SUPREME AUDIT INSTITUTION OF ALBANIA

INTERNATIONAL AUDITOR FELLOWSHIP PROGRAM

STRATEGIC PAPERS OF ALSAI AUDITORS FOR THE GAO's FELLOWSHIP

REPUBLIC OF ALBANIA

SUPREME AUDIT INSTITUTION

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PREFACE

The USA are not just the most democratic and powerful country in the world. The country's supreme public audit institution is a leading institution of INTOSAI, the world organization of Supreme Audit Institutions (SAIs), the organizations responsible for making governments accountable on how they spend citizens's money.

26 years ago, in 1992, this institution, otherwise called the US Government Accountability Office (GAO), organized the INCOSAI XIV, the INTOSAI's Congress in Washington, DC. This was the event that marked the most important development in the SAIs community up to at that time, following the INTOSAI IX-th Congress in Lima in Peru in 1977.

The Washington INTOSAI Congress focused on the standards and guidelines for public supreme audit. From Washington, the saga of most important public supreme audit product in the world started. This product, the internationally recognized standards of pulic supreme audit (the ISSAIs) drew the attention of the UN and today form the basis for monitoring the UN Development Agenda 2030.

Vitality gained by making and promoting these professional standards was combined with defining the strategic directions of INTOSAI. GAO took over the leadership of INTOSAI's Working Group for the preparation of a global development strategy. GAO's contribution to this Group also helped develop our ALSAI 2013-2017 Strategy, as we had our main objectives set out in compliance with INTOSAI's 2011-2016 Development Strategy, notably the second Goal of institutional building and the fourth Goal of capacity building towards a model organization.

GAO was also at the forefront of the preparations for the new INTOSAI's Development Strategy 2017-2022, adopted at the last congress, the INCOSAI XXII in December 2016 in Abu Dhabi, the United Arab Emirates on 5-11 December 2016. The Chairman of the Working Group for the Development of the INTOSAI Strategic Plan was the GAO's Compltroller General Mr. Gene L. Dodaro, the most prominent personality in public auditing in the world today.

In his greeting on the occasion of the 90th anniversary of the foundation of ALSAI, Comptroller General of United States, Mr. Gene Dodaro stressed *that " It is important for us to reflect the diversity of INTOSAI as one of our greatest strengths and as a valuable resource to individual SAIs. The new plan is intended to build upon INTOSAI's core functions and achievements in standard-setting, SAI capacity development, and knowledge sharing".*

Based on these traditions and inalienable value of the contribution of an SAI such as GAO in the public supreme audit progress in the world, we translated into Albanian and published the GAO's auditing standards in 2015, called "the Yellow Book" and two years later GAO's Standards for Internal Control in the Federal Government, called "the Green Book".

Chairman of ALSAI, Mr. Bujar Leskaj in the meeting with the Comptroller Genaral of the United States, Mr. Gene L.Dodaro

Reading and acquiring these standards by ALSAI auditors is assisting them in their daily work to carry out quality audits and is orienting them to successfully face the hard challenges of profession.

Chairman of ALSAI, Mr. Bujar Leskaj with the GAO's Managing Director, Strategic Planning and External Liaison,
Mr. James James-Christian B. Blockwood

In the last three years, the ALSAI-GAO relationship strengthened and developed into concrete partnership. We are grateful to GAO and especially to Mr. Dodaro for enabling the training of our 5 managers and auditors for approximately 4 months at the GAO offices in Washington D.C., in the form of the GAO Fellowship Program over the three-year period 2016-2018. This experience has been of exceptional value for us.

Director of GAO's Center for Audit Excellence, Ms. Janet St Laurent at open lecture with ALSAI auditors

The five studies from our managers and auditors that got trained in GAO, contained in this book are comprehensive proof of the extensive benefits that our institution has received from GAO. The conclusions and recommendations of these studies constitute a sound work program for ALSAI in the future. Below we list some of the key recommendations that our auditors gave in their studies, based on GAO's experienced and which are included in ALSAI Development Strategy 2018-2022:

- ALSAI should see the possibility of creating in the near future a dedicated special structure for the detection and respond towards fraud, waste and abuse (or corruption).
- Based on the provisions made in INTOSAI Strategic Plan 2017-2022 and ISSAI GOV 5700, ALSAI should consider starting to evaluate and monitor the implementation of Sustainable Development Goals by the Government and also of the current governmental strategies in the fight against corruption.
- ALSAI should develop an internal manual on internal controls, considering simultaneously COSO Framework, the GAO's Green Book and the ISSAIs
- ALSAI should also prepare an annual report on effectiveness of internal controls in Albanian public sector as part of the annual report on budget execution, to present it to the Parliament.
- ALSAI should consider establishing a high-risk program similar to the GAO model.
- Develop a guideline and the needed tools and processes to establish a database for tracking the implementation of performance audit recommendations.

- Develop policies for the involvement of other stakeholders in supporting performance audit teams throughout the whole audit process.

This book is published in English, in respect of fruitful partnership until now and future guaranteed cooperation with GAO, as well as in respect of its Comptroller General, Mr. Gene L. Dodaro, a personality of world dimensions of public external auditing.

James BLOCKWOOD

Bujar LESKAJ

Auditing for Fraud, Waste and Abuse
Mrs. Xhuljeta Çelaj
2016

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Acknowledgements

1. Purpose and Objectives of the Strategy Paper

The main purpose of this paper is to provide an overview of the GAO's approach in auditing for fraud, waste and abuse, and identify possible applications of the GAO model to the Albanian SAI.

The following page will discuss some of the main features of the GAO model in auditing for fraud, waste and abuse, such as the:

- Forensic Audits and Investigation Services, comprising its role, responsibility, methodology and audit techniques;

- GAO recently adopted Framework for Managing Fraud Risk in Federal Governments;

- Green Book (recently revised), or Standards for Internal Control in the Federal Government;

- Yellow Book, 2011 Revision.

The main objectives are:

- to provide the Albanian SAI management with clear insights of the past and recent developments in the audit for fraud waste and abuse at the GAO;

- to suggest the possible adoption of a similar Framework for Managing Fraud Risk;

- to suggest the establishment of an online fraud reporting method for the public;

- to suggest possible action to be undertaken in order to build the required capacities within the Albanian SAI with the GAO support and be able to carry out effective audits for fraud, waste and abuse;

- to inquire about the possibility of introducing a program in which selected staff can be trained to become of Certified Fraud Examiner.

These suggestions will be presented to the SAI management for consideration. In addition, the issues relating to audit of fraud, waste and abuse will also be presented to departmental officials through workshops and trainings.

2. A brief overview of the Albanian SAI

The Albanian Supreme State Audit Institution was first established on May 26th, 1925 with the Decree - Law "On the establishment of Comptroller's Council", as a constitutional independent body.

The institution has undergone many and different changes in the course of the years, but the most significant ones are that of the year 1946, when the People's Assembly approved the General State Comptroller right after the country was taken over by the communist party. During that period, the country was under the influence of the eastern block and the Albanian Communist Party ruled the country, consequently the General State Comptroller was an institution depending on the government and it lacked independence. In 1950, its name changed to the State Comptroller's Commission, a body depending also on the Government. In 1992, a new Law "On the Service of State Comptroller" sanctioned the new Service of State Comptroller as the supreme body of economic and financial control in the country, independent from the government. In 1997, another new Law no. 8270, "On High State Control", was adopted and it changed the name of the institution to High State Control and also improved the legal basis.

On November 27 2014 was approved the new Law no. 154/2014, "On the Organization and Functioning of the High State Control". This law reinforced even more the independece of the institution providing that:

a. The SAI is independent form the executive. It may decide to submit to the Council of Ministers its reports and other materials dealing with the Council of Ministers, ministries and other central institutions when it is considers necessary and in the interest of the state and the public. The Head of the SAI may be invited to participate and hold a speech in the meetings of the Council of Ministers, in occasions where there are discussions regarding its field of activity. The State Supreme Audit is subjected only to the Constitution and the Laws and it is also a depoliticized and impartial body. In its audit activities, it should reflect to the highest degree the implementation of the INTOSAI and IFAC standards, as well as the resolutions of the INTOSAI and EUROSAI Congresses. Its audit work is carried out in accordance with the Constitution, the laws, subsidiary legislation, audit manuals and international standards.

With the approval of the new law, our SAI has clarified its position with regard to the access to records, since in the law is clearly stated that *there is no limitation access to records, not even for those records that are classified (secret or confidential)* under the Law on State Secret Documents. The SAI has the competence to audit government activities that are classified as secret or confidential in compliance with the legislation in force on the matter. These audits are conducted by authorized auditors that have been provided with the security certification. The reports issued pursuant to this procedure are presented to the Committee on National Security and/or the Committee on Economy and Finances

The SAI presents to the Parliament: **A Report on the Implementation of the State Budget** for the previous fiscal year; **An Opinion on the Council of Ministers Report** for the costs of the financial year prior to the Parliamentary approval; Information on the **results of audits when requested** by the Parliament; **Final audit reports** when deemed necessary by the Head of the SAI or when it is requested by the Parliament. The Head of the SAI may ask the Parliament, the Committee on Economy and Finances or any other committee of the Parliament, **to be heard and to report** on issues considered important in its activity. The SAI presents to the Assembly an **Annual Report on its activities** within the first quarter of the following year.

