



AUDIT COMMITTEE – Case of Albania

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December 2022



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CONTENT

- I. State of play in Albania
- II. Audit Committee – from requirement to necessity
- III. Audit Committee's contribution to Good Governance





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PIFC relevant requirements

- ▶ Since 2003, Albania is aiming to implement the public internal financial control system, throughout its public sector, in line with EU good practices and internationally recognized frameworks and standards
- ▶ Albania is adhering to COSO Framework, INTOSAI Framework as the internationally accepted reference for internal control systems and International Professional Practices Framework (IPPF) which includes internationally accepted standards for internal auditing
- ▶ The strategic vision, concretized through the adoption and implementation of the regulatory framework and the best practices in the field of internal control, is to ensure the further development of the PIFC system, as a tool that should be used by the managers and staff for responsible, successful and transparent management of public funds.



How are we organized

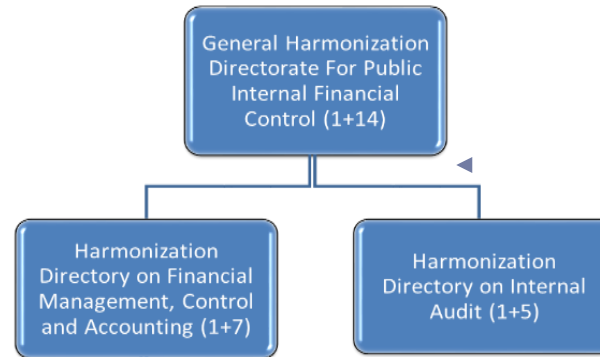
Prime Minister Office /Council of Ministers



Ministry of Finance and Economy



PIFC Board





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135 INTERNAL AUDIT UNITS

9 (nine)
Audit
Committees

12 INDEPENDENT INSTITUTIONS

11 MINISTRIES

19 PUBLIC COMPANIES

24 CENTRAL INSTITUTIONS

20 UNIVERSITIES, HOSPITALS &
HEALTH CENTERS

49 LOCAL GOVERNMENT ENTITIES

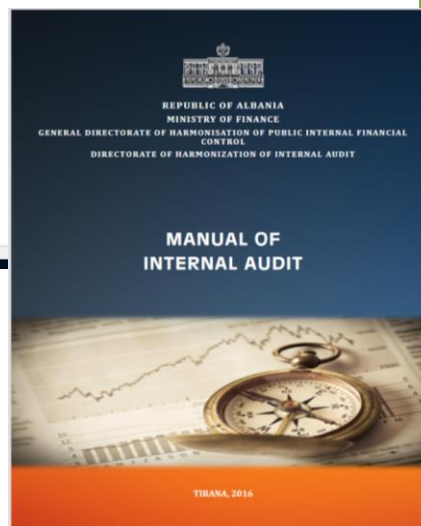
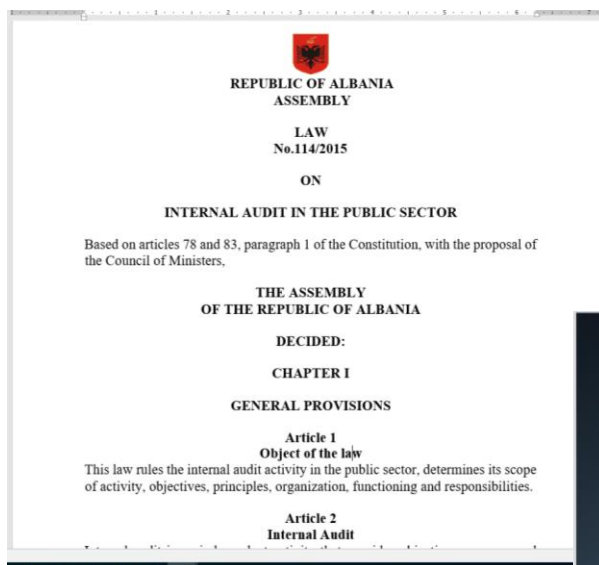
(MUNICIPALITIES)





