ministry of Emergency Situations (RA MES)	28
3	Committee of Science (CS)	19
4	Water Committee (WC)	17
5	RA Ministry of Economy (RA MoE)	16
6	RA Ministry of Territorial Administration and Infrastructure (RA MTAI)	13
7	RA Ministry of Health (RA MoH)	9
8	RA Ministry of Foreign Affairs (RA MFA) (confidential)	9
9	The Office of the RA Prime Minister	7
10	RA Police	5
11	Social Security Service of the RA Ministry of Labor and Social Affairs	2
12	RA Judicial Department	2
TOTAL		171

*Table 3. Summary Information on Discrepancies by Sectors and Significance*

	Sector/Sphere	Number of Discrepancies/Inconsistencies (piece)				
		A1	A2	A3	A4	Total
1	Procurement	-	10	14	2	26
2	Labor relations	-	8	7	-	15
3	Subsidy - Water Economy	1	-	4	4	9
4	Transport	3	-	2	-	5
5	Grants	-	-	1	4	5
6	Education	1	-	2	-	3

<b>7</b> Managerial Relations	-	-	3	-	3
<b>8</b> Other	-	5	3	4	12
<b>TOTAL</b>	<b>6</b>	<b>23</b>	<b>35</b>	<b>14</b>	<b>78</b>

### 2.1.3. Discovered Discrepancies

#### ***Subsidy - Water Economy***

*Facts recorded during the audit in the Water Committee of the RA Ministry of Territorial Administration and Infrastructure*

2.1.3.1. **(A1++)** Cases of misappropriation of subsidy funds provided from the state budget have been registered, for example:

- The WUA of Talin directed the subsidy to the acquisition of capital assets, which is prohibited by RA legislation (3rd point of the Appendix to the RA Government Decree N1937-N as of December 23, 2003). According to the subsidy agreement the WUA of "Aragatsotn" the amount of 6,359.1 thousand AMD envisaged for making payments on the basis of the final executive acts of spring preparations, it directed to the repayment of the electricity debt (Clause 1.1 of the contract N118 signed on August 17, 2020 between the Water Committee and the WUA of "Aragatsotn» for providing a subsidy from the state budget).

- The WUA of Syunik the subsidy of 14,206.6 thousand AMD intended for debt repayment arisen in February 2020 in terms of tax liabilities directed to the repayment of the debt of the tax liabilities of the previous years (Clause 1.1 of the contract signed on April 08, 2020 between the Water Committee and the WUA of "Syunik» for providing a subsidy from the state budget).

- Under the contract, the subsidy amounts were allocated to repay the accounts payable in the first three months of the current year. Meanwhile, 6 of WUAs actually directed the money of amount of 21,986.6 thousand AMD generated in previous years for repayment of outstanding payables of Synchron LLC in the amount of AMD and 54,727.6 thousand AMD for repayment of tax penalty and the fine of the previous years (Clause 1.1.2 of the contract signed between the Water Committee and the WUAs).

2.1.3.2. **.(A3)** By the Decree of the Government of the Republic of Armenia, the financial gap of Water-using Agencies (WUAs) was estimated at 8,114,468.9 thousand AMD and the amount of support from the RA state budget for the improvement of the irrigation system was calculated at the rate of 22.1% of the given financial gap for each WUA. Meanwhile, according to the forecasts of financial flows approved by WUAs, the financial gap amounted to 7,471,725.0 thousand AMD or less in 642,743.9 thousand AMD. As a result, based on the calculation of the gap repayment of 22.1%, the amount of

this financial support exceeded the amount generated from the mentioned percentage of approved gap in 142,046.4 thousand AMD. (2-nd Appendix to the RA Government Decree *N1144-L* as of July 02, 2020).

2.1.3.3. The WUAs received state financial support totaled of 7,451,816.50 thousand AMD, which is more in 4,595,808.5 thousand. AMD (7,451,816.50-2,856,008.0) than under medium-term state expenditure program for 2018-2020 and than the amount of financial support envisaged by the 2020 RA state budget.

2.1.3.4. **(A3++)** Cases of non-inclusion (minimum price of produced, imported or exported goods, works performed, service rendered, goods subject to production, import or export within the contract, works to be performed) maximum number of services to be provided (terms of its change) were registered in a number of provisions subject to mandatory inclusion in the contract on subsidization of legal entities from the state budget of the Republic of Armenia. («E» Sub-item of the 8th point of the RA Government Decree *N1937-N* as of December 24, 2003).

2.1.3.5. **(A4)** Cases of non-submission of works handover-acceptance acts were registered (Clause 5.2 of the contract signed between the WC and WUAs).

2.1.3.6. **(A4++)** Inaccurate presentation of work performance periods in the handover-acceptance acts (Notes of the current month instead of the previous ones), cases of accepting applications with deficiencies, transferring the full amount of subsidy based on them, non-submission of reports on their spending within a month were recorded (3rd and 5th clauses of the *N1-A* contract signed on January 22, 2020 between the Water Committee and «JRAR» CJSC ).

2.1.3.7. **(A4++)** Cases of non-compliance with the requirement of 30% advance payment to WUAs for material expenditure for spring preparatory works were registered (facts of less payment in the amount of 46,351.0 thousand AMD were registered in 10 cases, and 2 cases of overpayment in the amount of 17,315.4 thousand AMD). (Clause 1.1.1 of the contracts signed for the distribution of the allocated subsidy amounts).

