



## **ANNEX 5. Objectives & priorities defined in the NPEI 2021-2023 / Chapter 32**

### **Public internal financial control**

The central government should clearly share institutional responsibilities in guiding PIFC reforms, in a coordinated approach with the public administration. Strong efforts are needed to implement PIFC reforms beyond the Ministry of Finance and Economy.

- The integrated management functionality and policy management functionality for good governance, to coordinate monitoring and reporting of PIFC reforms should be strengthened.
- The law on public administration, the law on the civil servant and the relevant laws on integrated policy planning and the law on the budget system need to be evaluated and, if necessary, amended to provide a sound basis for the implementation of managerial accountability.
- With regard to internal control, book of processes should be compiled throughout the public administration in order to strengthen PIFC, including clarification of roles and responsibilities in the various procedures, setting objectives and outcomes, and specifying tasks that need to be delegated, reporting lines and identification of risks specific to the procedures. Subordinate units and local government units remain the weakest institutions in terms of the functioning of 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 public entity management process. The number of requests submitted by internal audit units remains relatively low.
- The law on financial management and control will be amended based on the gap analysis performed by the Directorate of Harmonization of Financial Management, Control and Accounting. The main purpose of reviewing this law is to clarify and improve the principles, rules, procedures, administrative structures and methods that will enhance the functioning of financial management and control towards increasing the effectiveness of the implementation of the internal control system in public entities.
- The Law on Internal Audit in the Public Sector should be amended based on the GAP analysis carried out by Directorate of Harmonization and Internal Audit and SIGMA experts and the changes in the Law should be followed by necessary changes in other bylaws. The internal audit manual should be reviewed in order to provide additional guidance on certain topics and making it a fully applicable document in practice for internal auditors. Risk based auditing should lead the audit approach and the effectiveness of audits needs to be improved through the risk assessment. The criteria of establishment and effective functioning of internal audit service in some cases do not comply with the provisions of the IA Law. There are still a number of IA Units which do not fulfil the requirement of having at least three audit staff. The number of vacancies in internal audit structures remains stable, 11%, mainly in local government entities. As for the internal audit practice, the internal audit function does not yet issue audit opinions on the effectiveness of internal control system across budget units.



- The quality of audit activities is still only partially in line with IIA Standards and legal requirements. Internal audit quality control procedures should be done in accordance with the standards and fully operational. Monitoring the effective and timely implementation of internal audit recommendations needs to be improved. The professional capacities and skills of internal auditors need to be further strengthened and enhanced. The capacity of Central Harmonization Units needs to be further strengthened.

### External audit

Gaps identified and priorities in accordance with the standards of the International Organization of Supreme Audit Institutions (INTOSAI), the constitutional and legal framework of Albania provides for the independence of the State Audit Institution (SAI). The adoption of the proposed legal changes, which strengthen the scope of the audit mandate to cover all public entities, is still pending. SAI in its fulfillment of the constitutional mandate as the highest institution of economic and financial control in the Republic of Albania, in order to fully align its activity with the international auditing standards of the International Organization of Supreme Audit Institutions and best practices, is working to amendment Law 154/2014 "On the organization and functioning of the Supreme State Audit".

Through the amendment of the law, it is intended the implementing of the recommendation of the Annual Report of the European Commission to ensure the continuity of the activity of the institution, even after the end of the mandate of the chair of ALSAI and to fill the gaps related to the following:

- Certification as a "public external auditor" of SAI auditors and the establishment of an open training center and multidimensional certification.
- Non-restriction of SAI in the audit of public funds provided by the European Union.
- The jurisdictional competence of SAI auditors with regard to the auditing of all public or private entities, engaged, participating and parties to contracts such as concessions; public procurement; and public-private partnership, has to be defined in the law.
- The full jurisdiction of SAI in auditing the public legal entities, such as the Energy Regulatory Authority (ERE) and the Central Bank of Albania has to be defined in the law.
- The legitimacy of SAI to be part in the court proceedings initiated following the criminal reports made by SAI.
- Completion of the competencies and legal duties of the Chairman of SAI
- Clarifying the name of the annual report that the Council of Ministers submits annually to the Parliament on the implementation of the budget.

