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## Chapter 32

### Financial control

# Towards EU Accession Negotiations: Priorities of European Integration

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04 November 2021

## Chapter 32

### Financial control

**Note:** For PIFC and External audit - no *acquis* exists that requires transposition into national legislation, while a candidate country is expected to adopt and implement EU good practices and internationally recognized frameworks and standards

Public internal financial control (PIFC)

External audit

Protection of EU financial interests

Protection of euro against counterfeiting

«Priorities in the remaining legal harmonization and institutional reform

for the chapter 32 'Financial Control'»

PROPOSAL FOR CONSIDERATION

Finalized by experts on 03.10.2021.

Based upon -

General quality assessment of LGA, ToC and IAGA, where exists

Annual PIFC Report for 2020

Annual Performance Report 2020 of the Albanian Supreme Audit Institution

5 revised ToC by the Bank of Albania

Interviews with CHU, MFE and Bank of Albania

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## Distinction between –

High priority measures  
(1<sup>st</sup> half of 2022)

Medium priority measures  
(end of 2023)

Low priority measures  
(beyond 2023)



Chapter 32 – a specific chapter; **no acquis exists** for two out of four sub-chapters, while



Adequate Public Internal Financial Control (PIFC) and professional external audit are the **backbone of public service**, therefore



Alignment to good PIFC and EA practices should be considered **as a cross-cutting high priority measure** to ensure the basis for the development of other areas, however



The high priority of alignment of PIFC and EA practices must be **balanced with the existing capacity of public institutions** to implement reforms, to avoid formal implementation

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The SEI Proposal on priorities to be seen by the national authorities as **an inspiration for discussion and further decision-making** rather than the draft of updated NPEI

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## PIFC\* summary of status

\* Legal transposition measures are not required since no acquis exists; focus on implementation measures



PIFC policy and regulatory framework are generally established, however, **practical implementation of policies and regulations significantly lag behind**



Public agencies and municipalities remain the weakest institutions as regards functioning of internal control systems; main elements of managerial accountability are still not functional and require enhancement



The main issue seems to be the **level of awareness of senior managers of the PIFC concept** and 'added value' as well as financial and legal discipline



Internal auditing (IA) is not fully compliant with international IA standards; IA impact is mediocre



**Reliability of the PIFC data** is questioned by the Albanian SAI

*High priority*  
(1<sup>st</sup> half of 2022)

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## PIFC\* - suggestions to close gaps

\*Legal transposition measures are not required since no acquis exists; focus on implementation measures



To ensure **reliability of PIFC data**



To consider the **adoption of the PIFC Policy 2021-2022 at the governmental level** to ensure 'horizontal' commitment



To ensure the government 'acts upon' the PIFC Annual Report instead of 'taking a note'



To ensure the **coherence of PIFC legislation with other horizontal legislation** and consider application of 'incentives' to senior managers for achievement/non-achievement of policy objectives



To improve the systems for **monitoring public expenditure**, and consider enhanced training activities in identifying and reporting on irregularities







To update legal framework to ensure full compliance with international internal auditing standards and **strengthen methodological support to IA units**



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## PIFC\* - suggestions to close gaps (2)

*Medium priority  
(end of 2023)*

-  To raise **reputation of the IA profession** (remuneration? (*egg-chicken* thing))
  -  To consider **internship for internal auditors** of developing IA units to strong IA units
  -  To consider **further strengthening of the CHU** to become the PIFC 'centre of excellence' thus gradually decreasing 'external' assistance
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-  To develop **ToCs and Gap Assessment** to clearly scope the gaps and demonstrate to the EC our gap-filling plan (SEI Project will support this measure)

\*Legal transposition measures are not required since no *acquis* exists; focus on implementation measures

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## External audit\* - summary of status



The constitutional and legal framework provides for **independence of the SAI**, however, its financial capacity and sufficient audit coverage depends on political decisions by the Parliament



The **SAI invests heavily in updating audit methodologies** and providing appropriate guidance to auditors, and demonstrates positive trends



**Full alignment with ISSAIs is still to be achieved** in financial auditing, quality control and assurance, and audit typology

\*Legal transposition measures are not required since no acquis exists; focus on implementation measures

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## External audit\* - suggestions to close gaps

*High priority*  
(1<sup>st</sup> half of 2022)



To finalize drafting modifications to the SAI Law focusing on **enhanced mandate and unrestricted access to information**



In order to expand the audit coverage - to initiate discussions with relevant Assembly committees during the budget planning exercise for 2023 **on increasing SAI's budget**



To develop strategies for **maximum digitalization** of audit work



To establish mechanisms for achieving a **higher implementation rate of audit recommendations**

\*Legal transposition measures are not required since no acquis exists; focus on implementation measures

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## External audit\* - suggestions to close gaps

*Medium priority*  
(end of 2023)



To expand audit coverage and **ensure selection of audit topics providing the highest impact** on the functioning of the public sector



To increase the coverage of financial audits and ensure compliance with ISSAIs in financial auditing



To increase the coverage and quality of performance audits; consider **secondment of audit team leaders** to peer SAIs to obtain hands-on experience and learn best practices in performance auditing



To consider peer-review approach as an additional resource for **annual quality assurance measures**

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To **develop ToCs and Gap Assessment** to clearly scope the gaps and demonstrate to the EC our gap-filling plan (SEI Project will support this measure)

