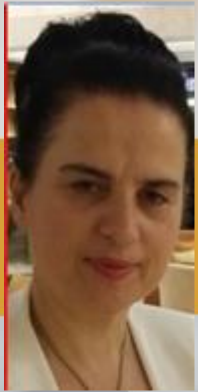
REPUBLIC OF ALBANIA
MINISTRY OF FINANCE AND ECONOMY

Treasury Control & Risk Management Albania

PEMPAL TCOP Videoconference

March 2022

Agenda



Mimoza Pilkati

Director of Treasury Operations

Alma Beja

General Director of Treasury

Aurela Velo

Director of Business Processing

CONTENT

- Managerial view of risks
- Treasury's Operational risks
- Addressing risks through business processes

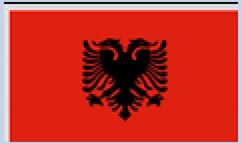
DEFINITIONS

Risk & Risk Management defined under Article 21 of the Law No. 10296, dated July 8, 2010 "On Financial Management and Control" (amended by Law No. 110/2015, dated October 15, 2015), which specifies:

- **Risk** defined as the uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. It is the probability that a certain event, which would have an impact on the achievement of an organization's objectives, may occur. The risk is measured by its effect and the degree of probability for its occurrence.

- **Risk management** covers identification, assessment of and control over those potential events or situations that might have an harmful effect on the achievement of the public unit objectives and it is designed to give reasonable assurance that the objectives will be attained.

TYPOLOGY / CATEGORIES OF RISKS		Areas where potential risks have been identified
External	Risks related to the external environment.	-Macro level risks (geopolitical, economic, force majeure and natural events e.g. earthquakes, etc.) -Political decisions. -External partners (agencies, consultants, media, business partners).
Internal	Risks related to the planning, processes and operations of the system.	-Strategy, planning and policy including internal policy decisions -Operational processes (design diagrams and description). -Financial processes and distribution of funds. -IT systems and other support systems.
	Risks associated with human resources and organizations.	-Human resources (staff, responsibility, cooperation). -Ethics and behavior in organization (fraud, conflict of interest, etc.). -Internal organization (management, missions, roles and responsibilities). -Security personnel, buildings and equipment.
	Risks related to aspects of legality and supervision.	-Clarity, accuracy and coherence of applicable laws, rules and regulations. -Other issues related to legality and regularity (order); whether there is easy access to the rules and instructions and training.
	Risks associated with communication/information.	-Methods and channels of communication. -High quality and timely information.



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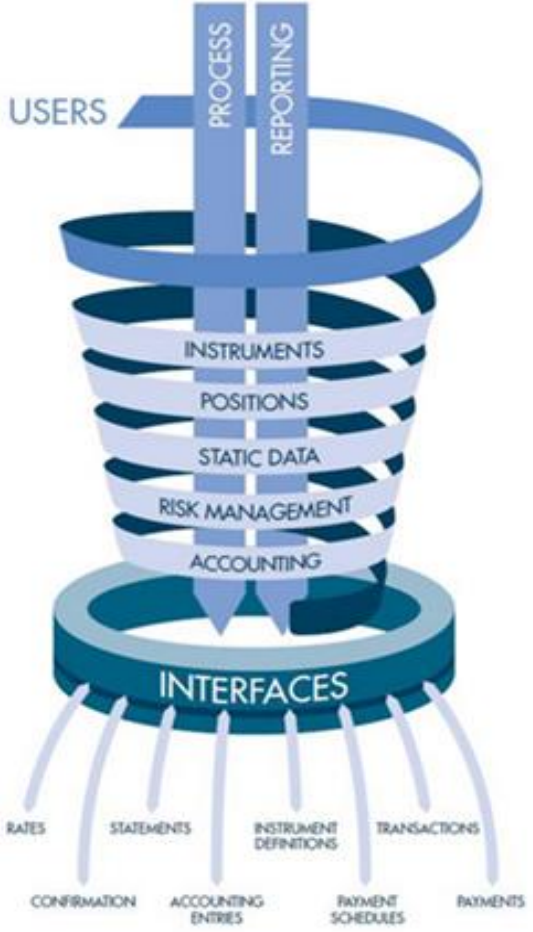
1

Managerial view of risks



Risk Management Responsibility

- The general director of institution is responsible for policy development, approval and monitoring of the risk management strategy.

- Chief Financial Officer (CFO) is responsible for the implementation of Financial Management and control systems. CFO is the risk coordinator and is responsible for mitigating risk systems within the organization.