2.1.3.8. **(A3)** The Water Committee did not ensure the implementation of the functions of discussing the amount of financial assistance provided to WUAs and the effectiveness of their use reserved to the WUA Regulatory Coordinating Council. (4th sub-item of the 7th point of the 2nd Appendix of the RA Government Decree *N 1678-N* as of October 17, 2002).

*Note:* The activity of the "Water Economy Program Implementation Office" state institution was terminated by the RA Government Decree *N 170-N* as of February 28.2019. Pending the entry into force of the above-mentioned Decree, the functions provided for in the credit and grant agreements financed by the World Bank and other

international organizations, which are still in force, continued to be carried out by the Territorial Development Fund of Armenia. As a result, although the executor of a number of projects is Water Committee, they are in fact implemented by the Fund. There is a need to clarify the scope of powers of the Water Committee and the Fund, in order to overcome the limitations arising for the implementation of the audit.

## **Transport**

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*Facts recorded during the audit in the RA Ministry of Territorial Administration and Infrastructure (RA MTAI)*

2.1.3.9. **(A1++)** It was registered that out of the highways of interstate significance. a) 387 km are the roads of republican/national significance, for the maintenance of which performances of 385,478.30 thousand AMD have been calculated and the prices of performances for their maintenance exceed by 93,859.00 thousand AMD the prices offered by the companies for the roads of the republican/national significance. b) 167.8 km are roads of local significance, the prices of which performances are calculated by exceeding the prices of local roads by 82,938.2 thousand AMD, c) 30.5 km are mid-field roads for the maintenance of which 17,337.20 thousand AMD was paid and maintenance works are not envisaged by the RA legislation and they are not carried out.

2.1.3.10. **(A1)** It was registered that out of the roads of republican/national significance a) 569.3 km are the roads of marz/regional significance, for the maintenance of which 692,041.0 thousand AMD was calculated by performances, b) 58.7 km are mid-field roads for the maintenance of which of 44,476.80 was calculated by performances while maintenance works are not envisaged by the RA legislation, c) 7.6 km is a street of a town, for the maintenance of which 9,807.7 thousand AMD has been calculated by performances.

*(Inconsistencies between the classification of some roads by purpose in the list of RA state roads of general use according to requirements of Article 3, parts 6-9 of the RA Law "On Motor Roads" and defined by the RA Government Decree N265-N as of February 13, 2014).*

2.1.3.11. **(A1)** H38, H30-Ttujur-Navur-H36 40.1 km road group, without major repairs or reconstruction in that section, was upgraded from "bad" to "satisfactory", payments continued to be made at higher prices with "sufficient maintenance level", The difference of which comprised 25,657.68 thousand AMD (11th point of the Appendix to the RA Government Decree N1419-N as of November 04, 2010).

2.1.3.12. **(A3+)** The current repair and winter maintenance works of the part of the pavement of the sections of the RA interstate-republican roads of general use in the territories of Gyumri, Vanadzor and Vagharshapat towns were not included in contracts of

2020 winter and current maintenance works and the maintenance of those road sections was carried out by the communities. Meanwhile, according to the RA legislation, these works are carried out by RA MTAI (Part 2 of the 4th point of the RA Government Decree N265-N as of February 13, 2014).

2.1.3.13. **(A3)** It was registered that works in the amount of 893,189.25 thousand AMD for construction of 5 cm thick asphalt concrete layer of 117,696 square meters was included in the contract. While Construction Norms of the Republic of Armenia (RACN) stipulate that the height of the constructive layer of the road surface, a layer of coarse-grained asphalt concrete, should be determined by calculation, but not less than 6 cm. (8.14<sup>th</sup> point of RACN IV-11. as of 05.02-99 and Table 31) .

## **Education**

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*Facts recorded during the audit in the RA Ministry of Education, Science, Culture and Sport (RA MoESCS)*

2.1.3.14. **(A1++)** 1146-12003 According to RA MoESCS calculations the annual funding for 28,827 students of 101 schools in 2020 within the framework of the measure of “Secondary General Education” comprised 8,476,580.3 thousand AMD, According to while the recalculation carried out by the Audit Chamber in accordance with the formula envisaged by the RA legislation, the financing should have amounted to 5,994,043.2 thousand AMD or less in amount of 2,482,537.7 thousand AMD. The deviation was mainly due to the incorrect application of the defined coefficients (in Sg 2: the coefficients 1.2 and 1.6653 were used jointly), as well as the ambiguity of the definitions of the concepts "High Schools" and "Separately Operating High Schools". And for 709 students out of 8 schools in 2020 the annual financing was 203,817.2 thousand AMD, and according to the calculations of the Audit Chamber - 242,065.2 thousand AMD or there was underfunding in the amount of 38,248.0 thousand AMD.

2.1.3.15. **(A3+)** The amount of annual financing of "Artashat High School" SNCO was calculated at 84,730.7 thousand AMD and according to the calculations of the Audit Chamber, it should have amounted to 52,053.2 thousand Drams, the difference is 32,677.5 thousand drams. AMD. In the financing calculations of "Artashat High School" SNCO RA MoESCS used the coefficient set for highland settlements.

2.1.3.16. **(A3+)** "Yerevan N57 Basic School" and "Yerevan N92 School after V. Tekeyan" SNCOs do not have the levels of high school but with the number of students, and financing they are included within the framework of the measure of “Secondary General Education”. ( RA Government Decree N1262-N as of August 24, 2006, RA ESCS Minister’s order N73-A/2 as of January 31, 2020)

### ***Labor relations***

2.1.3.17. **(A2++)** It was recorded that after the vacancy of the civil service position in the Ministry of Economy, no competition was announced within the period provided by the RA legislation (within 3 months). According to the approved list of the Ministry of Economy as of January 08, 2020 446 posts were envisaged of which 75 were vacant, 61 remained vacant as of December 01, 2020. The number of posts had reached 449, of which 95 were vacant as of December 01, 2020. Moreover, 9 employees were hired under supernumerary contracts in case, when there were vacancies in the same positions. (RA Law “On Civil Service” Part 1 of Article 10).