The quality of audit work needs to be further improved to fully meet INTOSAI standards. Improving the quality of audit work is one of the objectives of the Development Strategy of SAI and to this aim SAI will be focused on the following:

- Drafting and development of a specific training plan, to be focused on the implementation of the requirements of ISAI 40 Standard "Quality Control and Assurance" and the implementation of the Guideline for Audit Quality Management in the context of the implementation of the revised Regulation of Audit Procedures and revised financial, compliance and performance audit manuals, as well as a new manual for monitoring the implementation of recommendations (documents adopted in June 2020).

As for the impact of audit work, despite the high degree of recommendations accepted by the institutions, the degree of fully implemented recommendations needs to be improved. In this context, SAI will continue:



- To resubmit to the Albanian Parliament, the proposal for the establishment of a parliamentary subcommittee, part of the Committee on Economy and Finance to review the reports of SAI and periodically hold parliamentary hearings evaluating the corrective actions taken by the institutions of audited for the implementation of SAI recommendations.
- To resubmit to the Albanian Parliament, the proposal for the signing of a Memorandum of Understanding between the two institutions and the drafting of a concrete work plan to increase parliamentary control over the implementation of the SAI recommendations.
- For the implementation of the recommendation on the "Amendment of the SAI's legal framework", which ensures, among other things, the continuity of institutional activity even after the end of the constitutional mandate of the Chairman of the Supreme State Audit, SAI will submit the proposal to the Assembly for amendments to the Law No. 154/2014 "On the organization and functioning of KLSH" on this issue.

Increasing the impact of audit work will be achieved through:

- Submitting to the Parliament of the periodic reports and of the consolidated report on the follow-up of the implementation of the recommendations.
- Submitting to the Minister of State for Relations with the Parliament regular reports on the implementation of the recommendations by the central government institutions.
- Submitting the audit reports, performance audits and reports of high public importance and sensitivity to the respective Parliamentary Committees.
- Conducting special thematic audits to verify the implementation level of the recommendations and drafting a consolidated report on the implementation of recommendations.

### **Protection of the EU's financial interests**

Identify gaps and priorities Albania has to fully approximate with the EU Directive 2017/1371 of the European Parliament and of the Council of 5 July 2017 "On combating fraud against the financial interests of the Union through criminal law". The approximation of this directive is foreseen in the framework of the National Plan for European Integration, under chapter 23 "Judiciary and fundamental rights", which falls under the responsibility of the Ministry of Justice. The Ministry of Finance and Economy/its respective structures, including DIF/AFCOS, will have a supporting role at the approximation of this directive, in accordance with the area of responsibility of each structure. The adoption of the National Anti-Fraud Strategy (2024), which aims to protect the EU financial interests is a shortcoming identified during the screening process for chapter 32 "Financial control", and a recommendation from the annual report of the European Commission for Albania. The drafting of the National Strategy on the protection of the financial interests of the European Union and its Action Plan is also part of the Public Financial Supervision Strategy 2019-2022 (component 6.1, measure 6.1.1 of the PFM); The drafting of this strategy was foreseen to start in the second quarter of 2020, but due to the Covid-19 pandemic, it was postponed to 2022. The responsible structures at the Ministry of Finance and Economy (AFCOS/DIFP) prepared the Order of the Minister "On the establishment of the Working Group for the drafting of the National Strategy "On the protection of the financial interests of the European Union" and of the "Action Plan implementing the Strategy". The draft order has been submitted to the Minister of Finance and Economy for approval.

Considering that this process requires a continuous cooperation and institutional interaction, among the representatives of the AFCOS network, management and operating structures in MFE, OLAF, and on the



other hand the importance this process has, technical assistance is considered necessary in the smooth running of this process. DIFP/AFCOS will continue to coordinate the provision of technical assistance by OLAF, regarding the drafting of this strategy, through continuous communication with this structure. The strategy is expected to be approved with the Decision of the Council of Ministers within the fourth quarter of 2024.

As for the increase of capacities human resources in the Directorate of Public Financial Inspection/the Unit of Signaling, Investigation, Monitoring and AFCOS, the respective steps will be taken to fill the two vacancies in the structure of AFCOS.