- All managers within a unit should be responsible for identifying, assessing, managing and documenting risk.

MAIN RESPONSIBILITIES AND FOCUS OF GENERAL DIRECTOR ON RISK MANAGEMENT

- Determining the value of the mission, vision and objectives of the treasury.
- Establishment of an efficient risk management system.
- Drafting the regulation of the functioning of the General Directorate of Treasury as a basis for drafting and harmonizing all instructions, procedures and manuals of work processes.
- Preparing the audit trace for all major work processes.
- Adequacy analysis of existing controls.
- The need to take corrective action and propose additional control links.

MAIN DOCUMENTS
TO CONSIDER THE PROCESS OF EVALUATING EFFICIENT SYSTEMS AS A MANAGER

- Results of self-evaluation of control procedures;
- Results of the internal audit report;
- Results of the external audit report;

MAIN RISKS
FACED FROM MANAGEMENT IN
GENERAL DIRECTORATE OF TREASURY

- Liquidity risk
- Financing risk, Exchange rate risk, Interest rate risk
- Operational risk
- Business processes risk

LIQUIDITY RISK MANAGEMENT BY GENERAL DIRECTORATE OF TREASURY

- **Liquidity risk** – the risk refers the situations where the TSA account (liquid assets) diminishes quickly as a result of unanticipated cash flow obligations, decreases in revenues and/or a possible difficulty in raising cash quickly by borrowing.

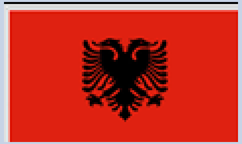
- MOFE has created **Debt & Liquidity Management Committee** in order to monitor and mitigate short term liquidity risk through:

    - Continuous analysis, forecasts and assumption
    - Strong coordination between Treasury and Debt Department

Thank you

for your attention!

ALMA BEJA
General Director
General Directorate of Treasury
Ministry of Finance and Economy
(A): Blv. “Dëshmorët e Kombit” No. 3, Tirana, Albania
(M): +355686055945
(E): alma.beja@financa.gov.al (E): www.financa.gov.al



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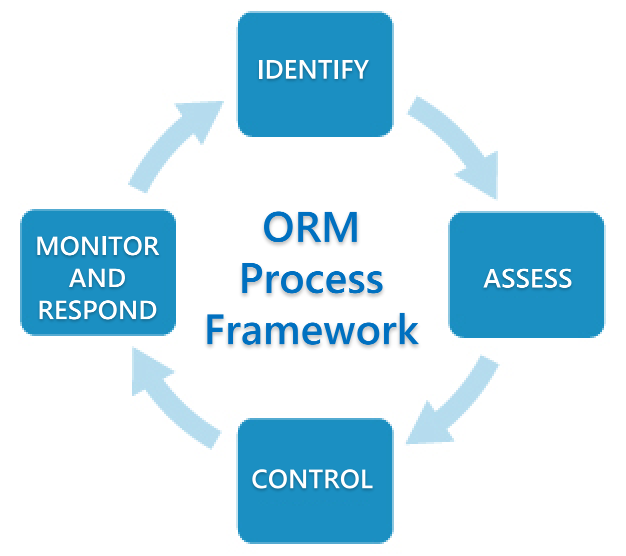
2

Treasury's Operational Risks

THE OPERATIONAL RISK

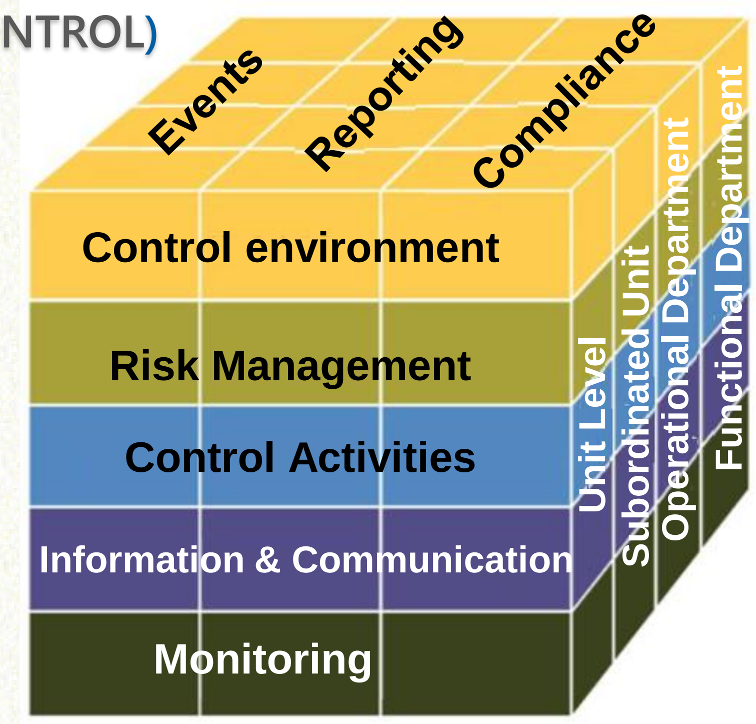
Operational risk (OR) results from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations. The harm can be directly or indirectly financial.
It is better viewed as the risk arising from the execution of an unit's business functions.