The Albania SAI can conduct:

- ❑ Financial Audits;
- ❑ Compliance Audits;
- ❑ Performance Audits;
- ❑ Thematic Audits;
- ❑ IT audits.

With our new law approval it has been established that the SAI may audit the financial statements of the general government and issue an opinion.

Our SAI has carried out audits of the financial statements of governmental bodies, but it has never issued an annual opinion about them, due to the fact that for the moment we do not have consolidated financial statements of the general government.

The Albanian SAI can audit:

❑ All central government and local government institutions,

❑ Other central and local institutions performing public functions, independent institutions and commercial companies or any other form, including financial ones, where the state has a 50% share, or the loans, credits and obligations are guaranteed by the state.

❑ Political parties, public institutions or associations whose funds are allocated from the state budget;

❑ The users of public funds provided by the European Union or other international organizations, except as otherwise provided by a separate law;

❑ The public revenue collection. etc

It is organized in 6 Audit Departments, 1 Department of law, Control of the Standards and Ethics and 1 Department of Audit Policies.

It is a monocratic institution headed by the Chairman who represents the SAI and is accountable to the Parliament and Albanian people in the fulfilment of his constitutional duties as the head of the institution.
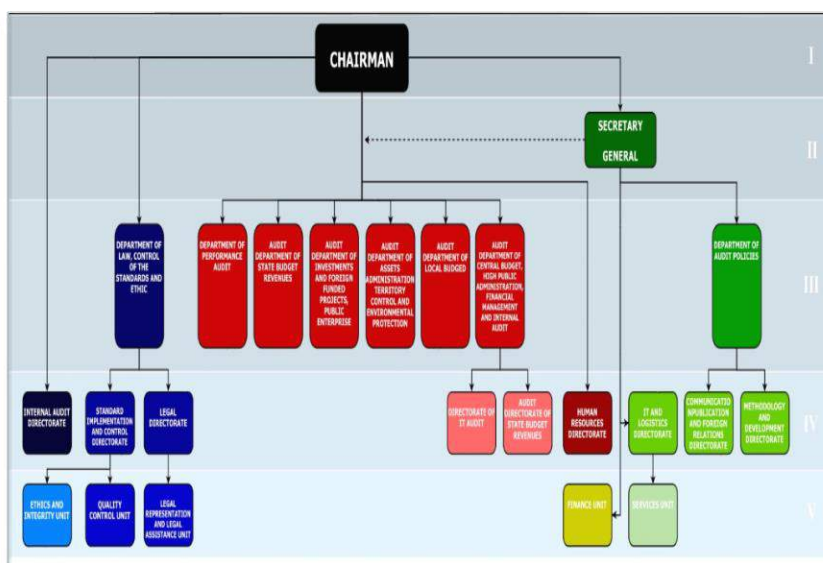
GAO's fraud, waste and abuse approach

1. Definition of concepts

Fraud

Many standard setting bodies such as the INTOSAI or IFAC have provided definitions of fraud, and fraudulent related activities.

It can be noted that in the International Standard for Supreme Audit Institutions ISSAI 1240[1] (or ISSAI 1240) fraud is directly related to misstatements arising from fraudulent financial reporting.

The International Standard on Auditing 240 (or ISA 240) determines that misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is *intentional* or *unintentional.* Fraud is an intentional misstatement, while error is unintentional.

Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor:

a. misstatements resulting from fraudulent financial reporting;

b, misstatements resulting from misappropriation of assets.

Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred. [2]

According to GAO's Yellow Book[3], fraud is a type of illegal act which involves obtaining *something of value* through *willful misrepresentation*,

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[1] Further in the text the International Standards for Supreme Audit Institutions will be mentioned as ISSAIs.
[2] See **ISA 240,** The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, pg. 165; and **ISSAI 1240,** Practice Note to ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, paragraph 4.
[3] Fraud defined on Chapter 6.30 of the Yellow Book

which is related not only to financial misstatements but also to other kinds of non financial benefits.

The Yellow Book as well recognizes that fraud is for the most part inherently financial, but it cannot be confined to only the financial gain from fraudulent activity.

The common elements of fraud are as follows:

a. A material false statement/omission of material facts;

b. Intent/knowledge that the statement is/was false;

c. Reliance by victim on the statement;

d. Damages/detriment resulted.

For the fraudulent activity to take place there must be an **opportunity** provided for that purpose, which is usually due to weak internal controls.

Generally speaking, individuals (public officials and/or individuals who lack entitlement for public benefits) responsible for fraud **rationalize** their actions/omissions stating that:

"The government is so big that what I take will never be missed." or "They owe me."

There may also be some kind of external or internal **pressure** on the potential fraudster to the fraud commission resulting from conditions such as, personal economic issues or simply greed etc.

Whatever the differences, there is general agreement on the existence of the three dimensions (Opportunity, Pressure, Rationalization) for fraud to occur.

OPPORTUNITY is the ability to actually commit a fraud. Opportunity increases with ease and lack of oversight. The fewer steps involved to commit fraud the more likely it is to occur. With inventory, if there are no restrictions on access and any employee can walk in at any time, there is greater opportunity for theft. If a salesperson can submit an order of any value without providing a customer's purchase order, there is greater opportunity to submit fake orders.

PRESSURE refers to a financial need. It is the catalyst that motivates an individual to commit fraud. For an employee, it may be that a family member lost their job, their house is in foreclosure, or medical bills are piling up for a sick child. For an executive, it may be the need to meet board and investor expectations, budgeted sales targets or loan covenants.

Figure 1: Fraud triangle

RATIONALIZATION is how an individual justifies committing fraud. Most people, including fraudsters, consider themselves honest. The fraudsters often sees themselves as victims of unusual circumstances and have to develop an explanation that makes illegal behavior acceptable. Rationalizations can range from helping oneself to helping others.

Common justifications for committing fraud: "I deserve it." "I'm only going to borrow the money." "I'm underpaid and overworked." "I have to take care of my family."

Public entities can prevent or reduce the incidence of fraud by working on any or all of these areas. In the case of internal fraud, they can help employees reduce or deal with pressures by providing benefits, they can prevent fraud opportunities, and they can watch for rationalizations expressed by employees, while in the cases of external fraud, public entities should engage in adopting internal controls that reduce opportunities for fraudulent activities.

The determination of whether conduct constitutes a fraudulent act is beyond the auditors' professional responsibility, and it has to be made by other competent bodies within the system, such as the judicial bodies.

However, the auditor should check for certain elements as he/she looks for fraud indicators based on a set of signs, signals, and patterns.

Specific indicators of fraud are generally difficult to identify; however, generic indicators or "red flags" (warning signals) are almost always present, and auditors must rely on understanding of how fraud is committed to successfully recognize these indicators.

Examples of these signs, signals, and patterns include the following:

a. Weak management: Failure to enforce existing controls, inadequate oversight of the control process, and failures to act on fraud are signs of weak management.

b. Weak internal controls in place: Inadequate separation of duties involving cash management, inventory, purchasing/contracting, and payment systems allow the perpetrator to commit fraud.

c. History of impropriety: Past audits and investigations with findings of questionable or criminal activity is very useful as roadmaps for further examining the current activity or transaction.

d. Unethical leadership: Executives who do not follow the rules and focus on personal achievement and not organization goals may be involved in fraudulent activity.

e. Promise of gain with little likelihood of being caught: When a perpetrator works in an environment of weak management, loose internal controls, and high-volume transactions, he/she has an ample opportunity to exploit the situation for personal benefit.

f. Unexplained decisions and/or transactions: Transactions, which are not ordinary and cannot be satisfactorily explained, for example, unexplained adjustments in inventory and accounts receivables, are often signs of fraudulent activity.

g. Failure to follow legal or technical advice: Unexplained deviation from legal and/or technical advice, particularly when concurrence is required, may be evidence of fraud.

h. Missing or altered documents: Sometimes the perpetrator includes misinformation and false data entries in records that are obvious; however, the perpetrator makes no attempt to conceal the changes.

Further, indicators also include providing information late without explanation, concealing unfavorable information, never creating required documentation, creating documentation after the fact, and destroying documents.

To understand and identify information that may suggest fraud, the auditor should be aware that fraud is most likely to occur *within six categories of criminal violations*:

1. Theft;

2. Embezzlement;

3. Fictitious transactions;

4. Kickbacks;

5. Bribery and extortion; and

6. Conflict of interest.

In any of these, fraud may occur.

In planning the audit, auditors should gather and assess information necessary to identify fraud risks which could be relevant to the audit objectives or affect the results of their audit. For example, auditors may need to obtain information through discussion with officials of the audited entity or through other means to determine the susceptibility of the program to fraud, the status of internal controls the entity has established to detect and prevent fraud or the risk that officials of the audited entity could override internal control. Auditors should exercise professional skepticism in assessing these risks to determine which factors or risks could significantly affect the results of their work if fraud has occurred or is likely to have occurred. After identifying factors or risks related to fraud that they believe could significantly affect the audit objectives or the results of the audit, auditors should respond by designing procedures to provide reasonable assurance of detecting fraud significant to the audit objectives.

