



## Summary and Conclusions

### **ALBANIA'S PATH TOWARDS EUROPEAN INTEGRATION: FINANCIAL CONTROL AND THE PROCESS OF OPENING NEGOTIATIONS FOR CHAPTER 32**

*Tiranë, June 2022*

For several years now, Albania has been waiting for the decision of the Council of Ministers of the European Union for the officials of the negotiations, as the stages of concluding the 30-year aspirations towards integration with the big European family, for the development of open challenging accession negotiation processes. The successful conclusion of the negotiations is not only intended to assess the formal approximation of the application, but also to create **sufficient evidence that Albania has the necessary and institutional capacity to implement the acquis and other EU economic, political and social reforms.**

Financial control is one of the 35 negotiating chapters and aims to improve the financial discipline of the public administration, ensure transparency in the use of public funds, and protect the EU's financial interests. Thus, the fulfillment of the obligations for Chapter 32 "Financial Control" is a priority for the Albanian Government, not only as one of the conditions for EU membership, but mainly as an internal obligation of good governance of the country, in order to achieve financial stability, prevention of misuse of financial means, and efficient and transparent spending of public funds.

Albania reformed the financial control system in 2003, moving from a centralized system (audit offices) to a **decentralized system**, by regulating the functioning of the system audit and financial inspection. The institutional framework for managing public funds has been reformed several times over the last decade, to change the culture of financial management from “**inputs**” to “**results**”. This system is regularly **set up, maintained and updated by the head of the public entity and implemented by all staff, in order to address the risks and provide adequate guarantees in achieving objectives.**

In December 2018, the Government started the analytical review of the legislation for Chapter 32 in line with the EU *acquis*, a process which has not yet been completed. The latest Progress Report of the European Commission estimates that Albania has made "modest preparations" in the field of Financial Control. The opinion on the level of preparation and progress made for Chapter 32 is the same and unchanged since 2015, with an average rating of "3" on a scale of 1 to 5.

Some progress is estimated to have been made each year, but not enough to improve the overall assessment on the matters of financial control. The European Commission considers that the proper and effective functioning of the internal control framework of public finances is not provided in all budget units. The EC recommendations, carried over the years, are mainly related to the implementation of the principle of **delegation of responsibility and managerial accountability**, the monitoring and implementation of the recommendations **of internal control**





of public finances, as well as the strengthening of the role of **parliamentary control over the audited units.**

EC Progress Reports for the Candidate countries or potential candidates for EU membership, express similar opinions regarding Chapter 32 (modest preparation) for Albania and Northern Macedonia, as for Montenegro and Serbia, despite the two countries' membership negotiations being open respectively in 2012 and 2014..

**Chapter 32 covers four main issues, very important for the governance of the country:**

- Public Internal Financial Control (PIFC),
- External Audit (EA),
- Protection of EU Financial Interests, and
- Protecting the *Euro* from counterfeiting.

**Public Internal Financial Control** - The government estimates the strategic framework for PIFC as partially functional. During 2021, the PIFC policy document and the 2021-2023 action plan were approved. The annual monitoring of PIFC is prepared by the Central Harmonization Unit at the MFE and reported to the Council of Ministers and the Parliament, so that the Government is informed of the financial control findings. But this reporting does not guarantee that the Government will **approve and address the risks**. The system of internal control provides reasonable, but not absolute, assurance regarding the good administration of public funds. Establishing an effective system of internal control does not replace, but strengthens managerial accountability, as a direct obligation of the leaders of public institutions to respect the principles of sound financial management, legality and transparency to the public.

**External Audit** - In fulfillment of the constitutional mandate as the highest institution of economic and financial control, SAI is working to amend the Law "On the organization and functioning of the Supreme State Audit", in implementation of the recommendation of the EC Annual Report, to ensure the continuity of the institution's activities, even after the the mandate of its President has ended, as well as fill the gaps in the legal framework. The Parliament has a legal obligation to consider two main reports from the SAI in plenary session <sup>1</sup>, but may hold additional sessions, as needed, to monitor the work of internal and external auditors for the good administration of public funds. From 2018 it is evidenced that there were no hearings for other reports of SAI in the Parliament. **Lack of independent conclusions and recommendations from the Parliament, in support of the SAI's<sup>2</sup> activity and, weakens the role of external auditor of public finances.**

**Protecting the EU's financial interests** - Albania is aligned with the EU defense acquis

of counterfeit banknotes and coins, including procedures for their collection, storage and withdrawal from circulation. A co-operation agreement between the EC and the Bank of Albania on coins is in force, while a banknote agreement with the European Central Bank is pending.