When dealing with OR, the unit has to consider every aspect of all its objectives. Since operational risk is so pervasive, the goal is to reduce and control all risks to an acceptable level. Operational Risk Management (ORM) attempts to reduce risks through risk identification, risk assessment, measurement and mitigation, and monitoring and reporting while determining who manages operational risk.

CONTEXT

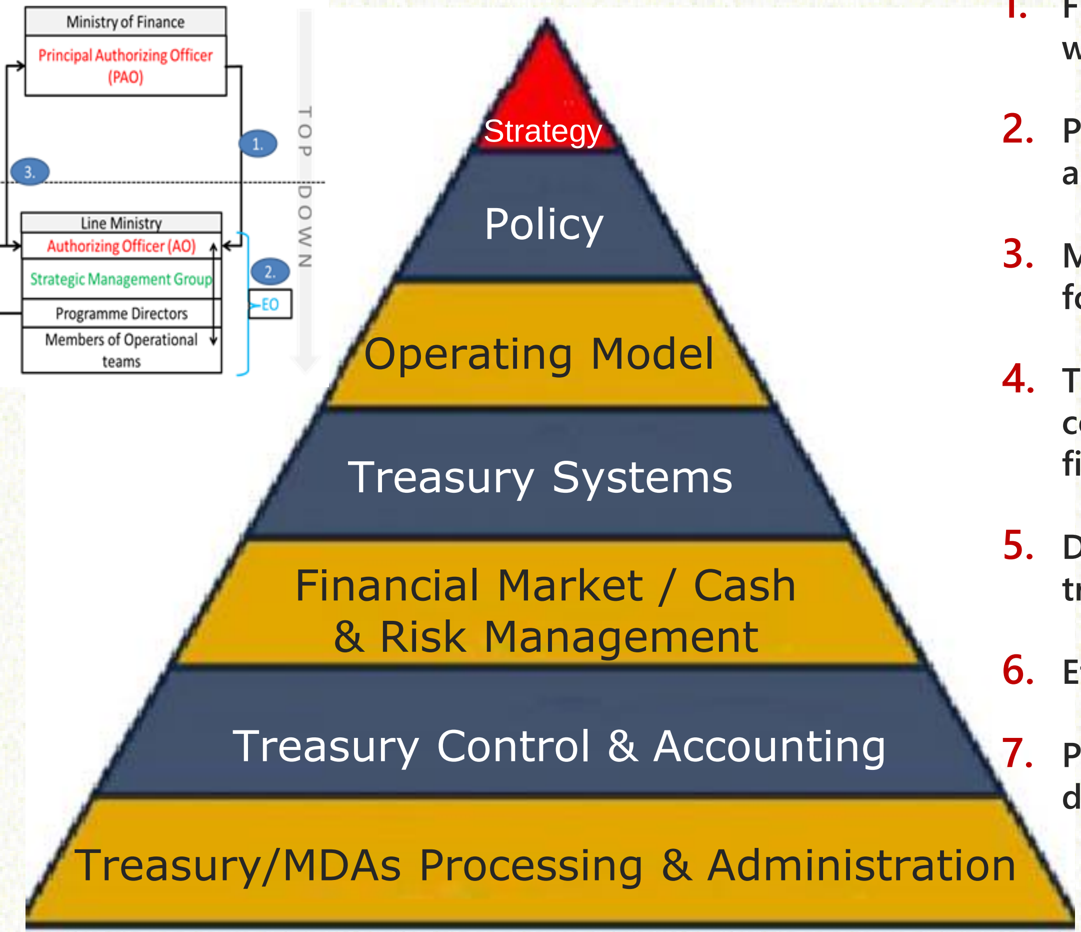
THE COMPONENTS OF PIFC (PUBLIC INTERNAL FINANCIAL CONTROL)



Risk Management is the part of PIFC

- The development of financial management and control requires the development of the risk management process.
- The main condition to create an effective risk management process is the operating in a systematic way related to reporting and compliance.
- Risk management is effective if done in accordance with the operating context of the unit.