Thus, assessing the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating evidence obtained during the audit. Auditors' training, experience, and understanding of the program being audited may provide a basis for recognizing that some acts coming to their attention may be indicative of fraud.

According to the 2016 Report of the Nations fraud is detected generally thanks to tips/hints by people/employees; internal audit units etc. The figure below explains who contributes to fraud detection globally and the % for each fraud detector:

Figure 21: Initial Detection of Occupational Frauds
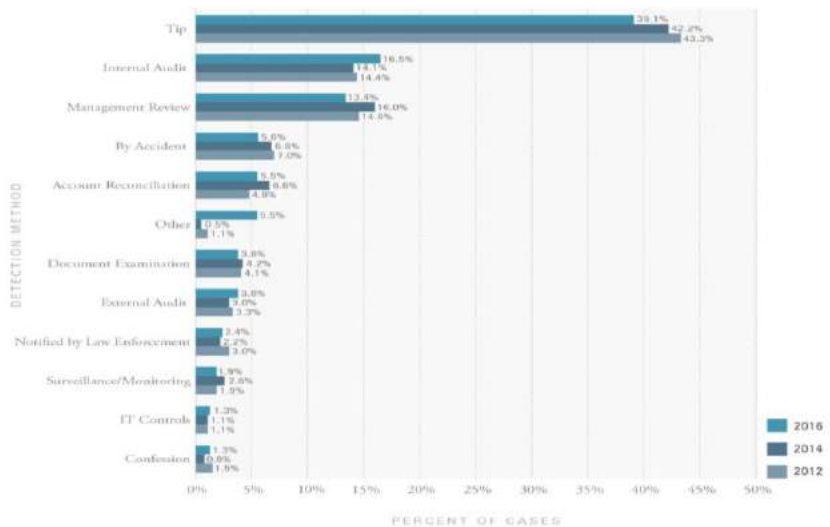
The report also provides with some interesting percentages regarding the size of the organization and the fraud occurrence.
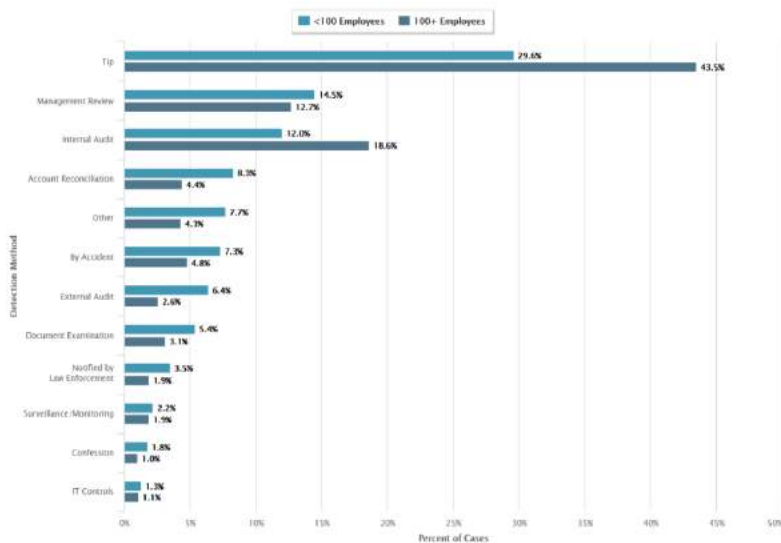
The graphic suggests that for different organization sizes, the detection methods rank differently, but there is one detection method that still is the most prominent one, which is tips/hint*whistle blowing fraud information.

Another chart of the same report explains the relationship between the detection method and the position of the fraudster.
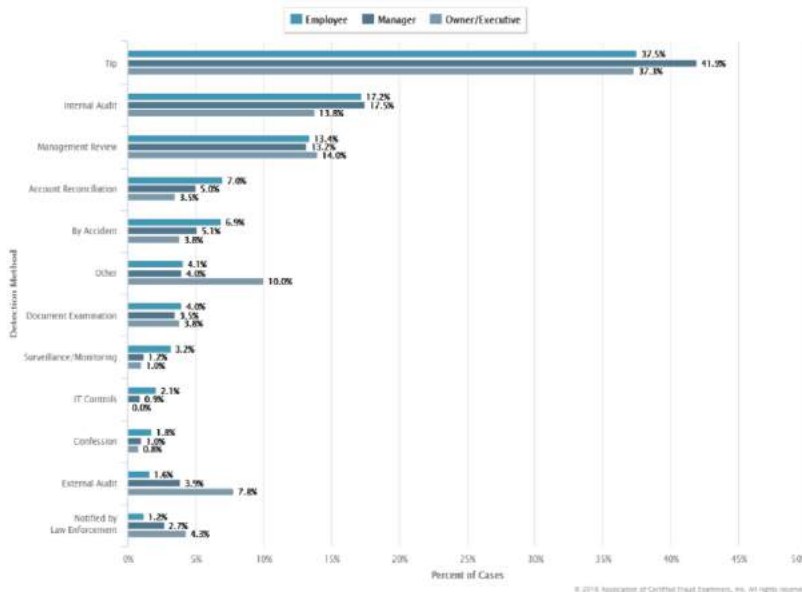
Waste[4]

According to the Green Book, waste is the act of using or expending resources carelessly, extravagantly, or to no purpose.

In other words, waste involves *a misbehavior* that is less than fraud and abuse; it involves the taxpayers in the aggregate not receiving reasonable *value for money* in connection with any government-funded activities, due to an inappropriate act or omission by players with control over or access to

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[4] There is a definition of waste provided in the Green Book and also in many GAO reports.

government resources (e.g., executive, judicial or legislative branch employees; contractors; grantees; or other recipients).

Further, most waste does not involve a violation of law (unlike fraud), but rather relates primarily to *mismanagement, inappropriate actions, or inadequate oversight*.

Illustrative examples of waste include the following:

- Unreasonable, unrealistic, inadequate, or frequently changing requirements.
- Proceeding with development or production of systems without achieving an adequate maturity of related technologies in situations where there is no compelling national security interest to do so.
- Failure to use competitive bidding in appropriate circumstances. An over-reliance on cost-plus contracting arrangements where reasonable alternatives are available.
- Payment of incentive and award fees in circumstances where the contractor's performance, in terms of costs, schedule, and quality outcomes, does not justify such fees.
- Failure to engage in selected pre-contracting activities for contingent events.
- Congressional directions (e.g., earmarks) and agency spending actions where the action would not otherwise be taken based on an objective value and risk assessment and considering available resources.

Abuse

According to GAO's Yellow Book[5], abuse involves ***behavior that is deficient or improper*** when compared with behavior that a prudent person would consider reasonable and necessary business practice(s) given the facts and circumstances.

Abuse also includes ***misuse of authority or position*** for personal financial interests or those of an immediate or close family member or business

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[5] GAO Yellow Book Chapter 6.33 defines Abuse; and, Chapter 6.34 clarifies more that determination of Abuse is subjective; auditors are not required to detect abuse in performance audits.

associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement. Some examples of abuse are:

- Failure to report damage to government equipment or property;

- Receiving favor for awarding contracts to certain vendors;

- Misusing one's official position to gain personal advantage while on official engagement in another government department;

- Creating undue overtime;

- Requesting staff to perform personal errands or work tasks for a supervisor or manager;

- Travel choices that are contrary to existing regulation or are unnecessarily extravagant or expensive.

2. Identification of fraud, waste and abuse

Fraud

When auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the audit objectives, they should design procedures to obtain reasonable assurance of detecting any such fraud. Assessing the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating evidence obtained during the audit.

When information comes to the auditors' attention indicating that fraud is significant within the context of the audit objectives, or may have occurred, auditors should extend the audit steps and procedures, as necessary, to **(1)** determine whether fraud has likely occurred and **(2)** if so, determine its effect on the audit findings. If the fraud that may have occurred is not significant within the context of the audit objectives, the auditors may refer the matter to other parties with oversight responsibility or jurisdiction.

Examples of Indicators of Fraud

GAGAS[6] contain requirements relating to evaluating fraud risk. In some circumstances, conditions such as the following might indicate a heightened risk of fraud:

a. economic, programmatic, or entity operating conditions threaten the entity's financial stability, viability, or budget;

b. the nature of the entity's operations provide opportunities to engage in fraud;

c. management's monitoring of compliance with policies, laws, and regulations is inadequate;

d. the organizational structure is unstable or unnecessarily complex;

e. communication and/or support for ethical standards by management is lacking;

f. management is willing to accept unusually high levels of risk in making significant decisions;

g. the entity has a history of impropriety, such as previous issues with fraud, waste, abuse, or questionable practices, or past audits or investigations with findings of questionable or criminal activity; developed or are outdated;

i. key documentation is lacking or does not exist;

j. asset accountability or safeguarding procedures is lacking;

k. improper payments;

l. false or misleading information;

m. a pattern of large procurements in any budget line with remaining funds at year end, in order to "use up all of the funds available;" and

n. unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program.

