

An abstract graphic on the left side of the cover features a network of light blue circles of varying sizes connected by thin, light blue lines. The circles are arranged in a way that suggests a flow or a hierarchy, with some circles acting as central nodes and others as peripheral points. The lines connect these nodes in a complex, non-linear fashion, creating a sense of interconnectedness.

ASSESSMENT OF EXTERNAL ACCOUNTABILITY MECHANISMS BASED ON THE EXAMPLE OF THE PUBLIC EDUCATION BUDGETARY PROGRAM

REPORT

YEREVAN 2023



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The content of this report is solely the responsibility of the Transparency International Anticorruption Center and does not necessarily reflect the views of the European Union.

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EXECUTIVE SUMMARY

Accountability of institutions is crucial for the transparency, good governance and public trust towards state institutions in any democratic country. Accountability matters especially in areas that are fundamental for the development of the state, have strategic importance and take up a significant share in state expenditures. One such sector is public education.

This report on assessment of accountability in the sector of public education in the Republic of Armenia was developed by Transparency Armenia Anticorruption Center (NGO) in the framework of the EU-funded Strengthening Accountability Networks among Civil Society (SANCUS) project.

The aim of the study is to assess the accountability system of Armenia's public education sector based on external audit reports, to identify the main challenges of the accountability mechanisms and to outline pathways of improvement.

The study was conducted between July and October 2023 and covered the accountability processes around the budgetary program on "Public Education" from 2020 to 2022. The study covered the content of the program, its accountability mechanisms, the legal regulations on the state audit and pressing challenges therein, as well as the role of the Government of Armenia, the National Assembly (NA) and other institutions in ensuring accountability.

It analyzed the current audit reports of the Audit Chamber of the Republic of Armenia (AC), reviewed the applicable regulations and international practices and studied data collected through information inquiries.

The study uncovered a number of issues and regulatory gaps in the process of accountability, which significantly impact the accountability of the public education sector. The following is a synopsis of findings.

- The scope of the state audit poses a concern. The audits conducted by AC take into account the reports submitted by respective authorized entities acting as "implementers of programs," while the state budget of Armenia is written and approved by the Parliament with lines corresponding to "state entities in charge of its execution," which report to the Parliament on the execution of the budget as entities in charge of public programs. To give a perspective, the Ministry of Education receives a budget for itself, for the schools and many other entities. With such approach, the AC's audit covers only the Ministry of Education, with audit findings and conclusions applicable to only some part of the respective budget. Moreover, the methodology of financial audit suggests that the auditable entities are selected not for the full scale of the expenditures, but only based on the principle of significance (materiality level), covering only expenditures that are deemed "significant". The same approach is applied in audits of bodies under other state structures (Yerevan Municipality, Marzpetarans (regional governance bodies of Armenia) and the Ministry of Defense).
- The non-financial (outcome) indicators of the state budget do not necessarily match the scope of funding. The specificities of the current system of program budgeting and those related to financing of the public education sector lead to the finding that the direct connection of these indicators with funding is often unfounded, whereas they

serve as a ground both for the financing of the program and for the evaluation of its effectiveness. It is important to highlight that the validity and integrity of outcome-based indicators are key to the proper functioning of the accountability system.