THE OPERATIONAL RISK



1. Financing and Risk Management to align with Strategy.
2. Policy translates strategy into tangible goals and directives.
3. Mode of operation defines courses of action for the resulting scenarios.
4. Treasury system is the “brain” of Treasury, connecting all data flows for the consolidated financial position of general government.
5. Dealing in financial markets executes all financial transactions.
6. Effective control ensures compliance at all times.
7. Processing and administration settles and documents in a cost efficient manner.

THE LINK BETWEEN

STRATEGIC PLANNING, PROGRAMS, PROJECTS, ACTIVITIES, ANNUAL WORK PLANS AND WORK PROCESSES

STRATEGIC PLANNING

Strategic Planning sets General & Specific Objectives

Commitment

PROGRAMS BASED BUDGETING

Programs

Projects

Activities

OPERATIONAL PLANNING

Annual work plans of spending units

Work Processes

Implementation

How will the objectives be achieved

THE OBJECTIVES HAVE TO BE SMART

S
Specific
The more specific our description, the greater the possibility of complying with it

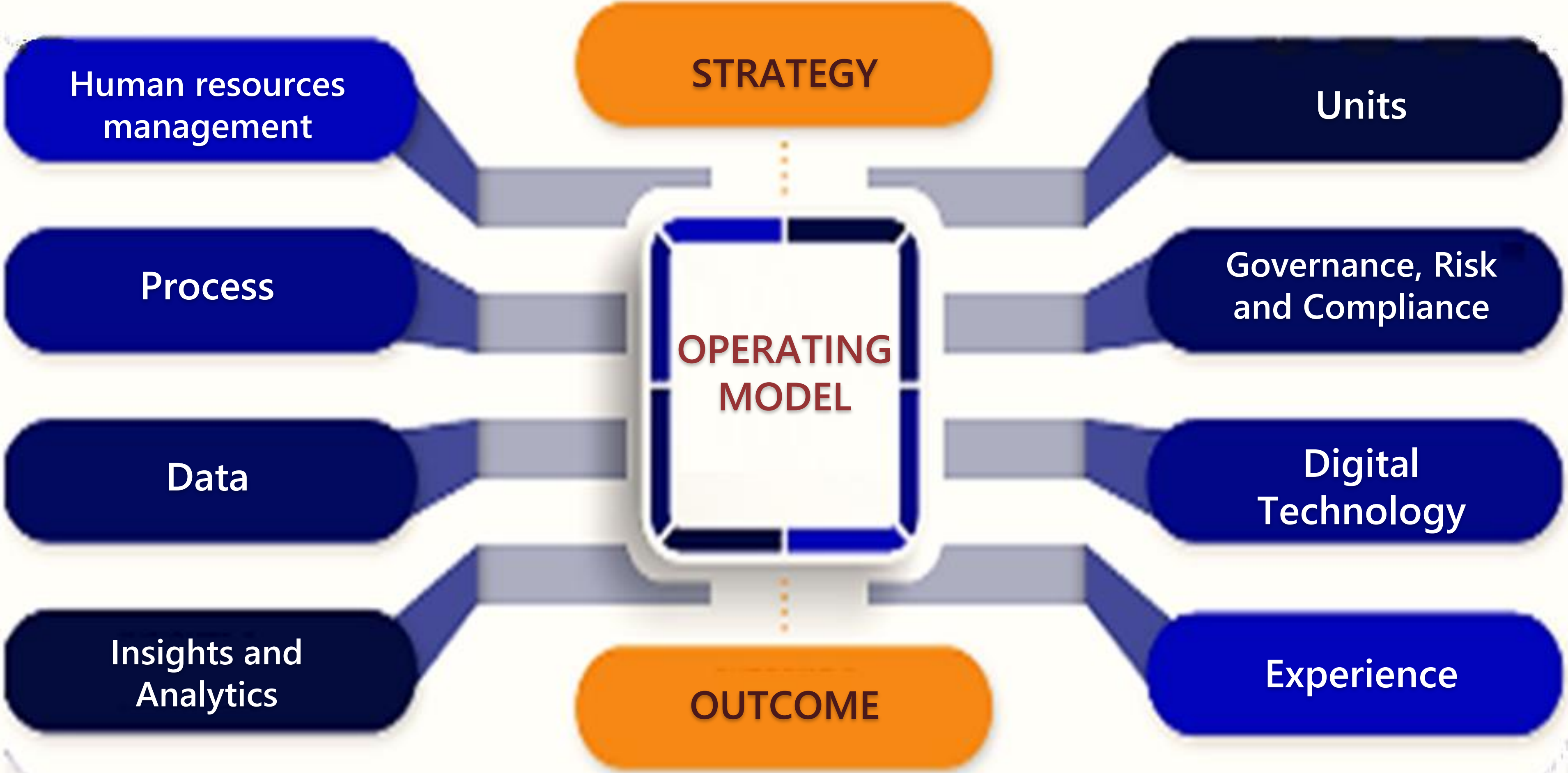
M
Measurable
We can compare it with the planning/ objective and decide in case of deviations/ variations what corre-ctive measures we are going to take.