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[6] See GAGAS, Appendix I Supplement Guidance, Examples of Indicators of Fraud Risk, paragraph A. 10, pages 183 – 184.

Abuse

If auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse. Laws, regulations, and policies may require auditors to report indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional audit procedures. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the audit or a portion of the audit to avoid interfering with an ongoing investigation or legal proceeding.

Auditors should identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter.

The following are some examples of criteria:

a. purpose or goals prescribed by law or regulation or set by officials of the audited entity,

b. policies and procedures established by officials of the audited entity,

c. technically developed standards or norms,

d. expert opinions,

e. prior periods' performance,

f. defined business practices,

g. contract or grant terms, and

h. performance of other entities or sectors used as defined benchmarks.

GAGAS[7] contain requirements for responding to indications of material abuse and reporting abuse that is material to the audit objectives.

The following are examples of abuse, depending on the facts and circumstances:

a. Creating unneeded overtime.

b. Requesting staff to perform personal errands or work tasks for a supervisor or manager.

c. Misusing the official's position for personal gain (including actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an official's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the official serves as an officer, director, trustee, or employee; or an organization with which the official is negotiating concerning future employment).

d. Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive.

e. Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.

3. The GAO Framework for managing fraud risks

In order to help managers fight fraud and preserve integrity in government agencies and programs, GAO identified leading practices for managing fraud risks and organized them into a conceptual framework called the Fraud Risk Management Framework (the Framework). The Framework encompasses

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[7] See GAGAS, Appendix I Supplement Guidance, Examples of Abuse, paragraph A.08, pg. 182.

control activities to prevent, detect, and respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks.

Figure 2
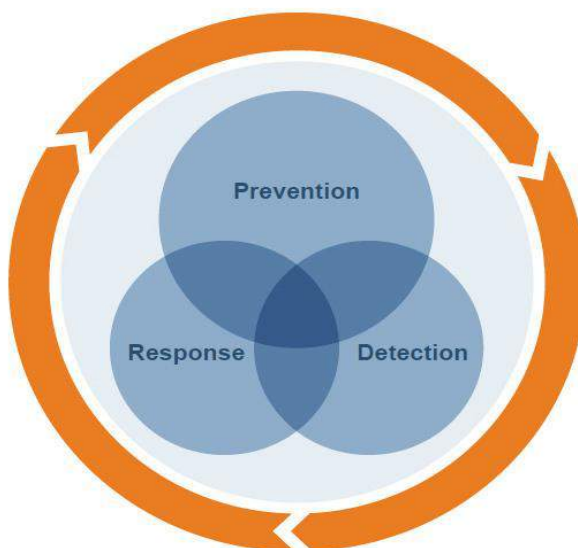
Source: GAO. | GAO-15-593SP

To address this objective, GAO conducted three focus groups consisting of antifraud professionals. In addition, GAO interviewed federal Offices of Inspector General (OIG), national audit institutions from other countries, the World Bank, the Organisation for Economic Cooperation and Development, as well as antifraud experts representing private companies, state and local audit associations, and non-profit entities. GAO also conducted an extensive literature review and obtained independent validation of leading practices from program officials.

In addition, the Framework highlights the importance of monitoring and incorporating feedback, which are ongoing practices that apply to all four of the components described below. The framework is made up of 4 basic principles and respective leading practices whose main goal is to commit to combating fraud by creating an ethical organization culture, assess fraud risk and risk tolerance, design and implement a strategy with specific control

activities which prevent and detect fraud, and evaluate and adapt outcomes of the control activities according to a risk based approach. The following scheme provided in the framework better illustrates the concepts explained above.

Figure 3
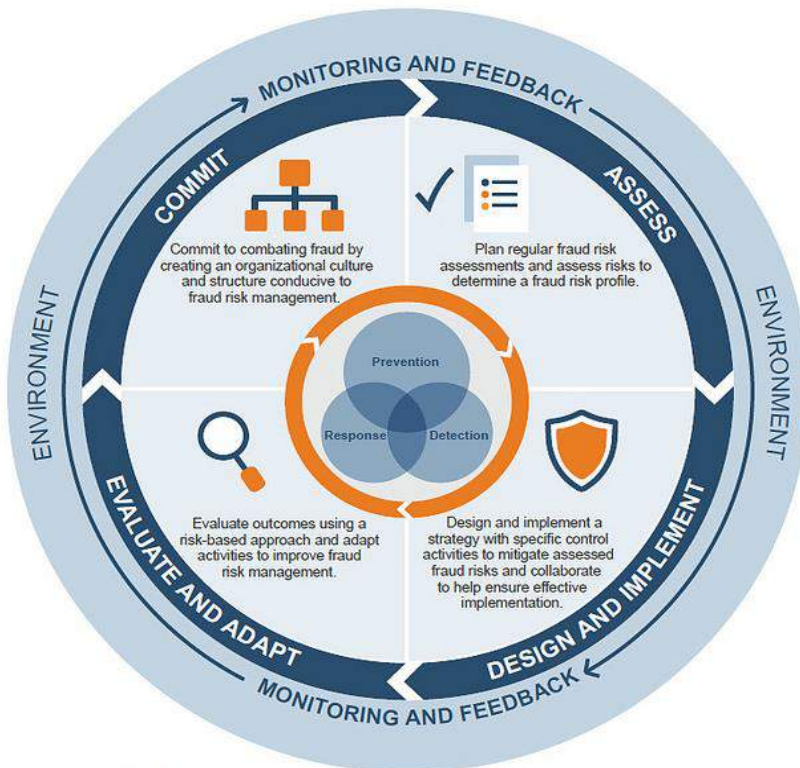
Source: GAO. | GAO-15-593SP

3.1 Risk assessment and management

The objective of the framework is to ensure an *effective fraud risk management* for the entities whose main goal is to continuously and strategically mitigate the likelihood and impact of fraud within their programs. The critical control activities for managing fraud risks fall into three general categories: prevention, detection, and response. These categories are interdependent and mutually reinforcing each other. As far as

the risk assessment and management are concerned the framework has identified two basic principles, which suggest management to, firstly create the right *control environment* in order to deter fraud related activities and secondly to assess on a regular basis fraud risks and risk tolerance.

Figure 4

Source: GAO. | GAO-15-593SP
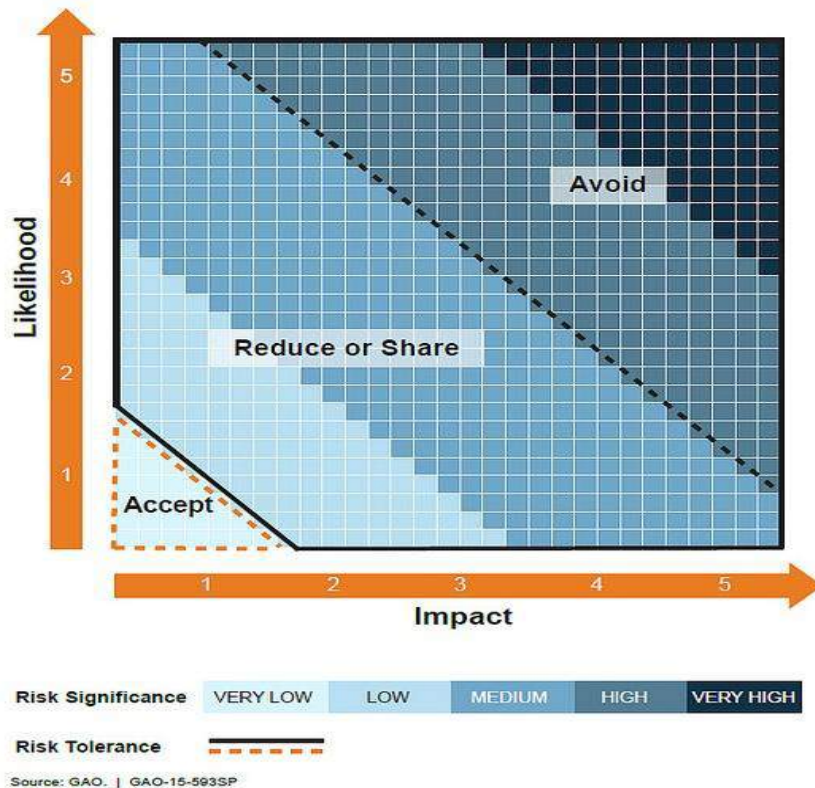
The aforementioned principles and the subsequent leading practices to achieve their fulfilment are:

1. Commit to Combating Fraud by Creating an Organizational Culture and Structure Conducive to Fraud Risk Management. The leading practices to achieve results by following with this principle are:

1.1 Create an Organizational Culture to Combat Fraud at All Levels of the Agency

- Demonstrate a senior-level commitment to integrity and combating fraud.
- Involve all levels of the agency in setting an antifraud tone that permeates the organizational culture.