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INTERNAL AUDIT FRAMEWORK



Nr.	Lloji i Aktit	Emërtimi i Aktit
1.	Ligj	Ligji nr.114, datë 22.10.2015 “Për auditimin e brendshëm në sektorin publik”
2.	VKM	VKM nr.83, datë 03.02.2016 “Për miratimin e kriterëve të krijimit të njëjtit të brendshëm në sektorin publik”, i ndryshuar me VKM nr.353 11.05.2016
	VKM	VKM nr.116, datë 17.02.2016 “Për mënyrën e organizimit, funksionimit përbërjen e Komisionit të Kualifikimit të Audituesve të Brendshëm në sektorin dhe përcaktimi I tarifave të trajnimit”.
	VKM	VKM nr.160, datë 02.03.2016 “Për mënyrën e funksionimit, kompetencat përbërjen e Komitetit të Auditimit të Brendshëm në njësitë publike”.
	Urdhër	Urdhër i Ministrit të Financave nr.86, datë 10.12.2015 “Për miratimin e Etikës për Audituesit të Brendshëm në sektorin publik”
	Urdhër	Urdhër i Ministrit të Financave nr.100, datë 25.10.2016 “Për miratimin e manuarit të auditimit të brendshëm në sektorin publik”
	Urdhër	Urdhër i Ministrit të Financave nr.3, datë 08.01.2016 “Për miratimin e rregullores së trajnimit dhe vijueshëm profesional për audituesit e brendshëm në sektorin publik”
	Urdhër	Urdhër i Ministrit të Financave nr.37, datë 16.03.2016 “Për miratimin e rregullores së procedurave të certifikimit të audituesve të brendshëm në sektorin publik”, i ndryshuar me Urdhër nr.26, datë 21.03.2017
	Urdhër	Urdhër i Ministrit të Financave nr.22, datë 06.03.2017 “Për miratimin e metodologjisë së vlerësimit të jashtëm të cilësisë së auditimit të brendshëm në sektorin publik”
10.	Urdhër	Urdhër i Ministrit të Financave nr.40, datë 08.05.2017 “Për Publikimin e standardeve ndërkombëtare për praktikën profesionale të auditimit të brendshëm në sektorin publik dhe pranuar për zbatim në Republikën e Shqipërisë”



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2003- first IA Law



Within the concept of Public Internal Financial Control, internal audit was established as an independent service conducted by an authorized, professional unit, which provides objective assurance and advices to the Head of Public Entity, aiming to contribute for systems improvement and assist the organization in achieving objectives through a systematic, disciplined assessment on risk management, control and governance.

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2003 – 2015



That Law determined the establishment of only one audit committee as an independent consultative body to the Minister of Finance.

It consisted of 7 members, and one of them was the General Director of Central Harmonization Unit for Internal Audit. The main task of the Audit Committee was to provide support and advise to the Minister of Finance and the CHU Director for all aspects of planning and carrying out the internal audit work, the implementation of accepted standards, as well as on the quality of the functioning of audit units in the public sector.

In fact, the former audit committee had more features of the PIFC Board today .

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Since 2015



Changes in the Internal Audit Law and Financial Management and Control in 2015, stipulated the need to change the concept of Audit Committee different from the approach followed until then. The Internal Audit Committee in each of the public entities where it is established shall also cover all issues related to internal audit in subordinate units.

Currently , in Albania there are 9 audit committees and all of them are established in Ministries (out of 11-line ministries) .
audit committee.





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Internal Audit Committee functions

Based on above mentioned, the current law on internal audit defines the Internal Audit Committee as an independent monitoring and advisory body to the head of public unit , which supports the Internal Audit Unit by:

- ▶ ensuring the independence of internal auditors
- ▶ assessing and giving feedback on the strategic and annual plans





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Internal Audit Committee functions

Internal Audit Committee in public sector in Albania is defined as an independent monitoring and advisory body to the head of public unit , which supports the Internal Audit Unit by:

- ▶ ensuring the independence of internal auditors
- ▶ assessing and giving feedback on the strategic and annual plans





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Internal Audit Committee other functions

- ▶ assessing the adequacy of audit sources
- ▶ ensuring that the audit plans implementation and results are monitored
- ▶ monitoring the implementation of recommendations issued
- ▶ advising on risk-related issues, internal audit and control systems





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Internal Audit Committee values and competencies

- ▶ However, Public entities aren't obligated to have audit committees, they are just advised to have it and because of the good governance practices, the internal audit law recommend the formation of an audit committee. ***It is up to the Head of public institution the decision to have or not, an audit committee established in their institution.***
- ▶ Effective audit committees can provide objective advice and **insights** into the public entity's strategic and organisational risk management framework.
- ▶ They can **identify potential** improvements to governance, strategy, risk management, and control practices





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Why do we need an Audit Committee

- ▶ An audit committee can be a powerful **advisory body** to help the entity manage risks, issues, and challenges facing the public entity.
- ▶ Audit committees need the **independence** of perspective, experience, and knowledge to bring the test and challenge that adds value to the governance of a public entity.
- ▶ *It is important to underline that all members of Audit Committee **are not employed within the public entity.***





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- ▶ The **purpose, roles, and responsibilities** of the audit committee and its scope should be set up in the context of the entity's governance framework
- ▶ The Audit Committee must **enhance the governance** framework, risk management practices, and the controls the entity uses to monitor achievements. (supporting and not and not any other matters, either governance or management).
- ▶ The **independence and effectiveness of the internal auditor** is greatly strengthened by the support of the audit committee.
- ▶ Audit committee members **have relevant experience** and expertise and bring valuable insights and perspectives to the areas of the committee's responsibility.
- ▶ The better the skills and experience of audit committee members, the better the committee **adds value**.