A
Achievable
Our goals should be challenging but attainable

R
Relevant
Make sure that our plans push everyone forward, but that we are still responsible for achieving the own goal

T
Time-bound
Keep the timeline realistic and flexible to meet the established goals; without a time limit the goal can be delayed to infinity.

OPERATIONAL RISK - HOW TO MITIGATE THE RISK



THE OPERATING MODEL

THE OPERATIONAL RISK EVENTS

Government entities:
- Central Government & Special Funds
- Local Government

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Workflows Risks Identification

01 Objective: Cash flows forecasting

- Line ministries have not respected the limits of the sources of financing from Budget. A negotiation is necessary for the change in the monthly cash plan.
- Not having a specific legislation and AGFIS manuals during the forecasting/recording of the cash plan in AGFIS.
- Inaccurate determination of the daily cash flows forecasting in the circumstances of a lack of funds available for payments.

02 Objective: Cash Management

- Failure to record the limit at the appropriate time and extent for each payment session in AGFIS.
- Non-collection of daily swifts by banks in the Unified Treasury Account (TSA) in accordance with the bilateral agreement with the banking system.

03 Objective: Information is timely, accurate, consistent, reconcilable, compliant, reliable, related, by standard methodology.

- Not Reporting within the set deadlines of data.
- Incorrect entries in AGFIS by the banking system.
- Accounting issues in AGFIS, inaccurate records, no proper data in cash/accrual General Ledger.
- Altered data after dissemination and publishing.
- Not respecting the rules of consolidation standards.
- Workload/vacant post and human errors.

04 Objective: Ex-ante controller

-The nature of transaction is not fitted with approved destination by appropriation, unauthorized Procurement Orders from Treasury,
-No submission of contracts to AGFIS timely,
-No timely delivery of payment bills to the TDOs,
-Transactions are not submitted by right category and due flex fields combination.

RISK REGISTER

- Understandable
- Well structured
- Clearly presented
- Clear links to lower level registries
- A clear focus on Group of Management of Strategy's discussions

THE OPERATIONAL RISK EVENTS

Risks can be identified through different approaches:

- Through control of the unit, processes, or checkpoints and decision-making;
- Taking into account previous findings and audit missions, detection of irregularities, warnings of malfunction or weakness;
- Exchange of ideas / verification of documents performed by different levels of employees and managers;
- General risk assessment in the form of systematic audit performed by internal audit/supreme audit or review by development partners or management itself.

THE DESCRIPTION OF RISK
Example 1

Objective: Implement a new IT system to monitor the results of ex-post controls by the end of Year X.

Risk description: There is a risk that will lead to significant delays in starting the project (estimated 10-12 months) due to lack of competent staff, which is partly due to education.

IDEAL: Provides a quantitative assessment of the impact on the target and determines the cause of the risk.

RISK ASSESSMENT

There are three important principles for evaluating risk:

- Ensure that there is a clearly structured process in which both the probability of occurrence and the impact are considered for each risk;
- Record risk assessment in a way that facilitates the monitoring and identification of risk priorities;
- Be clear about the difference between inherent risk and residual risk.

The assessment process is a judgment based on the expertise and experience of the risk assessor (s) and the level of information available at the time of the observation;

The impact of the event that causes the risk can be defined as one's perception of the consequences that the event has for the entity.

RISK ASSESSMENT - Example 2

Probability (P):

1-Low: Probability of an adverse event occurring is practically impossible or very low.
2-Medium: There is a moderate probability that an adverse event may occur, which is supported by previous data or knowledge of events that occurred.
3-High: The probability that an adverse event can occur is relatively high. It happens continuously and there is ample evidence that the event will take place.