**Protecting the euro from counterfeiting** - Albania is aligned with the EU acquis in protecting the Euro against counterfeit banknotes and coins, including procedures for their collection,

<sup>1</sup> Raporti i Zbatimit të Buxhetit të Shtetit dhe Raporti Vjetor i Performancës së KLSH-së.

<sup>2</sup> MONITORING REPORT – ALBANIA NOVEMBER 2021 © OECD 2021 PUBLIC FINANCIAL MANAGEMENT  
<http://www.sigmaxweb.org/publications/Monitoring-Report-2021-Albania.pdf>





storage and withdrawal from circulation. A co-operation agreement between the EC and the Bank of Albania on coins is in force, while a banknote agreement with the European Central Bank is pending.

The approximation of Albanian legislation with the EU *acquis* is based on the Constitution of the Republic of Albania, the Rules of Procedure of the Parliament and the law "On the role of the Parliament in the process of Albania's integration into the EU". Formally, the approximation of Chapter 32 legislation seems easily negotiable, but the difficulty lies beyond approximation, **in the implementation of internal control systems, which are inextricably linked to the progress made in public administration reform. and in public finance management and control.**

### **The Road to European Integration: Issues to be Addressed in Relation to Chapter 32**

#### ***"Fundamental Rights, first..."***

Chapter 32: Financial Control is a conditional criterion for opening negotiations for other chapters, as part of fundamental rights<sup>3</sup>. The preparation and progress made in this chapter should be a priority for the Government, to expedite the opening of negotiations for other chapters. **The MFE should accelerate the process of analytical review of legislation on approximation with the EU *acquis*,** in order to carry out a full inventory the policies and legal acts of Chapter 32. As a leading institution, the MFE should conduct an analysis of the factors that have influenced the EC opinion to remain unchanged since 2015.

#### ***"Setting the right tone at the fore..."***

The **MEF** plays a key role and bears the primary responsibility for the development and implementation of Chapter 32, through the Central Harmonization Unit (FMC/IA) and the Directorate of Public Financial Inspection (DIFP). The responsibility for monitoring the implementation of reforms lies with the MEF, while **the management and financial control strategy includes the Government, SAI and the Parliament,** whose role should be more active and supportive of the MFE in the implementation of the PIFC system. The Parliament plays a very important role in the process of approximation of Albanian legislation with that of the EU, exercising legal and political control over it. In line with the legal framework, the National Council for European Integration has been established and functions as the highest national advisory structure for European Integration, which aims to promote and guarantee comprehensive cooperation between political forces, public institutions and civil society, as well as to ensure increase transparency in decision-making on integration issues. However, **the role of the Parliament, the Council and the Committee on Integration has not been very active, weakening control over the Government's preparations for the EU membership process.**

The priority issues addressed by the EC, converge on the urgent call to strengthen **parliamentary control,** to monitor the implementation of the internal control system and external audit recommendations. SAI has submitted proposals for the establishment of a

<sup>3</sup> The first cluster includes: K. 23 - Judiciary and Fundamental Rights; K. 24 - Justice, Freedom and Security - Economic Criteria - Functioning of Democratic Institutions - Public Administration Reform; K. 5 - Public Procurement; K. 18 - Statistics; and K. 32 - Financial Control.





parliamentary subcommittee and a draft memorandum to strengthen communication between the two institutions. These proposals have not yet been resolved by the Parliament. As a result of the **lack of parliamentary control** engagement, the effectiveness of the control work is compromised and the recommendations are not implemented in a timely manner by the audited entities. Putting the right tone on top is a key element of the control environment, which is reflected in the exercise of integrity and ethical values throughout the PIFC system. **It is recommended that the Parliament:** (i) address, as soon as possible, the SAI proposals to amend the legal framework in line with EU recommendations and international external auditing standards, to clarify its role and scope of action as an external auditor; (ii) treat with special care and importance the proposal for the establishment of a new subcommittee, or expand the scope of responsibility of the "Subcommittee on monitoring the implementation of the state budget and its control", to include audit external issues.