2.1.3.18. **(A2++)** A case of non-compliance with the requirement of the RA legislation has been registered that the salary is calculated each month and is paid to the employee at least once a month on working days until the 15th of the following month. The staff list of Viticulture and Winemaking Fund of Armenia for 2020 was formed on February 26, 2020, and before that the employees worked according to the previously created staff list, but were not paid. Instead, employees received the salary of January-March, 2020 in April, 2020 (RA Labor Code, Part 1 of Article 192).

2.1.3.19. **(A2)** According to the RA legislation, from the saved means of the salary fund a civil servant is rewarded at an official rate of up to one month for performing special tasks (or) quality work. It was recorded that during the awarding of means saved from the salary fund by the Office of the Prime Minister, the amount of remuneration for some employees encouraged for conscientious work exceeded the one-month official rate by the Prime Minister’s Decree of N1428-A as of December 25, 2020. (RA Law “On Remuneration of Persons Holding the State Positions and Positions of Public Service” Article 22).

2.1.3.20. **(A3)** A case of non-compliance with the requirement not to exceed the maximum number of expert involvement of 5% of the total number of body posts by state bodies for the implementation of certain tasks by state bodies was registered during the audit in the Ministry of Emergency Situations. (4th point of the RA Government Decree N878-N as of August 2, 2016)

2.1.3.21. **(A3++)** A case of defining higher official rates than planned for the experts involved by the state bodies for the implementation of certain tasks was registered during the audit in the Ministry of Emergency Situations. (3rd point of the RA Government Decree N878-N as of August 2, 2016)



2.1.3.22. **(A3)** A case of registration of special service conditions and non-approval of documentation procedure by the head of the body required by the legislation of the Republic of Armenia was registered during the audit in the Ministry of Emergency Situations. (the RA Government Decree N1278-N as of September 26, 2019, 3<sup>rd</sup> subpoint of 3<sup>rd</sup> point)

2.1.3.23. **(A2++)** Reward cases (up to 200%) higher than the amount set for the employee for quality work (up to one month official rate) were registered during the audit in the Ministry of Emergency Situations. (RA Law “On Remuneration of Persons Holding the State Positions and Positions of Public Service” 9<sup>th</sup> and 10<sup>th</sup> parts of Article 22).

2.1.3.24. **(A3++)** The list of staff with 75 staff units approved by the order (N509-A as of May 29, 2019) of the Minister of Emergency Situations operated in 2020. Changes were made in the staff list and 57 staff units are envisaged according to the the order (N723-A as of June 24, 2020) of the Minister of Emergency Situations . It was recorded that 36 employees actually worked until June 24, 2020, and then 22 employees in the Crisis Management Center of the Ministry of Emergency Situations, for which there was no any order on business trip or staff transfer or any other legal basis. Until June 24, 2020, the SNCO actually had 125 employees, and in the next 6 months - 110 employees. As a result, during 2020, the SNCO had an average of 52 posts more than planned by the staff list. (the RA Government Decree N2334-N as of December 29, 2005)

2.1.3.25. **(A3+)** Cases of providing the uniforms to the employee of the Ministry of Emergency Situations several months later than the deadline, were registered. (the RA Government Decrees N979-N and N 668-L as of August 10, 2017 and April 30, 2020 respectively)

2.1.3.26. **(A3)** During the year the Ministry of Health had from 190 up to 200 staff units instead of 180 as defined, annual average 196.75 or in 16.75 more staff units than it defined. (the RA Government Decree N155-A as of February 06, 2020, Annex 1 to the RA Government Decree N706-A as of June 11, 2018):

2.1.3.27. **(A2)** The Ministry of Emergency Situations, not complying with the requirement of Article 48 of the RA Law “On Rescue Service” and being guided by the RA Law “On Remuneration of Persons Holding the State Positions and Positions of Public Service”, did not remunerate rescue workers for night hours.

## **Procurement**

2.1.3.28. **(A2++)** As a result of the audits carried out in the RA Ministry of Economy (RA MoE), RA Ministry of Education, Science, Culture and Sport (RA MoESCS)



and in the Committee of Science (CS), cases of non-announcement of procurement of services envisaged by the annual procurement plan, not concluding a contract, continuing to use services based on contracts concluded in previous years, bypassing the procurement legislation, concluding civil contracts without a tender were registered. (RA Law "On Procurement" Article 2, "c" subpoint of point 1, 3 and 4 points)

2.1.3.29. **(A4+)** Cases of unilateral termination of procurement contracts and not charging money for ensuring contract/qualification in the amount of 11 million AMD were recorded. (Contract (code ՀՀՈ ԳՀԾՁԲ-ՇԵՆԲ-2020/Ս-36) signed between RA Police and "Greggreston" Ltd, the RA Government Decree N526-N as of May 04, 2017)

2.1.3.30. **(A4++)** Cases of not delivering the goods within the timeframe specified in the procurement contract, and in those cases non-collection of fines in the amount of 669.0 thousand AMD were recorded. (Contract (codes ՀՀՈ ԳՀՍՊՁԲ-2020-ՈՍ/ՀՍՆԴԵՐՁՍՆԲ-31-1 and ՀՀՈ ԳՀՍՊՁԲ-2020-ՈՍ/ՀՍՆԴԵՐՁՍՆԲ-32-1) signed between RA Police and "Pahapan" Ltd on December 21, 2020)

