



# SUCCESS STORIES

## Armenia

### The Evolution of Public Sector Internal Audit

#### Context

The Republic of Armenia (RA) has made significant strides in enhancing its public sector internal audit (IA) system, marking a remarkable success story in governance and financial oversight. Works are started on 2011 and the foundation of the RA public sector internal audit system is rooted in the knowledge products (Good Practice Internal Audit Manual Template, Concept Paper on Cooperation among Public Sector Audit and Financial Inspection, Risk Assessment in Audit Planning etc) of the Public Expenditure Management Peer Assisted Learning (PEMPAL) Internal Audit Community of Practice (IACOP), with necessary adjustments to align with local realities. Over the years, Armenia has established a robust legal and regulatory framework for internal audit, including the Law on Internal Audit, Standards and Code of Ethics aligned with the Institute of Internal Auditors (IIA) standards, as well as practice advisories, guidelines, and manuals. During that period Armenia had two chairs of IACOP and very active participation in developing methodologies and sharing practice.

#### PEMPAL Impact

Work on the Armenian public sector internal audit system started in 2011 and is rooted in PEMPAL knowledge products including: Good Practice Internal Audit Manual Template, Concept Paper on Cooperation among Public Sector Audit and Financial Inspection, Risk Assessment in Audit Planning, with necessary adjustments to align with local realities. As a result, Armenia has established a robust legal and regulatory framework for internal audit, including the Law on Internal Audit, Standards, and a Code of Ethics aligned with the Institute of Internal Auditors standards, as well as practice advisories, guidelines, and manuals.

Armenia has twice chaired the PEMPAL Internal Audit Community of Practice (IACOP) and has been a very active participant in developing methodologies and sharing practice.

#### Certification and Continuous Professional Development

A distinctive feature of the Armenian internal audit system is its structured approach to certification. While Armenia recognizes certifications from

international and local professional organizations, it has also developed a national certification system for public sector internal auditors. This certification process consists of a single-stage examination with 50 questions, requiring a minimum of 40 correct answers for qualification. Moreover, all certified internal auditors must undergo continuous professional training every three years to maintain and enhance their expertise. This requirement ensures that public sector auditors remain up to date with evolving best practices, fostering a culture of continuous improvement and high professional standards.

## Outsourcing and Its Challenges

A pivotal moment in the evolution of Armenia's internal audit system was the government's 2020 decision to outsource public sector internal audit functions to private organizations. Despite the shift toward outsourcing, certain state institutions dealing with classified or sensitive information continue to maintain internal audit departments, ensuring rigorous oversight of their operations. PEMPAL helped support this transition by organizing discussion of the reasons for outsourcing and risks connected with it. However, effective oversight of the outsourcing process was impeded by severe understaffing of the Central Harmonization Unit within the Ministry of Finance which persisted until the end of 2024, when the government approved a new Central Harmonization Unit structure, initiating the gradual recruitment of staff. This restructuring decision was heavily influenced by ongoing discussions with PEMPAL IACOP and an assessment of the outsourcing outcomes.

## Next Steps

The reestablishment of the Central Harmonization Unit in 2025 represents a significant success for Armenia's internal audit framework. However, it also brings considerable responsibilities and expectations. The Unit aims to develop a new government decree to introduce updated internal audit standards based on the latest Institute of Internal Auditors Global Internal Audit Standards, tailored to the public sector context. It is also focusing on capacity building for internal auditors, conducting external assessments of the internal audit system in collaboration with independent experts, and refining the certification and continuous professional development programs.

Going forward, the success of Armenia's public sector internal audit system will depend on sustained collaboration between internal auditors, the Central Harmonization Unit, and international partners such as PEMPAL. By reinforcing its internal audit structures, Armenia is paving the way for enhanced transparency, accountability, and efficiency in public sector governance. Furthermore, the government recognizes the importance of integrating modern audit methodologies, leveraging data analytics, and adopting risk-based approaches to enhance audit effectiveness. Strengthening professional networks and establishing platforms for knowledge sharing among public sector auditors are also critical steps toward sustaining and advancing internal audit excellence. The Central Harmonization Unit aims to foster a culture of integrity and ethical behavior by ensuring that internal auditors adhere strictly to the established code of ethics and professional standards.



Looking ahead, the Central Harmonization Unit's focus will extend beyond technical enhancements to ensuring that internal audit functions are embedded in the broader governance framework. Strengthening stakeholder engagement, increasing public awareness of the role of internal audit, and advocating for a risk-aware organizational culture within public entities are key strategic priorities. And of course the role of PEMPAL in this is very crucial.

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