*“Focus on the implementation, above the approximation of legislation...”*

The legal framework governing Financial Control matters is considered to be generally in line with international standards. However, the implementation and **quality of control systems need continuous improvement**. According to the EC Report on Albania *"the analysis of the governments' work is still limited, because monitoring and reporting are often limited to the implementation of activities and rarely evaluate their results. Most of the reports continue to present the activities implemented and do not explain the actual results and conclusions that have been achieved through the implementation of government policies."* The financial control<sup>4</sup> and external audit<sup>5</sup> constitute two of the six objectives of the PFM strategy for 2019-2022, revised in 2020 to enable monitoring based on measurable results. An important component of Financial Control reforms is the Public Administration Reform (PAR) Strategy. The progress made for Chapter 32 should not be seen only in form (adoption of legal acts), but the focus should be shifted to the objectives achieved. The implementation of the control system should be treated as a **comprehensive financial control reform**, in full harmony and mutual support with the public administration reform (PAR) and public finance management. According to the PAR Monitoring Report, the implementation of internal control at the institutional level remains deficient, despite the progress made with the overall legal framework. **The assessment of the indicator 'functioning of internal control' for 2020 is very low ('1' on a scale from 1 to 5), deteriorating from 2017, because the quality of planning and organization of audits could not be proved during field testing by SIGMA. Financial control can be neither complete, nor effective, if its foundations continue to be fragile, lacking transparency and managerial accountability. The implementation of the control system is an evaluation criterion for the negotiation phase, therefore the focus should be on the results of the reforms, beyond the approximation of legislation.**

Government structures have undergone major changes after the 2017 parliamentary elections<sup>6</sup>, towards an integrated planning system and cross-sectoral development. **According to the**

<sup>4</sup> Objektiviteti Specifik 5: Kontrolli i brendshëm efektiv - Menaxhimi Financiar dhe Kontrolli (MFK) në Institucionet Publike

<sup>5</sup> Objektiviteti Specifik 6: Mbikëqyrja e jashtme efektive e financave publike - Auditimi i Jashtëm

<sup>6</sup> Raport i Vlerësimit të Performancës lidhur me llogaridhënien për shpenzimet dhe financat publike (PEFA) – Shqipëria,





monitoring report <sup>7</sup>, **Agency restructuring reforms have revealed systemic weaknesses and risks in terms of financial management.** Albania still does not have a clear architecture of budget structures. In many cases, there is a lack of division as to whether agencies should focus only on implementing policies, or have a role in their design. Ministers are directly accountable to the legislature for relevant policy areas, while agency managers are generally not exposed to accountability mechanisms. The creation of several new agencies,<sup>8</sup> precisely at the stage when Albania expects the opening of negotiations with the EU, increases the uncertainties and complexity of the organizational structure in public administration. **Lack of clarity on their role makes it difficult to transparently share responsibilities within the Government, and also poses a challenge to transparency and managerial accountability.** In parallel with the vertical review of legislation, the Government should conduct a horizontal cross-sectoral assessment to avoid shortcomings that may affect the effectiveness of the PIFC system, including the role of the newly established agencies, in order to fully inventorize policies and legal acts of Chapter 32.

*“Transparency as a success factor towards the promotion of European values...”*

Chapter 32 is important for the fact that financial control policies and procedures aim to improve transparency on the efficiency of taxpayers' spending. MFE, the leading institution in opening and conducting Chapter 32 negotiations, has a dedicated space on its website. However, there is a complete lack of information and updates on compliance status for Chapter 32. The role of civil society in strengthening the public financial control mechanism is essential, as it can and should conduct ongoing monitoring of important processes that have an impact on life, economic, social and political development of Albania. Regularly informing the public of the fulfillment of the obligations under Chapter 32 is a necessary condition for the successful conduct of the accession negotiations. **Lack of transparency and constant communication undermines public confidence in the successful conclusion of negotiations and the EU membership process.**

*“ Plan for the best, prepare for the worst...”*

The negotiation process for Chapter 32 is very technical, complex, comprehensive and essential for Albania's future path towards the EU. Based on the experience of other countries in the region, maximum commitment is needed from all parties, preparatory work for the completion of the review analysis of legislation, expertise and sustainability of structures and human resources involved in the negotiation process, inter-institutional cooperation and **priority support, by the Government and the Parliament, as necessary conditions for the opening, development and successful conclusion of the negotiations for this chapter.**

<sup>7</sup> ORGANISATION OF PUBLIC ADMINISTRATION: AGENCY GOVERNANCE, AUTONOMY AND ACCOUNTABILITY, OCTOBER 2021, <https://www.oecd.org/countries/albania/organisation-of-public-administration-07316cc3-en.htm>

<sup>8</sup> State Agency for Strategic Planning and Assistance Coordination, Agency for Quality Assurance of Social and Health Care Services, Agency for Dialogue and Co-Government, Agency for Cadastres, etc.