2.1.3.31. **(A3)** During the audit carried out in the Ministry of Economy the case of setting the prepayment amount by 50% by the contract was registered in the case when, according to the RA legislation, it could not exceed 25% of the price offered by the selected participant/bidder. (the RA Government Decree N526-N as of May 04, 2017, 5<sup>th</sup> subpoint of point 32)

2.1.3.32. **(A2)** During the audit carried out in the Ministry of Economy the case of non-compliance with the requirements of the RA legislation was registered that in case the contract provides for advance payment by the customer/buyer, the selected participant/bidder shall provide the customer/buyer with an advance payment, in the amount of the prepayment, in the form of a bank guarantee. (RA Law "On Procurement" 3<sup>rd</sup> part of Article 35)

2.1.3.33. **(A3)** During the audit carried out in the Ministry of Economy it was recorded that in case not provided for by the RA legislation, the condition of advance payment condition is defined by the contract. (the RA Government Decree N526-N as of May 04, 2017, 6<sup>th</sup> subpoint of point 56)

2.1.3.34. **(A3)** During the audit carried out in the Ministry of Economy the case was recorded when the purchase request did not include the possibility of prepayment - the maximum amount, and the invitation - the provision of prepayment - its maximum amount. (the RA Government Decree N526-N as of May 04, 2017, paragraph "g" of 1<sup>st</sup> subpoint of point 21)

2.1.3.35. **(A2++)** In the results of the audits carried out in the RA Ministry of Education, Science, Culture and Sport (RA MoESCS) and in the Committee of Science (CS) there were cases when before signing the contract the customer did not publish an

announcement on the decision to sign a contract or published it later than the set deadline.(before the first working day following the decision on the selected participant) *(RA Law "On Procurement" 1<sup>st</sup> part of Article 10)*

2.1.3.36. **(A2++)** In the results of the audits carried out in *the* RA Ministry of Education, Science, Culture and Sport (RA MoESCS), in the Committee of Science (CS) and in the Social Security Service there were cases when the customer did not publish an announcement on the decision to sign a contract or published it later than the set deadline.(first working day after signing the contract) *(RA Law "On Procurement" 1<sup>st</sup> part of Article 11)*

2.1.3.37. **(A2++)** In the results of the audits carried out in the RA Ministry of Education, Science, Culture and Sport (RA MoESCS) cases were recorded when the customer did not comply with the requirement to ensure the preservation of electronic documents on the basis of the actions performed for the purpose of procurement. *(RA Law "On Procurement" 3<sup>rd</sup> part of Article 9)*

2.1.3.38. **(A2+)** In the results of the audits carried out in the Committee of Science (CS) and in the Ministry of Emergency Situations there were cases when no tendering procedures were organized in the procurement process, the contract delivery-acceptance function was not organized through the electronic system; the electronic procurement system did not have the conclusions approved by the responsible department by electronic signature; and records on delivery-acceptance. *(RA Law "On Procurement" Article 22, 4th part of Article 23) (the RA Government Decree N526-N as of May 04, 2017)*

2.1.3.39. **(A3++)** In the results of the audits carried out in the the MES cases of non-implementation of the defined actions related to the acceptance of the result of the contract implementation in the case of electronic procurement through the electronic procurement system were recorded. *(the RA Government Decree N526-N as of May 04, 2017, point 110)*

2.1.3.40. **(A3++)** In the results of the audits carried out in the RA Ministry of Education, Science, Culture and Sport (RA MoESCS) cases of non-compliance with the requirements of the RA legislation were recorded when the Secretary in case of organizing the [one-person procurement] procedure on paper (within two working days following the date of approval of the texts of the procurement notice, invitation or pre-qualification announcement) sends the invitation electronically to the possible participant (participants) of the given procurement procedure. *(the RA Government Decree N526-N as of May 04, 2017, 2nd subpoint of point 34)*

2.1.3.41. **(A2, A3)** For procurement of the vaccine for the prevention of "COVID-19" epidemic in the Republic of Armenia, in the amount of 890.0 thousand AMD was

spent at the expense of budget funds, which was not accrued as actual expenses by the Ministry of Health in the reporting period. The expenditure made to obtain the required number of vaccines was registered as an advance payment in 2021. As a result, the procurement was carried out at the expense of the state budget, not complying with the requirements of the relevant legislative-by-laws regulating the sphere of the RA Law “On Procurement”.

### **Grants**

2.1.3.42. **(A3++)** It was reported that the RA MoESCS signed grant agreements with federations within the framework of the event "Training of Athletes to Ensure Participation in RA Championships, International Events and Holding Championships" without the prescribed procedure required tenders. *(the RA Government Decree N1937-N as of December 24, 2003, 3<sup>rd</sup> paragraph of Annex)*

2.1.3.43. **(A4++)** It was registered that the RA MoESCS did not carry out monitoring in the federations in the prescribed manner and did not control the procurement process according to the signed contracts *(Clause 2.4.7 of the grant agreements concluded between the federations of RA MoESCS)*.