1.2 Create a Structure with a Dedicated Entity to Lead Fraud Risk Management Activities

Designate an entity to design and oversee fraud risk management activities that understands the program and its operations, as well as the fraud risks and controls throughout the program;

- has defined responsibilities and the necessary authority across the program;
- has a direct reporting line to senior-level managers within the agency; and
- is located within the agency and not the Office of Inspector General (OIG), so the latter can retain its independence to serve its oversight role.

In carrying out its role, the antifraud entity, among other things:

- serves as the repository of knowledge on fraud risks and controls;
- manages the fraud risk-assessment process;
- leads or assists with trainings and other fraud-awareness activities; and
- coordinates antifraud initiatives across the program.

2. Plan Regular Fraud Risk Assessments and Assess Risks to Determine a Fraud Risk Profile.

The leading practices to achieve results by following with this principle are:

2.1 Plan Regular Fraud Risk Assessments That Are Tailored to the Program

Tailor the fraud risk assessment to the program.

- Plan to conduct fraud risk assessments at regular intervals and when there are changes to the program or operating environment, as assessing fraud risks is an iterative process.

- Identify specific tools, methods, and sources for gathering information about fraud risks, including data on fraud schemes and trends from monitoring and detection activities.
- Involve relevant stakeholders in the assessment process, including individuals responsible for the design and implementation of fraud controls.

2.2 Identify and Assess Risks to Determine the Program's Fraud Risk Profile

Identify inherent fraud risks affecting the program.

- Assess the likelihood and impact of inherent fraud risks.
- Involve qualified specialists, such as statisticians and subject-matter experts, to contribute expertise and guidance when employing techniques like analyzing statistically valid samples to estimate fraud losses and frequency.
- Consider the nonfinancial impact of fraud risks, including impact on reputation and compliance with laws, regulations, and standards.
- Determine fraud risk tolerance.
- Examine the suitability of existing fraud controls and prioritize residual fraud risks.
- Document the program's fraud risk profile.

3.2 Internal controls for fraud, waste and abuse prevention and detection

According to the Framework managers who effectively manage fraud risks design and implement specific ***control activities*** such as policies, procedures, techniques, and mechanisms to prevent and detect potential fraud.

In addition to designing and implementing new control activities, managers may also revise existing control activities if they determine, as part of the fraud risk assessment process, that certain controls are not effectively designed or implemented to reduce the likelihood or impact of an inherent fraud risk to a tolerable risk level.

As discussed, while fraud control activities can be interdependent and mutually reinforcing, preventive activities generally offer the most cost-effective investment of resources. Therefore, effective managers of fraud risks focus their efforts on fraud prevention. In order to achieve prevention and detection of fraud cases the framework suggests managers should:

3. Design and Implement a Strategy with Specific Control Activities to Mitigate Assessed Fraud Risks and Collaborate to Help Ensure Effective Implementation

3.1 Determine Risk Responses and Document an Antifraud Strategy Based on the Fraud Risk Profile

- Use the fraud risk profile to help decide how to allocate resources to respond to residual fraud risks.
- Develop, document, and communicate an antifraud strategy to employees and stakeholders that describes the program's activities for preventing, detecting, and responding to fraud, as well as monitoring and evaluation.
- Establish roles and responsibilities of those involved in fraud risk management activities, such as the antifraud entity and external parties responsible for fraud controls, and communicate the role of the Office of Inspector General (OIG) to investigate potential fraud.
- Create timelines for implementing fraud risk management activities, as appropriate, including monitoring and evaluations.
- Demonstrate links to the highest internal and external residual fraud risks outlined in the fraud risk profile.
- Link antifraud efforts to other risk management activities, if any.

3.2 Design and Implement Specific Control Activities to Prevent and Detect Fraud

- Focus on fraud prevention over detection and response to avoid a "pay-and-chase" model, to the extent possible.
- Consider the benefits and costs of control activities to address identified residual risks.
- Design and implement the following control activities to prevent and detect fraud:
  - data-analytics activities,
  - fraud-awareness initiatives,
  - reporting mechanisms, and
  - employee-integrity activities.

3.3 Develop a Plan Outlining How the Program Will Respond to Identified Instances of Fraud

- Develop a plan outlining how the program will respond to identified instances of fraud and ensure the response is prompt and consistently applied.
- Refer instances of potential fraud to the OIG or other appropriate parties, such as law-enforcement entities or the Department of Justice, for further investigation.

3.4 Establish Collaborative Relationships with Stakeholders and Create Incentives to Help Ensure Effective Implementation of the Antifraud Strategy

- Establish collaborative relationships with internal and external stakeholders, including other offices within the agency; federal, state, and local agencies; private-sector partners; law-enforcement entities; and entities responsible for control activities to, among other things, share information on fraud risks and emerging fraud schemes, and share lessons learned related to fraud control activities.
- Collaborate and communicate with the OIG to improve understanding of fraud risks and align efforts to address fraud.
- Create incentives for employees to manage risks and report fraud, including
  - creating performance metrics that assess fraud risk management efforts and employee integrity, particularly for managers; and
  - balancing fraud-specific performance metrics with other metrics related to employees' duties.
- Provide guidance and other support and create incentives to help external parties, including contractors, effectively carry out fraud risk management activities.

The key elements of an effective Anti Fraud Strategy clearly define:

1. **Who** is responsible for fraud risk management activities by establishing roles and responsibilities of those involved in fraud risk management activities, such as the antifraud entity and external parties responsible for fraud controls, and communicate the role of the Office of Inspector General (OIG) to investigate potential fraud.

2. **What** is the program doing to manage fraud risks by describing the activities for preventing, detecting, and responding to fraud, as well as monitoring and evaluation.

3. **When** is the program implementing fraud risk management activities by creating timelines for implementing fraud risk management activities, as appropriate, including monitoring and evaluations.

4. **Where** is the program focusing its fraud risk management activities by demonstrating links to the highest internal and external residual fraud risks outlined in the fraud risk profile.

5. **Why** is fraud risk management important by communicating the antifraud strategy to employees and other stakeholders, and link antifraud efforts to other risk management activities, if any.

<u>Figure 5</u>

Mitigate the risk of fraud occurring
- Antifraud strategy
- Employee background checks
- Fraud-awareness trainings
- System edit checks
- Data matching to verify eligibility
- Predictive analytics
- Segregation of duties
- Standards of conduct
- Transaction limits

Discover potential fraud that has already occurred[a]
- Audits
- Data matching after payments have been made
- Data mining
- Document reviews
- Hotlines and other reporting mechanisms
- Site visits

Investigate potential fraud, take corrective actions, and remedy the harm caused by fraud[a]
- Investigations
- Prosecutions
- Disciplinary actions
- Suspensions and debarments
- Payment recoveries

Source: GAO. | GAO-15-593SP

In addition to the above leading practices the framework suggests also the implementation of other practices specific to the detection phase as follows:

1. Perform Data Analytics Activities

Data analytics activities can include a variety of techniques. For example, data mining and data matching techniques can enable programs to identify potential fraud or improper payments that have already been awarded, thus assisting programs in recovering these dollars, while predictive analytics can identify potential fraud before making payments.

- Take a risk-based approach to data analytics and consider the benefits and costs of investing in specific data-analytic tools and techniques.

- Build support within the program for data-analytics activities.

- Ensure employees have sufficient knowledge, skills, and training to perform data analytics.

- Combine data across programs and from separate databases within the agency to facilitate reporting and analytics, if legally permissible.

- Pursue access to necessary external data, including pursuing data-sharing agreements.

- Consider program rules and known or previously encountered fraud schemes to design

data-analytic tests.

- Conduct the following data-analytics activities to prevent and detect fraud:

• Apply system edit checks to help ensure data meet requirements before data are accepted into the program's system and before payments are made.

• Conduct data matching to verify key information, including self-reported data and information necessary to determine eligibility.

• Conduct data mining to identify suspicious activity or transactions, including anomalies, outliers, and other red flags in the data.

• Automate data-analytic tests to monitor data for fraud indicators on a continuous, real-time basis.

• Tailor the output of data analytics to the intended audience to help ensure the results are usable.

• Review the results of data analytics and refer appropriate cases to the Office of Inspector General (OIG) for further investigation.

2. Conduct Fraud-Awareness Initiatives

Increasing managers' and employees' awareness of potential fraud schemes *through training and education* can serve a preventive purpose by helping to create a culture of integrity and compliance within the program. Further, increasing fraud awareness can enable managers and employees to better detect potential fraud.

In addition, increasing fraud awareness externally can help prevent and deter fraud.

- Require all employees, including managers, to attend training upon hiring and on an ongoing basis thereafter, and maintain records to track compliance.

- Collaborate with the OIG when planning or conducting training and promote the results of successful OIG investigations internally.

- Provide training to stakeholders with responsibility for implementing aspects of the program, including contractors and other external entities responsible for fraud controls.

- Use multiple methods to reinforce key antifraud messages.

- Convey fraud-specific information that is tailored to the program and its fraud risk profile, including information on fraud risks, employees' responsibilities, and the effect of fraud.

- Take steps to increase awareness about program integrity and antifraud efforts outside the program, including publicizing information on antifraud efforts and successfully resolved cases.