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- ▶ The Internal Audit Committee has the authority to monitor any issues related to the internal control and audit systems, within the scope of state responsibility of the public entity.
 - ▶ It achieves that through:
 - ▶ a. **Giving an opinion** on the strategic and annual plan of the internal audit unit before approval by the head of the public unit;
 - ▶ b. **Monitoring the reports of the internal audit** unit addressed to the head, in order to achieve the objectives of internal audit;
 - ▶ c. **Advising and give an opinion on the head of the public entity**, on disputes between the audited party and the internal audit unit;
 - ▶ d. **Collaborating with the head** of the public entity and the internal audit unit.
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Cooperation of AC

- ▶ To be effective, an audit committee needs to operate in an environment of co-operation and trust.
- ▶ Audit committee members also need to communicate effectively among themselves and with many others interested and involved in the governance and management of the entity.
- ▶ When there is an open and proactive dialogue with management and the governing body, the audit committee is able to effectively influence the organisation and its achievements.





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Contribution of AC

Some of opinions of audit committees' reports included:

- ▶ Limitations of audit work
- ▶ It is ascertained that some audit units still have shortcomings in the implementation of the audit plan, in the risk assessment.
- ▶ Insufficient audit capacity in number and qualifications
- ▶ The quality of audit recommendations needs to be improved, especially in clearly defining the cause and responsibility for each audit finding





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Contribution of AC

- ▶ Lack of the **Internal Quality Assurance Program**
- ▶ It is estimated that the pay and remuneration system for internal auditors **does not encourage their professional development**, and it may be a cause for violation of independence
- ▶ There are **shortcomings in the planning of information technology audits** and performance audits.
- ▶ The demand for the audit of IPA funds is increasing, which should be accompanied by the intensification of special trainings in this field, inside and outside the country.





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PLANS FOR FURTHER DEVELOPMENT

- ▶ However, as the environment evolves, we recognise that the establishment of audit committees should be a “MUST”.
- ▶ Good audit committees help ensure financial integrity, limit risk and protect ministries with regulators and the public.
- ▶ Improvements in both aspects: increase the number of established audit committees and having effective audit committees in place are needed.
- ▶ The effective audit committees could catalyse better governance in public entity.





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Conclusions

- ▶ Putting principles into practice isn't always easy
- ▶ Audit committees are a way to help focus on common sense and give governance test and challenge to the organisation
- ▶ If an entity chooses to have an audit committee, it needs to be fit for purpose
- ▶ Audit committees are not created solely for compliance, but they need to be effective and add value to the public entity.





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PLANS FOR FURTHER DEVELOPMENT

- ▶ Considering the experience of audit committees so far and appreciating the contribution that it provides in supporting and guaranteeing the implementation of internal audit as an independent function, the establishment of Audit Committees in central government and local self-government units is considered a necessity for the functioning of auditing according to standards and best practices, in particular in public entities that are presented with high risk in the Risk Matrix.
- ▶ They help public entities become more efficient, effective, and economical, and promote accountability, integrity and transparency and this is crucial for local government too.





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PLANS FOR FURTHER DEVELOPMENT

- ▶ Audit Committees need to cover a diverse range of complex topics that require specialist knowledge.
- ▶ Effective audit committees understand how best to use their time, experience, and available resources, including specialist support.
- ▶ This helps them to define their role and maximise their value to the entity. And this requires having right people and proper experience in audit committees.
- ▶ Effective audit committees need to foster strong working relationships with the entity's internal auditors. Internal audit gives the audit committee crucial insight into the entity by providing an objective and risk-based view on the entity's internal control environment.





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AUDIT COMMITTEE

It is because of the above-mentioned issues that Central Harmonization Directorate for Internal Audit in Ministry of Finance and Economy has already introduced some proposals for necessary amendments in the current legal bases related to audit committees and internal audit.

Proposals for such amendments aims to maximise the value of the internal audit function, audit committees in line with requirements of international audit standards and good practices





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COOPERATION



Expertise/Support

Needs assessment

Capacity building

Technical assistance

System evaluation

Recommendations

System monitoring

Audit Committee



*Thank you for your
attention!*

QUESTIONS?