2.1.3.44. **(A4)** A case of non-fulfillment of the obligation to monitor the implementation of the program (of separate events) envisaged by the grant agreement was registered (Agreement “On the Use of Financial Support Amounts Provided by the Grant” signed between the Prime Minister's Office and "Public Relations & Information Center" SNCO on January 8, 2020, *Clause 2.3.1 of the grant agreement*)

2.1.3.45. **(A4+)** Cases of non-fulfillment of the following requirements stipulated in the grant agreement have been registered: a) in case of submitting an application for the following month after the approval of the report for each month, the project implementation office shall make a prepayment payment for the following month within 5 working days; b) Payments for each month are deducted in respect of the previous month's unacceptable expenses or unused amount *(Clauses 3.6 and 3.8 of the grant agreements concluded between Prime Minister's Office and “Enterprise Incubator Fund”, “Investment Support Center Fund”, “State Interest Fund of Armenia” CJSC)*

### **Managerial Relations**

#### *Facts recorded during the audit in the RA Ministry of Emergency Situations*

2.1.3.46. **(A3)** According to the charter requirement, the meetings of the board of “National Center for Technical Security” SNCO (hereinafter referred to as the SNCO) will be convened at least four times a year. However, it was noted that the board did not

actually exist, there was no protocol on convening meetings by the board, as a result of which the board did not actually perform the functions and powers assigned to it by the charter, including current control over the activities of the director, as well as defining profit management directions and approval of internal documents regulating the activities of the SNCO, the annual balance sheet of the director and SNCO were not discussed and approved, the structure of SNCO, the charters of subdivisions and etc. were not approved. *(the RA Government Decree N2334-N as of December 29, 2005, points 18 and 26)*

2.1.3.47. **(A3)** *According to the charter requirement, the head of the executive body of the SNCO is the director, whose functions are to approve the structure of the SNCO and the charters of structural subdivisions. It was noted that the structure of the SNCO had not approved, none of the operating structural subdivisions had an approved charter, therefore clear the definition of the functions, the legal basis of separation of rights and responsibilities performed by the subdivisions were absent. (the RA Government Decree N2334-N as of December 29, 2005, point 34)*

#### **Other**

2.1.3.48. **(A3)** As a result of the audits carried out in the Committee of Science (CS), a case of implementation of inter-article and inter-quarterly redistribution with propotions was registered within the competence of the executive agency without notifying the Ministry of Finance in the prescribed manner. (Annex 12, point 5 to the RA Government Decree N1919-N as of December 26, 2019).

2.1.3.49. **(A4)** In the Ministry of Economy no subdivision was authorized to implement monitoring of the interest rate subsidy program provided for neutralizing the economic consequences of the coronavirus, no monitoring procedure has been approved, no monitoring has been carried out. (Clause 6.1 of the agreement concluded between the financial institutions of the Ministry of Economy).

2.1.3.50. **(A4)** A case of non-monitoring was registered in order to assess the compliance with the preliminary, current and final results of the project implementation required by the contract. (Clause 3 of the contract concluded between the Ministry of Economy and the Viticulture and Winemaking Fund of Armenia)

2.1.3.51. **(A2++)** According to the legislation of the Republic of Armenia, a person operating a particularly dangerous production facility during the entire period of his activity, due to the fact that the work he performs is the most dangerous source of activity, is obliged to insure liability risks. The list of particularly dangerous production facilities subject to the defined compulsory insurance is defined by the Government of the Republic of Armenia. It was recorded that the mentioned list has not been defined by

the RA Government so far, and the organizations have carried out their activities without carrying out compulsory insurance. (*Article 20 of the RA Law “On State Regulation of Technical Security”*)

2.1.3.52. **(A3++)** The relations connected to the involvement of experts by the Ministry of Health were carried out without complying with the following requirements of the RA legislation: (a) The Secretary-General has not submitted the below mentioned to the Minister for his approval: the work program carried out by the experts, which includes the case of involving an expert and justifications, the period of implementation of the works, the expected result, the deadlines for submitting reports, the criteria for the evaluation of the works, the deadlines for summarizing the results of the evaluation of the works and the requirements for the expert to perform those works. The Secretary General did not publish an announcement on the official website of the Ministry, which should include a brief description of the work envisaged by the program, the period of engagement of the expert, the responsibilities of the expert, the requirements for the expert, etc. in order to engage an expert; b) In case of a rapid increase in the volume of implementation of a specific function arising from the charter tasks of the state body, an expert is involved for the period of up to one year. 4 experts were involved by the Ministry of Health for the period of June-December in 2019, who had still worked until April 09, 2021. (*the RA Government Decree N878-N as of August 02, 2018*)

2.1.3.53. **(A4+)** The fact of absence of customs declarations was registered by the Prime Minister's Office during the audit of the following measures implementation: "11007 Coronavirus Infection (COVID-19) Diagnostic Measures in the Republic of Armenia" and 31001 "Acquisition of medical devices for the prevention, control and treatment of coronavirus infection (COVID-19) in the Republic of Armenia" measures of "1003 Public Health Care" program. (Eurasian Economic Union Customs Code, sub-point 1 of the point 2 of Article 84, , point 1 of Article 104)

## 2.2. Information on Discovered Distortions

### 2.2.1. Information Presentation Format of Discovered Distortions

The Audit Chamber provides summary information on the detected distortions in Section 2.2.2 of this Conclusion report. Key distortions in the level of state budget execution are presented in the "Key Accounting Issues" section of the independent audit opinion. Section 2.2.3 of this Conclusion report provides information on significant distortions (exceeding the minimum threshold for conditional distortions) at the level of a separate executing body. It is not our intention to rewrite the complete and detailed information on the distortions found in this Conclusion, as it is contained in the current conclusions of the annual performance reports for three, six, nine months of the state budget execution for 2020, which are published in the "Current Conclusions" section of the official website of the Audit Chamber ([www.armsai.am](http://www.armsai.am)) (with the exception of current conclusions containing confidentiality prescribed by law).