3. Adopt Reporting Mechanisms

Reporting mechanisms include hotlines, whistleblower policies, and other mechanisms for receiving tips. Reporting mechanisms help managers to detect instances of potential fraud, and they can also deter individuals from engaging in fraudulent behaviour if they believe that the fraud will be discovered and reported.

- Provide multiple options in addition to hotlines for potential reporters of fraud to communicate, such as online systems, e-mail, fax, written formats, or face-to-face.

- Ensure individuals external to the agency that may be aware of potential fraud, such as vendors, program beneficiaries, and the public, can report potential fraud.

- Take steps to ensure individuals feel comfortable raising suspicions by providing them the opportunity to report suspicions anonymously if preferred, treating all reports confidentially, and establishing policies that prohibit retaliation for employees who make reports in good faith.

- Promote the existence of reporting mechanisms by reminding employees periodically about reporting mechanisms, and publicizing information on the reporting mechanism externally, such as including information about methods for reporting suspected fraud on the program's website.

4. Engage in Employee-Integrity Activities

Employee-integrity activities can prevent fraud by helping managers to establish a culture that is conducive to fraud risk management. Take steps, such as conducting background checks, to screen employees for integrity issues, including prospective employees and employees in positions of trust or that pose a higher risk of fraud.

- Tailor the extent of employee screening to the risk level of the position.

- Develop and communicate a standard of conduct that applies to all employees and includes information on

• the program's general expectations of behaviour, using specific examples, such as cases of prohibited behaviour and situations employees may encounter, and

• the program's response to violations of the standard of conduct, such as disciplinary actions and sanctions.

For above mentioned internal controls to be effective, the framework suggests managers should also engage in *evaluative and monitoring activities* in order to improve risk management. The fourth principle and the respective leading practice laid out in the framework are as follows:

5. Evaluate Outcomes Using a Risk-Based Approach and Adapt Activities to Improve Fraud Risk Management

5.1 Conduct Risk Based Monitoring and Evaluate All Components of the Fraud Risk Management Framework

- Monitor and evaluate the effectiveness of preventive activities, including fraud risk assessments and the antifraud strategy, as well as controls to detect fraud and response efforts.
- Collect and analyse data, including data from reporting mechanisms and instances of detected fraud, for real time monitoring of fraud trends and identification of potential control deficiencies.
- Employ a risk-based approach to monitoring by taking into account internal and external factors that can influence the control environment, such as organizational changes and emerging risks.
- Engage stakeholders responsible for specific fraud risk management activities in the monitoring and evaluation process.

5.2 Monitor and Evaluate Fraud Risk Management Activities with a Focus on Measuring Outcomes

- Measure outcomes, in addition to outputs, of fraud risk management activities.
- In the absence of sufficient data, assess how well managers follow recommended "leading practices" for designing fraud risk management activities.

5.3 Adapt Fraud Risk Management Activities and Communicate the Results of Monitoring and Evaluations

- Use the results of monitoring and evaluations to improve the design and implementation of fraud risk management activities.
- Use analysis of identified instances of fraud and fraud trends to improve fraud risk management activities, including prioritizing and taking corrective actions, as well as enhancing fraud-awareness trainings.
- Use results of investigations and prosecutions to enhance fraud prevention and detection.
- Communicate results of monitoring and evaluations, including corrective actions taken, if any, to relevant stakeholders.

Effective management of fraud risks is successful when managers communicate lessons learned from fraud risk management activities and corrective actions taken. Publicizing the results of evaluations of fraud control efforts can have a deterrent effect that can aid in fraud prevention.

Figure 6

Collect
Collect sources of information about actual and potential fraud risks.

Analyze
Analyze information obtained from different sources to better understand existing and emerging fraud risks, as well as potential vulnerabilities.

Adapt
Adapt activities by applying lessons learned from analysis of fraud risks and vulnerabilities.

Potential Sources of Feedback:
> Reporting mechanisms
> Investigations and prosecutions
> Data mining
> Sanctions and debarment cases
> Other agencies or external parties
> Media reports
> Enterprise-wide risk management initiatives

Source: GAO. I GAO-15-593SP

Potential Receivers of Feedback:
> Training and educational initiatives
> System edit checks
> Predictive-analytic models
> Data matching
> Fraud risk assessments

The above figure of the framework summarizes the three main steps needed to be taken in order to ensure an effective fraud risk management.

4. Forensic Audits and Investigative Services (FAIS)

From 1986 to 2005 the GAO had a separate **Office of Special Investigations (OSI)** which comprised only Special Agents and Criminal Investigators. The Forensic Audit and Special Investigations (FSI) team was established in May 2005 primarily to provide an integrated team capable of performing targeted forensic audits, special investigations, security and vulnerability assessments and also provide support to all other teams on need basis. It brought GAO's related anti-fraud and other investigative activities together in one organization. In 2011 it was renamed as Forensic Audit and Investigative Services (FAIS)

The Comptroller General created the Forensic Audit and Investigative team as the unit responsible for performing selected investigative functions related to fraud and other criminal activity.

4.1 Role and responsibilities

Although GAO is traditionally thought of as an audit agency, the law that created GAO authorizes it to *"investigate all matters related to the receipt, disbursement and use of public money".* GAO has a well-defined policy for Forensic Auditing and Investigations enumerated in the Section 315 of the GAO's Policy Manual. The documents are prepared in accordance with the quality standards for investigations established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Analysts/Auditors prepare documents in accordance with the Generally Accepted Government Auditing Standards (GAGAS).

FAIS is an internally generated team that consists of several qualified and specialized staff in areas that support the detection of fraud, waste and abuse:

- Analysts and auditors with forensic auditing experience;

- Criminal investigators and Special agents with years of law enforcement experience at executive branch agencies such as U. S. Secret Service, U.S. Park Police, and the Drug Enforcement Agency, and

- Experts in data mining and data analysis.

Generally speaking, people are the most important asset both for FAIS and GAO. Thus, the primary strategy for FAIS as well is to retain and recruit highly effective agents, forensic auditors, analysts, and fraud experts. In recruiting and placing staff in FAIS, GAO looks for staff that are proactive, assertive, want to work on multiple assignments concurrently, have strong information technology, data-mining, communication and critical thinking skills. For criminal investigators or agents, GAO has historically hired agents with prior executive branch law enforcement experience.

FAIS' mission is to provide Congressional clients with high-quality forensic audits and investigations of fraud, waste, and abuse; other special investigations; and security and vulnerability assessments. FAIS has government wide jurisdiction and has access to most government data. FAIS also manages FraudNet, the government wide hotline to report fraud, waste and abuse. Through FraudNet it has access to law enforcement tools such as National Criminal Information Centre (NCIC), Financial Crimes Enforcement Network (FINCEN) and Lexis-Nexis law enforcement.

One tool FAIS uses to root out fraud is GAO FraudNet. If any member of the public has suspicious of fraud, waste, abuse, or mismanagement of federal funds, the FraudNet tool is available in order to report the matter to GAO. FraudNet refers allegations to federal, state, and local law enforcement, and Offices of Inspector General, as appropriate; supports congressional investigation and audit requests; provides audit and investigative leads to GAO staff; offers support to government at all levels for establishing and operating hotlines

FAIS' work comes from a variety of sources; mainly congressional requests, internal research and development, FraudNet hotline tips and informants.

Specifically, the three primary lines of business for FAIS are:

- Forensic audits;

- Security and vulnerability assessments

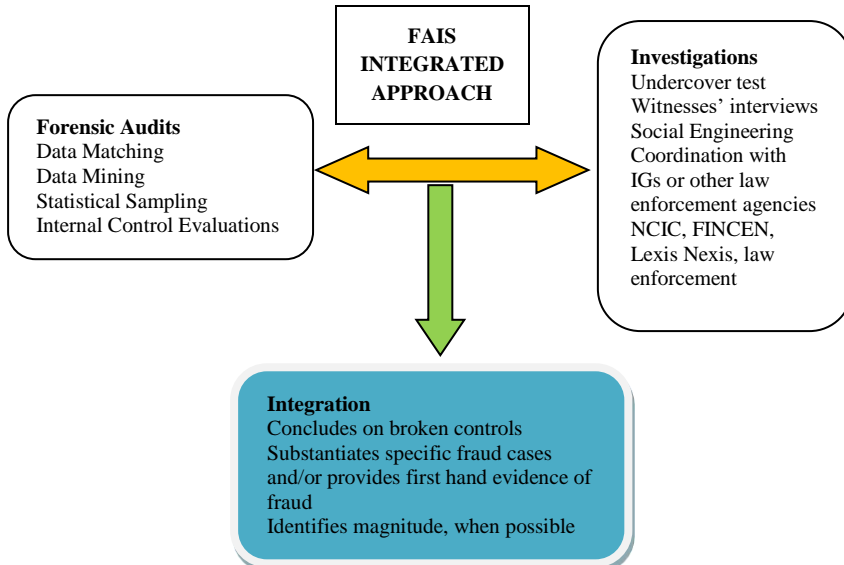- Special investigations

4.2 Methodology and Techniques

Forensic Audits

FAIS' forensic audits are designed to identify ineffective controls and vulnerabilities and use data mining and investigations to expose areas of fraud, waste, abuse and, in some cases, matters of security that show the "so what" (e.g., the effect) of the broken controls. For example, rather than simply providing an analysis concluding that an agency is vulnerable to fraud, waste, and abuse, FAIS uses data mining, and resultant case studies to show, where possible, the magnitude of the problem and real examples of fraud, waste, or abuse. FAIS' past work has shown that these real examples of fraud, waste, and abuse get the attention of the Congress and the public and result in positive change. These audits are conducted with an integrated team of auditors, analysts, investigators, systems and data mining experts, and attorneys. It is envisioned that FAIS will continue to lead targeted work across the federal government focused on fraud, waste, and abuse.