- There are no regulations mandating the AC to disclose "other information" or "other written information" sent along with its audit reports. This limits the possibility for the public to receive ample and adequate information on audits.
- AC does not carry out a follow-up with its reports, as such functions are not prescribed by law. Although AC's internal regulations do prescribe data-collection for follow-up purposes and opportunities for certain follow-up actions for the recurring audits, deficiencies in existing procedures result in incomplete follow-ups or no follow-up whatsoever.
- The current AC reports and the incompliances identified therein, the recommendations on rectifying flaws and other written information passed on by AC to the National Assembly are not followed up by the latter.
- Public awareness on current AC reports and audit results is quite low. Awareness-raising events such as round-tables with civil society organizations, press conferences and/or press statements are simply missing. This failure leads to diminished effectiveness of public oversight over institutions. In the meanwhile, the society treats audit reports not as policy improvement documents, but rather some activity which is completed. Such an attitude chills public demands for the executive bodies to carry out recommendations and reforms proposed by those audits.
- NA committees are not equipped with a clear methodology for determining which audits should be discussed by the committees. Within the current practice, individual committee members come forward with audit discussion motions at their own initiative after they have reviewed the reports. Lack of methodology for determining what needs to be put on the agenda of the committees may lead to situations when audit reports on critical matters for the state might be left without any discussion.
- NA committee discussions of AC audit reports are not followed up with further actions. Mechanisms of further oversight over what happens with the recommendations and concerns raised in these reports are simply missing. This significantly diminishes the effectiveness of the already few discussions held on them. Although the joint hearings of NA committees on AC audit reports are broadcasted and the public and mass media have an opportunity to become informed, the conclusions made at these hearings or any of the recommended actions are not taken record of and are not followed up.
- Unlike the National Assembly, there are no legal procedures at all set forward on what should happen after the AC current reports, as well as the identified incompliances, recommendations for rectification of flaws and other written information presented to the Government of Armenia. It is up to the staff of the Prime Minister to make decisions on actions for each single case. The Government is the supervising body over the audited entities and is in charge of the oversight. Hence, the lack of such oversight procedures escalates the risks that the proposed recommendations will not be implemented or the proposed improvements will be delayed. Also, it increases the likelihood that any possible oversight may be a matter of political arbitrariness.
- Lack of clear procedures in the government's toolkit restrain the possibility for the executive body (the Government or staff of Prime Minister) or the State Supervision Service under the Prime Minister to continuously monitor rectification of incompliances and flaws and implementation of recommendations found in the audit reports.

- In its planning and implementation of oversight reviews, the State Supervision Service does not take into consideration the programs, inspections (audits) and findings and conclusions of other bodies carrying out external audits (including the Audit Chamber and Education Inspection Body). The Service does not pursue a task to complement these inspections (audits) in order to come up with comprehensive and effective proposals of reforms.

Based on these key findings of the study, we propose the following recommendations.

Recommendations

To the Audit Chamber

- In its audits of the third, sixth and ninth months' performances and in the annual audit to cover, as the scope of audit, the audited entity's budget not simply as an "implementer of the budget, " but as an "entity in charge of execution of budgetary programs." This approach will allow to make conclusions about the entire allocated state budget, with findings comparable to the state budget execution reports, as well as to reports presented to the NA.
- To revise the reporting system, specifically in relation to the non-financial (outcome) indicators of the "Public Education" program in order to align it to the program description and the objectives of measures specified in the program. This revision will also make the reports more comprehensive encompassing all the indicators of the education sector.
- To disclose all other written information on recommendations pertaining to rectification of incompliances and flaws and recommended improvements, along with publishing AC reports on the official website. This information will disclose ample and adequate information to the public enabling public scrutiny.
- To develop and implement an action plan aimed at raising public awareness on AC audit findings and conclusions by organizing discussions with civil society organizations, press conferences, sending out press statements, etc.

To the National Assembly

- To develop and enact a methodology by which the ongoing AC reports and other written information accompanying them will become a subject for discussion for NA committees in a systematic manner, thus ruling out the possibility that important issues and proposed solutions are left without discussion or that the parliamentary scrutiny will be subject to political arbitrariness.
- To prescribe by law the obligation of AC to conduct follow-up to its audits as an integral part of the audit process. This will align the external audit process to international standards and will open up possibilities for developing respective follow-up mechanisms, expanding the oversight toolkit and improving the effectiveness of the state audit.
- To incorporate a system by which the outcomes of parliamentary hearings will be carried forward in order to turn the reached agreements, conclusions about legislative reforms, recommendations on improving the legal practice into action plans, which will become a subject for the parliamentary oversight.

To the Government

- To develop and enact clear mechanisms, which will set out oversight procedures for the Government upon the receipt of audit reports and other written information. Under such a mechanism, the Government will oversee, in a timely and due manner, implementation of AC recommendations on rectifying incompliances and flaws and making improvements. This may include assigning the State Supervision Service a task to carry out an ongoing review of the action plan of improvements pledged by the audited entity and in the event of failure (non-implementation or partial implementation) to hold these entities accountable.
- Incorporate a mechanism by which the State Supervision Service will apply a systematic approach in collating its own oversight programs with those of the other bodies (including the Audit Chamber and Education Inspection Body) as opposed to the current practice of carrying out single tasks of reviews or oversight without interacting with the activities of the other structures operating in the country.