### 2.2.2. Summary Information

As a result of 2020 state budget execution audits carried out in 17 state budget executing bodies 42 distortions were recorded and were available in 5 bodies as of December 31, 2020. The total amount of distortions amounted 801,223.53 thousand AMD or 0.05% of the actual annual expenditure of the audited bodies.

*Table 4. Summary Information on Distortions*



N	Name of the Executing Body	Actual Annual Expense in the Audited Bodies for 2020 (thousand AMD)	Distortions		
			Share to Actual Expenditure (%)	Quantity	Amount (thousand AMD)
1	RA Ministry of Emergency Situations (RA MES)	14,710,268.08	2.57	20	377,770.77
2	RA Ministry of Economy (RA MoE)	24,668,045.72	1.29	6	317,051.57
3	RA Ministry of Health (RA MoH)	139,814,889.14	0.06	9	87,351.78
4	RA Ministry of Territorial Administration and Infrastructure (RA MTAI)	98,227,049.05	0.02	4	18,963.00
5	Social Security Service of the RA Ministry of Labor and Social Affairs	425,078,271.73	0.00	3	86.40
TOTAL		1,711,556,936.03	0.05	42	801,223.53

### 2.2.3. Significant Distortions Performed Separately at the Level of Executing Body

**2.3.2.1. The article "Transport materials" (4264) of the measure "Rescue Services" 1090-11001 carried out by the RA Ministry of Emergency Situations was distorted in the amount of 38,157.80 thousand AMD.**

The actual expenditure for 2020 on the article "Transport materials" of the Rescue Service comprised 180,515.9 thousand AMD, however, according to the data exported from the AS program, the actual expenditure comprised 218,673.7 thousand AMD (the actual expenditure of fuel comprised 189,462.0 thousand AMD, and expenditure for spare parts and oils comprised 29,211.7 thousand AMD, the difference made 38,157.8 thousand AMD).

**2.3.2.2. The article "Current grants to state - community non-commercial organizations" (4637) of the measure 1028-11001 "Technical Security Regulation Services» carried out by the RA Ministry of Emergency Situations was distorted in the amount of 31,974 thousand AMD.** According to the budget approved by the "National Center for Technical Security" SNCO, no surcharges, bonuses were defined, although according to the director's order N355-A as of December 28, 2020 the employees were paid in the amount of 17,218.0 thousand AMD surcharge and in the amount of 14,756.0 thousand AMD bonus.

**2.3.2.3. In the framework of the measure 1116-11003 "Laboratory diagnosis measures of agricultural animal diseases and laboratory examination of raw**

**materials of animal origin and material" carried out by the Ministry of Economy of the Republic of Armenia, distortion was registered in the amount of 29,883.44 thousand AMD.**

In the framework of this measure, the reliability of the reports submitted by the regional bodies on the distribution, use and residues of the Rose-Bengal antigen recorded that the difference between the residual antigen available in the system and residues submitted by the report comprised 85 1.855 ml (excess) as of December 31 2020. The latter leads to an underestimation of the total number of expertises, as the contraceptive had to be used in the prescribed amount during each expertise. The number of under-performed expertises was determined by the ratio of the average number of contraceptives used in the expertises of excess antigen and large and small cattle, which comprised 92,751 pieces. Taking into account that the average cost of one expertise is 322.19 drams, the Audit Chamber registered that the amount paid for the expertise was distorted by the amount of 29,883.44 thousand AMD.



### 2.3. Information on Recommendations

As a result of audits of the state budget,

As a result of annual, three-, six- and nine-month annual performance audits of 2020 RA state budget execution 48 recommendations/proposals were submitted to 11 executive bodies, which are published in the relevant current conclusions presented in the "Current Conclusions" section of the official website of the Audit Chamber ([www.armsai.am](http://www.armsai.am)).

All the submitted recommendations/proposals are recommendations/proposals relate to separate bodies, which are not rewritten in given conclusion.

*Table 5. Summary Information on Recommendations*

<b><i>Name of the Body</i></b>	<b><i>Number of Recommendations</i></b>
1 Committee of Science	9
2 RA National Security Services	1
3 Social Security Service of the RA Ministry of Labor and Social Affairs	1
4 RA Ministry of Labor and Social Affairs	5
5 RA Ministry of Foreign Affairs (confidential)	3
6 RA Ministry of Economy	7
7 RA Ministry of Education, Science, Culture and Sport	8
8 RA Police	1
9 Office of RA Prime Minister	4
10 Water Committee of the RA Ministry of Territorial Administration and Infrastructure	7
11 RA Ministry of Territorial Administration and Infrastructure	2
<b>TOTAL</b>	<b>48</b>



## THE AUDIT CHAMBER OF THE REPUBLIC OF ARMENIA

### 3. INDEPENDENT AUDIT OPINION

#### on the Execution of the State Budget

To the National Assembly of the Republic of Armenia

#### *Conclusion on RA State Budget Execution Audits for 2020*

##### ***Opinion***

We have audited the execution of requirements for financial documents maintaining of RA 2020 state budget funds and the reliability of the resulting reports (hereinafter referred to as the financial statements). The financial statements include Reports “On Budget Expenditures and Budget Debts Made by the Institution” and “On revenue Collection by the State Institution” for the period of January 01, 2020 up to December 31, 2020.

In our opinion, the financial statements fairly present in all respects the regulated activities of the implementation of state budget revenues and expenditures for 2020. According to that, the Audit Chamber of the Republic of Armenia expresses a positive conclusion on the execution of the state budget for 2020.