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\*Legal transposition measures are not required since no acquis exists; focus on implementation measures

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The suggestions should be seen and considered in light of **SIGMA's Monitoring Report for Albania**, to be published in Nov/Dec 2021 since said report will include SIGMA's recommendations on improvement of the PIFC and external audit system in the country

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# Protecting the EU's financial interests – summary of status



Approximation is generally, however, harmonization with the EU Directive on combating fraud against EU financial interests, **by means of criminal law**, is still to be achieved



AFCOS unit and network are operational, while there is **no national anti-fraud strategy in place** (planned for 4<sup>th</sup> quarter 2022)



A manual for managing **irregularities** in use of the EU funds has been adopted



Albania **cooperates with the EC** during investigations and reports to the EC on irregularities and suspected cases of fraud



EU legal acts governing implementation of IPA funds **are not directly applicable within the Albanian legal system** – issue of (1) full protection of IPA funds and (2) fulfilment of commitments imposed by the above acts on the date of accession (e.g. FR)

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# Protecting the EU's financial interests – summary of status (2)

- ✓ A number of the EU legal acts governing IPA will not be relevant after the date of accession
- ✓ However and instead, the **European Structural and Investment Funds (ESIF) and other funds will become available** requiring differing structures and procedures compared to those for IPA
- ✓ The issue of **sustainability of the current IPA structures** and necessity for a Road Map defining how the transition from the existing IPA (and IPARD) structures and procedures to the ESIF (and EAFRD) structures and procedures will take place to enable 'overnight' switch to the member state status
- ✓ **IPA III regulation** (20.09.2021.) for the period 2021-2027 serves as a good 'playground', however, should be carefully looked at
- ✓ EC Delegated and Implementing regulations are not available yet

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# Protecting the EU's financial interests – suggestions to close gaps

*High priority*  
(1<sup>st</sup> half of 2022)

Legal measure:



Adoption of Anti-fraud strategy (Directive (EU) 2017/1371 of 05.07.2017)

Implementation measures:



To consider necessity for additional measures for participation in the 'Union's Anti-Fraud Programme (Regulation (EU) 2021/785 of 29.04.2021)



To develop ToCs and Gap Assessment to clearly scope the gaps and propose the Road Map for smooth transition from IPA III management to ESIF



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# Protecting the EU's financial interests – suggestions to close gaps (2)

*Medium priority  
(end of 2023)*



Implementation measures:

Analysis of:

- IPA III regulation (20.09.2021.) for the period 2021-2027
- IPA III delegated acts and implementing rules (as soon as they become available)

in order to get assurance that the IPA III structures are sustainable and are established with the perspective to assuming the ESIF management responsibilities after accession.



Development of a **Road Map for adequate transition from IPA III to the ESIF** in case the requirements for the management of said funds differ

*The SEI Project could provide a support to said measures*

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# Protecting the euro from counterfeiting – summary of status

Albania has ensured full transposition of:



Council Regulation **1338/2001** laying down measures necessary for the protection of the euro against counterfeiting



Council Regulation **2182/2004** concerning medals and tokens similar to euro coins, as amended



Council Regulation **2183/2004** extending application of Regulation No 2182/2004 to the non-participating Member States



Regulation **1210/2010** concerning authentication of euro coins and handling of euro coins unfit for circulation



Council Decision **2001/887/JHA** on the protection of the euro against counterfeiting



ECB Decision **2010/597/EU** on the authenticity and fitness checking and recirculation of euro banknotes ECB/2010/14)

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# Protecting the euro from counterfeiting – summary of status (2)



Albania has also opted for other – ‘soft’ measures (cooperation, networking, etc.) to align with a number of other EU legal acts not being subject to transposition



Two cooperation agreements are signed between the EC DG/ECFIN and the Bank of Albania on protection of euro coins and banknotes

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# Protecting the euro from counterfeiting – suggestions to close gaps

*High priority*  
(1<sup>st</sup> half of 2022)

Implementation measure:



To finalize ToCs, LGA and IAGA demonstrating full compliance of transposition, in order to provide assurance to the EC

*SEI Project will support this measure*



To develop a **Road Map** for transposition of those provisions of the EU legal acts which become applicable after accession of the EU and/or Eurozone

*SEI Project will support this measure*

*Medium priority*  
(end of 2023)



To consider additional measures to facilitate participation of the Albanian officials in exchange, assistance and training programmes (Regulation (EU) 2021/840 of 20.05.2021.)

## Good practice example from Bank of Albania

- The Regulation (EU) No 1210/2010 of 15.12.2010 sets provisions for authentication of euro coins
- Theoretically, EU regulations protecting euro could be considered as not being the subject to immediate transposition, because regulations:
  - become directly applicable on the date of accession
  - concern the euro currency while Albania uses (and certain period after the date of accession will still use) the Albanian LEK
- The BoA have decided to subject the Albanian LEK to similar provisions as the Regulation requires the member states to fulfil with regard to euro coins - thus the relevant systems and procedures are generally prepared for both the accession and joining the euro zone
- Such a ‘transposition’ can be considered as a good example and best practice, how national authorities gradually prepare for the date of accession by developing systems and procedures

Similar approach, where appropriate, is advisable also to other authorities being responsible for the *acquis* transposition exercise

Thank you for listening!

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