Probability	High	3	6	9
	Medium	2	4	6
	Low	1	2	3
		Minor	Moderate	Significant
		Impact		

Impact (I):

1-Low: In case the risk appears, the continuation of the work process and the planned activities are not affected or are affected very little and no commitment of additional resources is needed.
2-Medium: If risk arises, activities are significantly affected and additional resources may be needed to achieve the objectives.
3-High: In case the risk arises, the activities are significantly affected and significant additional resources are needed to achieve the objectives; or when it is not possible to achieve the objectives

RISK ASSESSMENT
Example 2 - Ongoing

Risk management action when:

P-Low & I-Minor:	Accept risks
P-Low & I-Moderate:	Risk may be worth accepting with monitoring
P-Low & I-Significant:	Considerable management required
P-Medium & I-Minor:	Accept but monitor risks
P-Medium & I-Moderate:	Management effort worthwhile
P-Medium & I-Significant:	Must manage and monitor risk
P-High & I-Minor:	Manage and monitor risks
P-High & I-Moderate:	Management effort required
P-High & I-Significant:	Extensive management essential

RISK RESPONSE

The next step is for management to make appropriate risk response decisions:

- Treatment aimed at limiting or reducing the risk;
- Risk transfer;
- Risk tolerance;
- Risk termination.

The task of management is to manage risks in order to ensure the achievement of the organization's objectives, with an accepted level of risk. Resources are always limited and it makes no sense to talk about total risk elimination or total risk prevention, but only about risk mitigation at the level accepted by management.

RISK RESPONSE
Example 3

Treatment	Aimed at limiting or reducing the risk by taking appropriate corrective and remedial/disciplinary measures in a timely manner, such as: Reporting outside the deadlines set out in the minister's instruction. (reminder e-mail before deadline, warning paper from PAO after deadline).
Transfer	It may assess that the risk is too high: Agreement with the Central Bank to acts as a fiscal agent of government (lack of: specialized staff, money market software, etc.)
Tolerance	It is possible only if: (i) specific risks have a limited (insignificant) impact on the achieve-ment of goals/objectives; (ii) the costs of taking measures are not proportional to the potential benefits: Delayed submitting of FF reports by protocol when previously sent on time by e-mail. (there is a risk of inconsistency of data, when they are the same is tolerated)
Termination	It can be reduced/limited to acceptable levels by terminating the activity: Data Warehouse is changed in PFM Strategy (when it is revised in 2019) and it is replaced with macro excel sheet ,as an transition phase. (failure to take action can be risky, because the unit's goals/objectives cannot be achieved)

RISK CONTROL

Steering controls

1-Clear definition of policies

2-Setting objectives (plans)

3-Laws and regulations

4-Procedures (written procedures)

5-Appropriate training of staff etc.

Preventive Controls

1-Separation of duties

2-Check for arithmetic accuracy before payment

3-Existence of authorization and approval procedures

4-Access control in applications

Detective Controls

1-Direct controls on the structures where it is performed

2-Matching invoices with the bank statements

3-Checking returned payment errors from the banks

4-Checking the differences between cash-accrual data & budget-cash plan

Corrective Controls

1- Correction of incorrect accounting entries in AGFIS by monthly reconciliation

2- Checking the unaccounted data of modules to General Ledger of AGFIS for accuracy of reporting data

CONTROLLING TOOLS: S W O T

Future

	3.Opportunities	4.Threats
1.Strengths	Identify chances, that fit to the strengthens of the unit	Use strengthens to confront external threats
2.Weaknesses	Get rid of internal weaknesses to use opportunities: transform weaknesses into strengthens	Reduce internal weaknesses and confront threats. Frequent combinations like this endanger the unit