##### ***Basis for Opinion***

We conducted our audit in accordance with RA Law “On Audit Chamber” hereinafter referred to as the Law), with the methodologies, guidelines and other documents approved by the Audit Chamber and developed on the basis of international standards of higher audit bodies. Our liability arising from these legal acts is further described in the "Accountability of the Audit Chamber" section of this report. In exercising its powers, the Audit Chamber shall be independent of the bodies and organizations subject to accountability in accordance with the Constitution of the Republic of Armenia and the Law. During the audits, we complied with the ethical requirements in accordance with the "Guidelines for the Activities of the Members of the Audit Chamber in accordance with International Legal Practice" approved by the Audit Chamber and the "Rules of Ethics for Internal Accountants". We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### ***Key Issues of Auditing***

The key issues of the audit are the issues that, according to our professional judgment, were the most significant during the financial audits of the 2020 RA state budget execution.

These issues were considered in the context of financial statements as a whole, in order to form an opinion on the implementation of the 2020 RA state budget. We do not provide a separate opinion on these issues.

### *Interest Payments<sup>7</sup>*

The articles of 86.9 billion AMD of internal interest payments (441000) and 77.9 billion AMD of foreign interest payments (442000) of the RA state budget have been distorted due to not separating 29.2 billion AMD of interest on foreign bonds into internal and external interest payments, including them entirely in the article of foreign interest. According to Article 14, Part 1, Clause 1 of the RA Law “On State Debt” the bonds issued in foreign currency acquired by residents are a source of domestic state debt, and According to the Annex 16 of the Order N5 of RA Minister of Finance and Economy as of January 09, 2007, the internal interest payments are all interest payments that have been paid or accrued to internal sources. Accordingly, the foreign currency government bonds acquired by residents are a source of financing the domestic public debt according to the legislation of the Republic of Armenia and the interest payments paid for their service must be recorded as internal interest payments.

### *Remuneration for work*

The article "Remuneration of the RA state budget (410000)" was distorted in the amount of 651 million drams, which were the main distortions of the four groups forming.

a) The article of "Employee Wages & Bonuses" (411100) of the measure of "Development of state policy in the field of economy, coordination of programs - monitoring" 1058-11001 was distorted due to the inclusion of remuneration expenses in the amount of 261.8 million AMD in salaries and bonuses. b) the article "Remuneration for work " (4111) of the measure of "Rescue Services" 1090-11001 was distorted in the amount of 234.9 million AMD, which are not rescue workers according to the RA Law “On Rescue Service”, due to remuneration of employees based on the official rate coefficient set for rescue workers, c) The Article of "Remuneration of work "(4111, 4112, 4113) of the measure of "Development of State Policy in the Field of Healthcare, Coordinating of Programs and Monitoring" 1126-11001 was distorted by paying premiums in the amount of 73.7 million AMD to a number of employees in the conditions of not foreseeing means of premiums for employees, as well as due to the incorrect determination of the official rate coefficients of a number of employees due to paying them 9.4 million AMD more. d) The Article of "Remuneration" (4111) of the measure of "Rescue Services" 1090-11001 was distorted in the amount of 44.8 million AMD stipulated by the paying premiums to employees in the conditions of not mentioning about remuneration of the employees of

<sup>7</sup> The given issue has existed since 2014 and the Audit Chamber addressed it in its conclusions of previous years and proposed to eliminate the distortion.

the ministry in the order N 1032 of RA Minister of Emergency Situations as of September 03, 2020:

### ***Other Information Than Financial Statements***

The management is responsible for the presentation of information other than the financial statements in the reports on the execution of the state budget of the Republic of Armenia according to the order N 254-N of RA Minister of Finance dated on March 13, 2019. Other information included the analysis of the macroeconomic situation of the Republic of Armenia, state budget revenues, expenditures and deficit for the reporting period and also information on the main directions of socio-economic policy, in particular, fiscal policy, as well as information other than financial statements.

Our opinion on the financial statements does not apply to any other information and we will not provide any assurance about that information.

Our responsibility related to financial statements is to review other information to consider other information, whether it is significantly inconsistent with the financial statements or the information we obtain during the audit or may otherwise be significantly distorted.

If, based on the work we have done, we conclude that other information is significantly distorted, we are obliged to inform about that fact. As presented below, we conclude that there is a significant distortion like other information.

#### *Number of Pensioners*

In the framework of the 1102-12003 "Employment Pensions" measure, the outcome criterion of "Number of pensioners, person" was distorted by 37,548 beneficiaries. According to the report, an employment pension was actually paid to 440,945 beneficiaries during in 2020, while it was recorded through auditing an employment pension was paid to 478,493 beneficiaries during the reporting period (the number of beneficiaries is not specified in terms of returns).

### ***Highlighting the circumstance - Long-term fiscal stability***

We draw your attention to the analytical part of the report on the execution of the 2020 RA state budget, where it is mentioned that: "Considering an exceptional case of the situation caused by the epidemic and the Artsakh war, the budget deficit was greater than the capital expenditures, and the growth of the current primary expenditures exceeded the average growth rate of the nominal GDP of the previous 7 years. The debt / GDP ratio of the Government of the Republic of Armenia comprised 63.5%', increasing by 13.6% as compared to the previous year, exceeding the 60% threshold set by the fiscal rules".

In such conditions, the Government of the Republic of Armenia has a legal obligation to develop a program of measures to reduce the debt / GDP ratio of the Government of the Republic of Armenia from 60% in the next 5 years. Our opinion has not changed on this circumstance.

### ***Other circumstances***

According to Part 1 of Article 27 of the Law, the conclusion is presented for the first time! In previous years, the conclusions were prepared on the basis of analytical procedures.