Investigations

Investigation is defined as planned systematic search by criminal investigators for facts and/or evidence to refute or substantiate alleged wrong doing. FAIS investigations also detect and describe examples of abuse and mismanagement that can be used to support GAO's findings and recommendations.

FAIS carries out its work through a combination of different techniques. The final product is a result of an *Integrated Approach* of forensic audit and investigation. The engagement teams are composed of analysts/auditors and use techniques such as data mining, data matching, statistical sampling and internal controls evaluation. The investigators carry out undercover tests, social engineering, consensual monitoring, surveillance, interviews of witnesses, development of examples of case studies that clearly illustrate problems related to fraud, waste and abuse. They also conduct covert testing and coordination with IGs[8] and other law enforcement agencies.

FAIS INTEGRATED APPROACH

Forensic Audits
Data Matching
Data Mining
Statistical Sampling
Internal Control Evaluations

Investigations
Undercover test
Witnesses' interviews
Social Engineering
Coordination with IGs or other law enforcement agencies
NCIC, FINCEN, Lexis Nexis, law enforcement

Integration
Concludes on broken controls
Substantiates specific fraud cases and/or provides first hand evidence of fraud
Identifies magnitude, when possible

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[8] Offices of Inspector Generals

Data matching involves computerized scanning of data held in different data files either within the same organization or in different organizations. This technique identifies potential inaccuracies and instances where fraud may be occurring, and it carries out a comparison of agencies databases against other internal databases or databases obtained from third parties to determine the existence of problems that may involve fraud, waste and abuse;

Data mining is a process of mining data to identify transactions or patterns of activity exhibiting predetermined characteristics, associations, or sequences and anomalies between different pieces of information. Data mining produces leads for follow up by auditors and investigators. At GAO when data mining is conducted in concert with the test of control activities, it provides additional evidence of significant instances of non-compliance with laws and regulations, lack of adherence to internal control policies and procedures. In addition, it can identify previously unrecognized or underappreciated risks in the audit assignment.

GAO's approach to data mining is designed to support overall evaluation of the effectiveness of the internal control of a government program and provide examples of the results of weaknesses in internal control. This approach consists of:

- Identifying the population of transactions to data mine

- Identifying criteria and design search queries, and

- Extracting or summarizing transactions or patterns of activity from the population for further analysis, selection, audit, and investigation.

The team applies software tools (like IDEA etc.) that facilitate summaries, comparisons and extractions of transactions and data elements selected for follow up since data being mined are usually contained in a data base. This is to ensure that auditors have sufficient support to either report or refer the findings.

Internal controls evaluation involves testing the design and effectiveness of the federal systems, processes, and evaluation of internal controls and show impact ('so what') effect of inadequate controls.

Statistical sampling is carried out in the entire process to ensure the correctness of the finding and ensuring a true and fair view.

Covert testing involves using publicly available information, hardware, software materials to develop tests without consulting with the agency insiders. FAIS has the authority to perform undercover tests of programs or processes to identify vulnerabilities. These tests are performed by criminal investigators and allow FAIS to gather firsthand knowledge of control breakdowns and vulnerabilities in realistic setting, rather than relying on agency representations.

The various undercover techniques used by GAO include surveillance, false identification, fictitious company and addresses, social engineering, concealed photography or video and consensual monitoring .It is important to mention that the majority of FAIS engagements are investigative in nature.

Interviews of witnesses are used by GAO as a source of information (testimonial evidence) that supplements, explains, verifies and/or interprets evidence obtained by other means.

Security and Vulnerability Assessments

GAO has also performed significant work in the past related to areas such as security of the nation's borders, federal buildings, and airports. FAIS' work in this area is led by experienced federal agents trained in various aspects of security with the capabilities to perform targeted undercover operations. As with forensic audits, security vulnerability assessments are designed to test a program, process, and/or set of policies and procedures primarily related to national and homeland security issues.

Matters for management consideration - action plan

Developing competencies and building capacities

There is a need for the Albanian SAI to develop strategies that will help develop the capacity for the detection and the prevention of fraud, waste and abuse and therefore enhance public accountability. The suggestions will be presented to the SAI management for consideration.

The following suggestions are considered important:

1. Adoption of the GAO Framework for Managing Fraud Risk, which is a very useful tool for managers to identify leading practices for managing fraud risks. The Framework encompasses control activities to prevent, detect, and

respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks.

2. Consider the adoption of the Green Book, or Standards for Internal Control in the Federal Government. As far as internal controls are concerned, there is legislation in Albania that binds public entities to put in place such controls and the Albanian SAI is entitled to assess the effectiveness of these controls. In this context, the adoption of the Green Book, which best summarizes the main features of the Albanian legislation on the matter, would facilitate the auditing process for the SAI, and it would also provide the audited entity with clear insight and instructions about the meaning of the basic principles to respect in order to put in place effective internal controls.

3. The establishment of an online fraud reporting method for the public.

Hotlines are a major source of information for occupational frauds. The Albanian SAI may consider setting up a hotline through which anyone can access and report allegation of fraud, waste and abuse. Within the Albanian SAI, there is currently in place a mechanism which allows citizens to express their concerns and/or problems regarding the public administration's operations. Currently, such mechanism does not run on an internet platform, but is manually managed. It is suggested that, despite financial challenges, the put in place of this mechanism on an on-line platform would benefit the SAI in terms of time to process the information received.

4. Build the required capacities within the Albanian SAI with the GAO support and be able to carry out effective audits for fraud, waste and abuse. The Albanian SAI

5. Introduce a program in which selected staff can be trained to become certified Fraud Examiner.

Bibliography

The Yellow Book

The Green Book

The Framework for Managing Fraud Risks in Federal Programs

The 2009 – 2012 Strategic Plan of FAIS The 2016 Report of the Nations

GAO   U.S. GOVERNMENT ACCOUNTABILITY OFFICE

KONTROLLI I LARTË I SHTETIT
NR 819/2   DATE 24 8 .2016

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Monday, July 18, 2016

Mr. Bujar Leskaj
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Dear Mr. Leskaj,

Ms. Xhuljeta Çelaj was highly engaged throughout the entire 4-month period of GAO's International Auditor Fellowship Program and applied her attention to mastering the techniques and approaches presented. Her ability to grasp concepts contributed to her success in the program. It was a pleasure to work with Xhuljeta. She is an excellent representative of your country and office.

One requirement of the International Auditor Fellowship Program is the successful completion of a strategy paper. The project's objective is to provide the fellows with an opportunity to work on a special topic of interest to their respective supreme audit offices. This year, per your approval, Xhuljeta prepared her project on the topic of "*Auditing for Fraud, Waste and Abuse.*" A copy of the final document is enclosed for your review.

A component within this year's training program was the availability of computerized self-paced training. Xhuljeta was provided with the opportunity to take additional self-paced training courses on her own personal time to enhance specific skills that she determined would be useful to her overall professional development. The courses she elected to complete on her own time were (1) *Global Fraud* and (2) *Preventing Fraud, Waste, and Abuse.*

On behalf of all of us at the U.S. Government Accountability Office who worked with Xhuljeta, I want to thank you for your continuing interest and support of the International Auditor Fellowship Program. We hope that she will have opportunities to apply training experiences and that you will share news of her achievements with us.

We look forward to hearing about Xhuljeta's continued contributions to your office.

Sincerely yours,

Darreisha M. Bates
Program Manager
International Auditor Fellowship Program

Enclosure

GAO's appreciation for Mrs. Xhuljeta Çelaj

The Comptroller General of USA, Mr. Dorado giving the Certificate of
Achievement to Mrs. Xhuljeta Çelaj

2016 group photo of International Auditor Fellowship Program

Differences in GAO and HSC approach toward Fraud, Waste and Abuse

Mr. Ermal Yzeiraj

2017

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Acknowledgements

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and also to

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And

What's left of my acknowledgements goes to

all of the other fellows

(sorry guys I was out of my acknowledgements)

I hope I meet every one of you again!

Purpose and Objectives of the Strategy Paper

The main purpose of this strategy paper is to examine the differences in GAO's and HSC's approach toward fraud, waste and abuse and concluding in practical and touchable recommendations that would improve our role and engagement as a SAI in the process of prevention, detection and response toward these phenomena.