Past

Use

Promote

Limit

Reduce

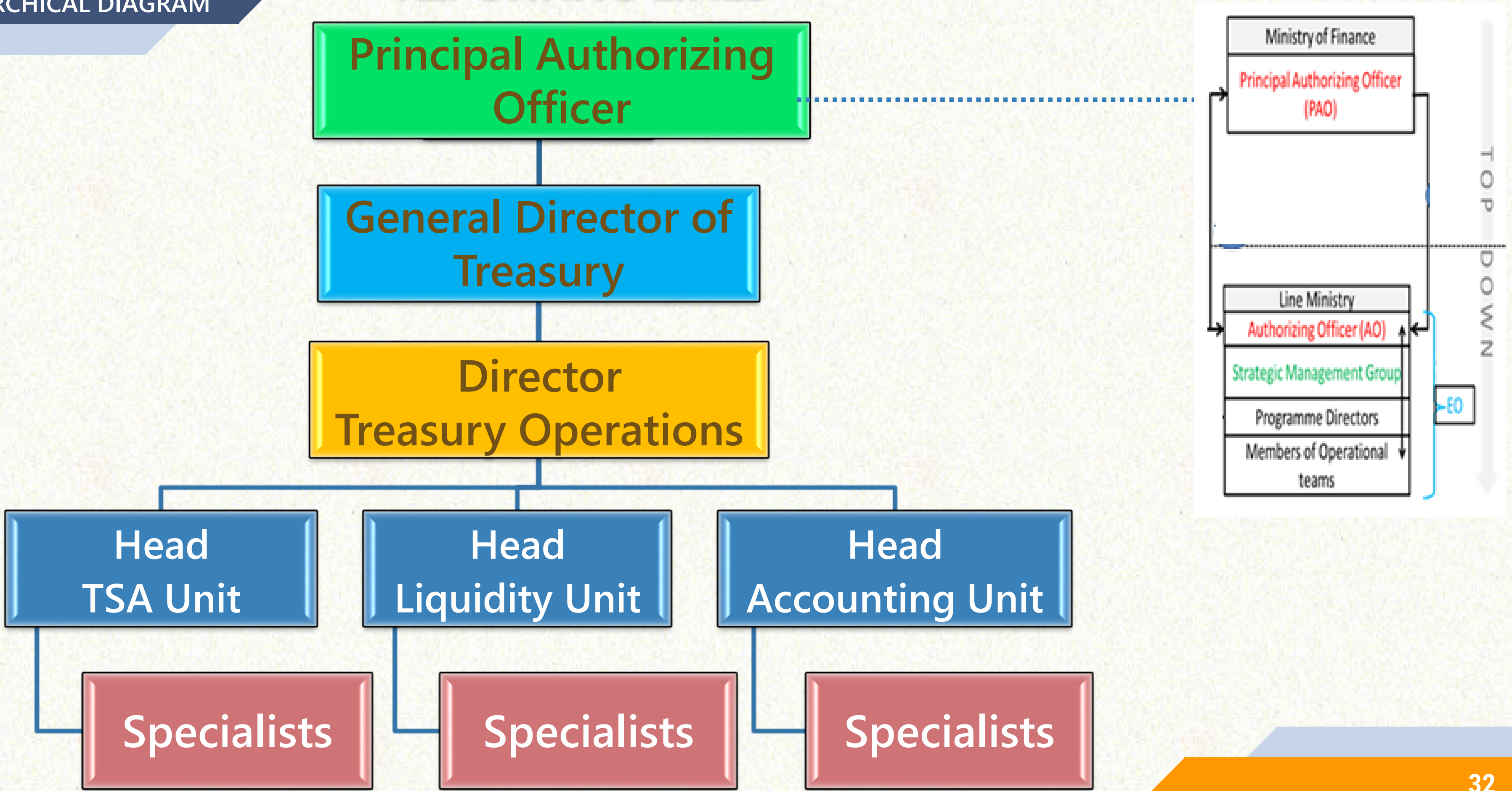
MONITORING THE RISK MANAGEMENT PROCESS

Information and communication:

- Information within the unit, about the risk strategy, risk priorities, and responsibilities of each;
- Exchange of information within the unit;
- Exchange of information with partner public entities.

Risk Management Process Review is needed to monitor if the risk profile is changing, to gain assurance that risk management is effective and to identify when further action is needed.

REPORTING LINES



Thank you

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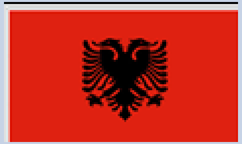
MIMOZA PILKATI (PEÇO)
Director
Treasury Operations' Department
General Directorate of Treasury
Ministry of Finance and Economy
(A): Blv. "Dëshmorët e Kombit" No. 3, Tirana, Albania
(M): +355684047162
(E): mimoza.peco@financa.gov.al (E): www.financa.gov.al