### ***Responsibility of People in the Circles of Leadership and Management***

According to the RA Government Decree N706-N as of June 15, 2018, the implementation of the RA state budget and the Order of the RA Minister of Finance N254-N as of March 13, 2019 the leadership is responsible for the preparation of financial statements and true presentation and for internal control which, according to management, required due to the nature of the crime or the error to ensure the preparation of financial statements free of material misstatement.

People in management are responsible for overseeing the financial accountability process.

### ***Responsibility of the Audit Chamber***

Our goal is to obtain reasonable assurance that the financial statements are free from material misstatement in all respects, irrespective of the nature of the crime or their occurrence as a result of an error, submit a conclusion on the implementation of the state budget to the RA National Assembly in accordance with RA Constitution Part 3, Clause 2 of the Article 198 and Article 27 of the RA Law, which includes our opinion; as well as information on detected distortions (Section 2.2 of this conclusion).

Reasonable assurance is a high level of assurance, but it does not guarantee that an audit carried out in accordance with the law, methodologies, guidelines, and other documents developed in accordance with international standards of the Supreme Audit Institutions will always reveal material misstatement when it is available. Distortions can cause errors or, as a result of the nature of the offense, are considered significant when it can reasonably be expected that they, individually or in combination, will influence the users of the financial statements to make decisions based on those financial statements.

Throughout the audit, we use professional judgment and maintain professional skepticism.

We also:

Identify and assess the risks of material misstatement of the financial statements as a result of the nature of the alleged crime or error; we project and carry out auditing

procedures to respond to those risks; we obtain audit evidence that is a sufficiently relevant basis for our opinion.

The risk of not revealing material misstatement of facts as a result of a serious crime is higher than the risk of not revealing material misstatement as a result of an error, since the characteristics of an apparent offence may be a breach of a criminal agreement, falsification, wilful omission, misleading or abuse of the internal control system.

- If during the investigation we come to the conclusion that the committed act contains the features of a material crime, the relevant materials by the decision of the Audit Chamber shall be sent to the RA General Prosecutor's Office immediately, but not later than within three days.
- We form an idea about the internal control related to the audit in order to design the accounting procedures in accordance with the given circumstances, and not to express an opinion on the effectiveness of the internal control of the object of the audit.
- Assess the overall presentation, structure and content of the financial statements, including disclosures, as well as the true presentation of the transactions and events underlying the financial statements.
- We do not give a qualify and do not make predictions about the consequences on the discrepancies or distortions we have identified.

Among other issues, we communicate the audit task to the people in the management circles, as well as significant issues identified during the audit; including significant deficiencies related to internal control, giving the latter an opportunity to present objections or explanations.

From the communication issues of the people in the management circles, we determine the issues that were considered to be the most significant during the current accounting period and are therefore key accounting issues. We describe these issues in the Conclusion, if the public disclosure of the given issue is not prohibited by legislation or legal acts.

*Conclusion on compliance with other legislative and legal requirements*

### ***Responsibility of People in the Circles of Leadership and Management***

The management is responsible for carrying out financial and economic activities in accordance with the legal acts, as well as the criteria and requirements set by other transactions concluded within the framework of civil law relations.

### ***Responsibility of the Audit Chamber***

It is our responsibility to provide information on the discrepancies found in the conclusion of the state budget execution. In the conclusion on the execution of the state budget, we use the results of conformity audits, which assume to determine the

conformity of the financial and economic activity of the audited object to the legal acts, as well as to the criteria and requirements set by other transactions concluded within the framework of civil law relations. We do not audit the compliance of the financial and economic activities of the audited entities to all legal acts, as well as to the standards and requirements set by all other transactions concluded within the framework of civil law relations.

It is not our intention to provide an opinion on the compliance of the financial and economic activities of the auditing entities with the legal acts, as well as with the standards and requirements set by other transactions concluded within the framework of civil law relations.

Issues related to compliance audits presented in the section "Responsibility of the Audit Chamber" of the conclusion on financial audits of 2020 RA state budget execution are in the framework of our responsibility.

### ***Key Discrepances***

The key discrepancies are those discrepancies that were most significant, according to our professional judgment during the compliance audits of 2020 RA state budget execution .

- *The financing of Schools*

As a result of unsuccessful planning of the financing of 109 schools within the framework of the 1146-12003 "Secondary General Education" measure in accordance with the formula envisaged by the RA legislation, deviations in the amount of 2.52 billion AMD were registered (point 2.1.3.14 of the given Conclusion).

- *Maintenance of Highways*

*A number of highways of the Republic of Armenia have been registered as a result of classifying the road group as non-compliant with the requirements of the legislation of the Republic of Armenia as well as cases of allocation of at least 274.1 million drams more than the established amount for the maintenance of those roads as a result of raising the road group for reasons not provided by the RA legislation (points 2.1.3.9 and 2.1.3.10 u 2.1.3.11 of the given Conclusion).*

- *Subsidy*

*Cases of non-targeted use of subsidy funds provided from the state budget have been registered (point 2.1.3.1 of the given Conclusion).*

*Information on the discrepancies found is provided in Section 2.1 of the given Conclusion.*



The member of the Audit Chamber, who coordinates the activities of each structural subdivision conducting the audit, carries responsibility to the Audit Chamber for the outcomes of the activities of the structural subdivisions conducting the audit state budget execution.

May 27, 2021

Levon Yolyan

Chairman of RA Audit Chamber

RA Audit Chamber  
19 Baghramyan, Yerevan, The Republic of Armenia