



ANNEX 4. EC Assessments, Opinions and Recommendations for Chapter 32

Public internal financial control - A strategic framework for PIFC is in place. PIFC measures are included in the PFM and PAR Strategy 2019-2022, and further defined in a PIFC policy document 2021-2022 approved in December 2020. Clear institutional responsibilities in the central government are required for steering PIFC reforms in a coordinated approach with public administration reforms, and strengthened efforts are needed on implementation of PIFC reforms beyond the Ministry of Finance and Economy.

Managerial accountability - is not yet fully enshrined in the legislation and administrative practice. The adopted instructions on the delegation of financial responsibilities need to be implemented and accompanied with a wider reform on delegation of operational and administrative responsibilities to have a comprehensive approach on managerial accountability. A very small number of administrative decisions are delegated in practice. Reporting focuses mainly on financial performance, however with an increasing number of institutions also reporting on performance against objectives. The reoccurrence of an increase in arrears is an indicator for not yet fully effective attribution of responsibilities and commitment controls. The law on state administration, law on civil servant and relevant laws on integrated policy planning and the budget system law need to be assessed and if necessary, amended to ensure a consistent basis for implementation of managerial accountability. (See also Public administration reform).

The legislation on internal control is largely in line with international standards. Declarations of assurance are systematically signed by senior management, but in the absence of a delegation framework, this remains more of a formal exercise. Books of business processes need to be drafted throughout the public administration to reinforce PIFC, including the clarification of roles and responsibilities in the different procedures, the definition of objectives and outputs, the specification of tasks to be delegated, the reporting lines, and identification of risks specific to procedures. In December 2020, changes to the methodology were approved for assessing the performance of the internal control systems in the units of general government. Sub-ordinated agencies and local government units remain the weakest institutional links in regards to exercising internal control systems. At all levels, risk management is still at an early stage and needs to be better involved in managing financial and operational processes. In particular, risk registers and risk strategies need to be developed by budget users at central and local level and integrated into the management process of public entities. The number of requests submitted by internal audit units remains relatively low.

The legislation on internal audit practice is in line with international standards. In 2020, the number of certified auditors in the public sector was largely maintained. The internal audit function still does not issue audit opinions on the effectiveness of the internal control systems across budget entities. The internal audit quality control procedures still need to become generally compliant with the standards and fully operational. In October 2020, the Ministry of Finance and Economy approved guidelines and instructions for improving the monitoring and reporting of the implementation of internal audit recommendations.

The central harmonization unit (CHU) provides methodological guidance and monitors the performance of internal control and internal audit in the public sector based on quality reviews and self-assessment reports from institutions. In 2020, the CHU carried out 19 quality assessments of internal audit and completed further 12 by June 2021. In 2021, the CHU started quality assessments for internal control in five institutions. The capacity of CHU needs to be strengthened. The annual PIFC report is presented to the Council of Ministers and discussed in the Parliament.

External audit - In line with the standards of the International Organization of Supreme Audit Institutions (INTOSAI) Albania's constitutional and legal framework provides for independence of the State Audit Institution (SAI). Adoption of proposed legal amendments is pending to strengthen the scope of the audit mandate to cover all public entities. In accordance with its 2018-22 strategic development plan, the SAI is implementing actions to improve its institutional capacity. A working group has been established to improve current legislation and among



others ensure continuity after the end of mandate of the SAI chair. In recent years, the SAI has taken measures to improve the professional development of its audit staff.

In 2020, detailed tasks in the field of ethics and integrity were defined. The SAI continued to raise awareness among academia and civil society on the importance of external audit. The quality of audit work needs to be further improved to fully comply with the INTOSAI standards. In June 2020, regulations of audit procedures were revised to improve quality control and assurance procedures. The SAI audit objectives have shifted from compliance and regularity audits towards audits. The SAI follows a risk-based external audit approach. The number of performance audits has increased accounting for approximately 11% of all conducted audits in recent years. Due to the COVID-19 situation, about 50% of the annual audit plan 2020 could not be performed; yet audits on COVID-19 related emergency procurements were and are conducted.

The impact of audit work has shown some progress. ALSAI compiles annual reports on their performance and those are published on its website and reported to the Parliament. The 2017 Memorandum of Understanding between the SAI and the Ministry of Finance on monitoring the follow-up of audit recommendations resulted in the creation of a technical secretariat with representatives of both parties, which became fully operational in 2020. The monitoring of the effective and timely implementation of audit recommendations has improved. In 2020, ALSAI reported that 75% of its recommendations are in the process of being implemented, and some of them have been fully implemented. Despite a high rate of recommendations being accepted by institutions, the rate of fully implemented recommendations needs to be improved. The electronic platform for the follow-up of audit 67 recommendations is functional since end 2019, and in June 2020 the corresponding manual has been approved.

Protection of the EU's financial interests - Albania has ensured some level of *acquis* alignment, yet still needs to fully harmonize with the EU Directive on the fight against fraud to the EU's financial interests by means of criminal law. The national anti-fraud coordination service (AFCOS) is a unit within the Directorate of Financial Inspection in the Ministry of Finance and Economy. An AFCOS network, involving other relevant authorities, has been set up and it meets regularly. In January 2021, the newly created SPAK has been added to the AFCOS service reporting network. A manual for the management of irregularities in EU funds was adopted during the reporting period. Albania cooperates with the European Commission during investigations and reports to the Commission on irregularities and suspected fraud cases. In 2020, Albania has reported four cases via the online irregularity management system out of which one as suspected fraud. Albania should adopt a national anti-fraud strategy. Although cooperation on investigations has improved, Albania needs to step up its efforts in developing a solid track record on cooperation on investigations and reporting of irregularities.

Protection of the euro against counterfeiting - In November 2019, Albania ratified the 1929 International Convention for the Suppression of Counterfeiting Currency. Albania is partially aligned with the *acquis* regarding the definition of counterfeiting banknotes and coins, as well as the procedures for gathering, storing and withdrawing them from circulation. Technical analysis is performed by the national analysis center of the Bank of Albania and the Scientific Police Institute. However formal cooperation between Bank of Albania, State Police in Interior Ministry and General Prosecutor Office has still not been established. In 2020, Albania seized 307 coins and banknotes worth EUR 6 000, representing 18 % of all seized counterfeit currencies. Cooperation at the national and international level is ongoing. In August 2018, the Bank of Albania joined the Europol platform for experts. A cooperation agreement between European Commission and the Bank of Albania on coins is in place, while an agreement on banknotes with the European Central Bank is pending. Albania is also part of the Pericles 2020 programs' activities.