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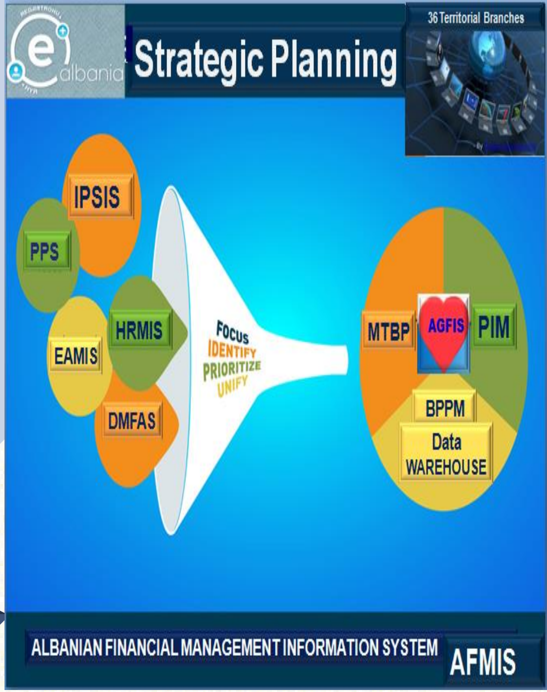

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Addressing risks through business processes

BUSINESS PROCESSING'S RISK

Business Processing Directorate deals with

- Mitigation of operational risks building control rules/features/processes in financial systems
- Evidence and mitigation of Business Process Directorate functional risks

MITIGATION OF OPERATIONAL RISKS IN FINANCIAL SYSTEMS

Prevent and detect controls

- **Prevent controls**

- Supervision/training of junior staff
- Passwords on accessing systems
- Form personalisation's (for accounting registrations)
- Cross validation rules (for accounting registrations)
- Security rules/separate operating units
- Financial consolidation automation through prebuilt formulas

- **- Detect controls**

- Reconciliations of accounts
- Activity logs in financial systems
- Monitoring reports

Separation of duties implemented in information financial system

- Authorisation of transactions by a second person/approval transaction flow (minimum 2 levels)
- Separate functional responsibilities according to the job position for each system user.

Some other key controls

- Control on available budget funds on commitment registration
- Control on cash limits regarding payments (cannot pay more than TSA balance)
- Controls on supplier/creditor references (ID supplier check with tax system)
- Controls when using supplier bank accounts (commitment or expense order level)
- Predefined controls during importing data from other systems (in case of system integrations)

EVIDENCE AND MITIGATION OF RISKS RELATED TO BUSINESS PROCESSING FUNCTIONS

Prepare the risk register and mitigate risks following the below steps:

- **Clearly define the list of objectives of the Business Processing Directorate:**
  - Ensure optimal daily operational processes into AGFIS.
  - Ensure successful AGFIS functional development in case of new requirements in line with legal changes or Public Finance Strategy activity implementation.

- **Determine the possible risks with their profile that impact achieving objectives and clearly define the responsible unit/staff to deal with.**
  - Abnormal execution of work processes and high user errors frequency
  - Quality of ToR's definition
  - On time contracting the outsource system development company
  - Quality of new functional system configurations

- **Assess existing controls/measures helping to mitigate the risks**
  - Predefined system controls like cross validation rules, security rules, form personalization's to prevent user errors.
  - Train new system users and test them before giving access into the system.
  - Create and maintain a database of user errors with reference on kind of errors, user references, error solution etc.
  - Predefined users rights according to their job position and well implementation of system users management manual.
  - Well explanation of existing and new functional requirements in line with new needed operational processes as part of functional ToR's.
  - In time budget financing requirements to cover needed costs for new system functional developments
  - In time of procurement process for the outsource system development company.
  - Internal Audit or external certification of controls such as an ISO type review

EVIDENCE AND MITIGATION OF RISKS RELATED TO BUSINESS PROCESSING FUNCTIONS

Prepare the risk register and mitigate risks following the below steps

- **Explore new further controls/measures if needed and determine actions to address gaps**
  - Retrain system users in case of repeated user errors
  - Review user manuals if needed to better explain processes
  - Build add hock system reports to monitor possible user errors (monitoring reports may include transactions with error or not reconciled accounting balances)
  - Collaborate with beneficiary in case of new system functional configurations (operational staff, general government units, other system users) to enhance ToR's quality.
  - Test in detail all new functional configurations and existing system functions that may be impacted. Possibly include system users that will use new system configurations.

- **Review the Risk Management Process to monitor if the risk profile is changing and in case the profile risk remain same, refer the issue to the top level management for further support measures, like in case of:**
  - Budget funds not yet planed to finance the cost of new system configurations
  - Time delays in procurement process

Thank you

for your attention!

REPUBLIKA E SHQIPËRISË
MINISTRIA E FINANCAVE
DHE EKONOMISË

AURELA VELO
Director
Business Processing's Department
General Directorate of Treasury
Ministry of Finance and Economy
(A): Blv. “Dëshmorët e Kombit” No. 3, Tirana, Albania
(M): +355684047162
(E): aurela.velo@financa.gov.al (E): www.financa.gov.al