Following this purpose my objective is to be as clear, as short and as practical as possible, looking to evaluate our differences as SAI's from a larger and higher angle, without being drown in the tendency to elaborate every detailed information that was given to us during the program.

This strategy paper and the action plan that it recommends should be considered as the first step toward starting and developing a real change in our institution.

1. GAO's Framework and Organization Structure in dealing with fraud, waste and abuse.

1.1 GAO's Strategic Plan 2014-2019[1]

Fraud, waste and abuse, as identified by GAO's audits, cost the federal government billions of dollars annually. Although federal agencies have taken steps to improve accountability in government programs, instances of fraudulent activity, improper and overlapping payments, inadequate documentation, and other indications of fraud, waste, and abuse persist across a wide range of federal programs and activities.

To assist in the prevention and detection of these activities, GAO Strategic Plan 2014-2019 determines GAO involvement in forensic audits, internal control reviews, and special investigations targeted at highly vulnerable federal programs and funding by using (among others) data mining, covert testing, and law enforcement tools and also GAO engagement in enhancing government-wide efforts to reduce improper payments by (1) identifying and analyzing root causes, (2) implementing effective controls for prevention, and (3) enhancing detection and recovery.

Figure 1 - GAO's Strategic Plan

2014-2019

The GAO Strategic Plan 2014-2019 mentions 4 Goals where Goal no. 3 deals with the help that GAO should give to transform the Federal Government in addressing different national challenges. The Strategic Objective 3.2 of Goal no. 3 deals with the support towards government accountability by identifying fraud, waste, and abuse and needed improvements in Internal Control. The
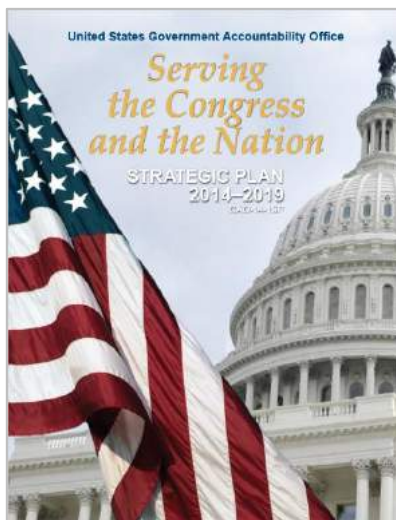
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[1] http://www.gao.gov/assets/670/661281.pdf

Strategic Objective 3.2 of Goal no. 3 is divided into 4 Performance Goals as follows:

o   **Performance Goal 3.2.1** - **Perform forensic audits to identify and address vulnerabilities to fraud, waste, and abuse**

o   **GAO's ability to conduct forensic audits and investigations of programs across the government uniquely positions it to apply knowledge gained of lessons learned and best practices across government to other programs and operations.**

Forensic audits are designed to identify ineffective controls and vulnerabilities to expose areas of fraud, waste, and abuse and, in some cases, matters of security that clearly demonstrate the "real world" effects of broken or inadequate controls. The audits highlight these issues to the Congress and the public and often result in positive change. For example, in recent years, GAO has used forensic audits and special investigations to identify government-wide fraud and abuse in areas such as Medicare Part D and prescription drugs, the Service-Disabled Veteran-Owned Small Business Program, psychotropic prescription drugs for foster children, and counterfeit military-grade electronic parts.

As stated in the GAO Strategic Plan 2014-2019, Performance Goal 3.2.1 comprises 8 key efforts: (1) Evaluate and investigate Medicare, Medicaid, and other federal health care programs; (2) Evaluate and investigate federal disaster response outlays; (3) Evaluate and investigate entitlement programs and federal procurement efforts; (4) Evaluate and investigate housing recovery programs, including mortgage and refinancing programs; (5) Evaluate and investigate federal benefit programs, to include debit card usage; (6) Evaluate and investigate high-dollar programs that are at risk for improper payments; (7) Evaluate and investigate fraud, as requested by the Congress and the Comptroller General; and (8) Refer cases of fraud and abuse identified to the relevant federal, state, and local law enforcement agencies or other authorities.

o   **Performance Goal 3.2.2** - **Provide investigative services and conduct investigations and security vulnerability assessments**

An important element of the federal government's ability to deter fraud is to have consequences for those who fail to pay their tax liabilities or who commit fraud against the federal government. Through forensic audits and investigations, GAO has identified thousands of cases of potential fraud and abuse and has referred these cases to the appropriate law enforcement agencies and others for criminal investigation and administrative action. In 2012, GAO referred more than 70 cases of potential fraud or other impropriety to executive branch agencies, leading to actions such as recoupment of improperly received funds and conviction for theft of government property.

As stated in the GAO Strategic Plan 2014-2019, Performance Goal 3.2.2 comprises 2 key efforts: (1) **Evaluate and investigate specific allegations of consumer fraud or other program mismanagement as requested by the Congress and the Comptroller General; and** (2) **Perform overt and covert testing of security-related systems and controls as requested by the Congress and the Comptroller General.**

o   **Performance Goal 3.2.3 - Process and evaluate allegations received through**

Over years, GAO has continued to use tips received through its FraudNet hotline, an Internet-based operation that provides a secure means for individuals to confidentially communicate their concerns about possible fraud, waste, abuse, mismanagement, and criminal activities in federal programs.

As stated in the GAO Strategic Plan 2014-2019, Performance Goal 3.2.3 comprises 3 key efforts: (1) **Process the more than 1,500 allegations made annually through FraudNet;** (2) **Evaluate allegations received to identify trends in FraudNet allegations;** (3) **Actively promote and advertise the FraudNet as a means for the public to report fraud, waste, abuse, and mismanagement to GAO.**

o   **Performance Goal 3.2.4 - Identify ways to strengthen accountability and internal controls for federal programs, assets and operations**

Strengthening accountability and internal controls: GAO's work across the government has shown that fraud prevention—including controls that prevent the improper and fraudulent disbursement of federal dollars—is the most efficient and effective means to minimize fraud, waste, and abuse. Once federal dollars have been disbursed fraudulently or improperly, the government is likely to recover only a few pennies on the dollar. As seen in figure no. 2 below, GAO's fraud prevention framework provides an overview of how preventive controls help screen out ineligible entities, and how monitoring controls and prosecutions can help further minimize the extent to which a program is vulnerable to fraud. Leveraging this framework, GAO continues to:

−   focus its work on identifying vulnerabilities in agency preventive controls and providing recommendations to strengthen them,

−   coordinate and, where appropriate, work closely with auditors, investigators, and law enforcement agencies from federal, state, and local governments to conduct investigations and develop cases of fraud and abuse, and

−   work with the Congress to identify programs across the government that are vulnerable to fraud, waste, and abuse, including those on GAO's High Risk List, to maintain accountability over hundreds of billions of dollars in federal assets and program payments.
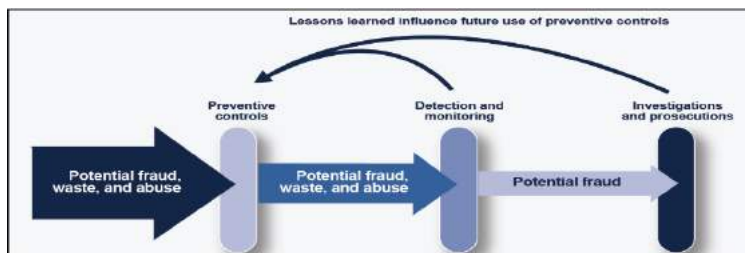

Figure 2 - GAO's Fraud Prevention Framework

As stated in the GAO Strategic Plan 2014-2019, Performance Goal 3.2.4 comprises 5 key efforts: (1) Evaluate management controls over program payments, beneficiaries' access, and quality of services in federal health care, housing, entitlement, and procurement programs; (2) Assess federal agencies' internal controls to identify opportunities to reduce risk of fraud, waste, and abuse; (3) Analyze federal agencies' high-risk and other critical programs to identify opportunities to improve accountability for assets and operations; (4) Review audit oversight of federal programs, grants, and other funds; and (5) Assess agencies' progress in estimating improper payments, identifying their root causes, and developing effective preventive and detective controls, including an emphasis on recovery audits.

1.2 GAO's Framework for Managing Fraud Risks in Federal Programs[2]

Legislation, guidance by the Office of Management and Budget (OMB), and new internal control standards have increasingly focused on the need for program managers to take a strategic approach to managing improper payments and risks, including fraud as part of their internal control activities. To help managers combat fraud and preserve integrity in government agencies and programs,

GAO identified leading practices for managing fraud risks and organized them into a conceptual framework called the Fraud Risk Management Framework (the Framework). The Framework

Figure 3 - GAO's Framework for Managing Fraud Risks in Federal Programs

encompasses control activities to prevent, detect, and respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks.

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[2] http://www.gao.gov/assets/680/671664.pdf

The objective of fraud risk management is to ensure program integrity by continuously and strategically mitigating the likelihood and impact of fraud. This objective is meant to facilitate achievement of the program's broader mission and strategic goals by helping to ensure that funds are spent effectively, services fulfill their intended purpose, and assets are safeguarded.
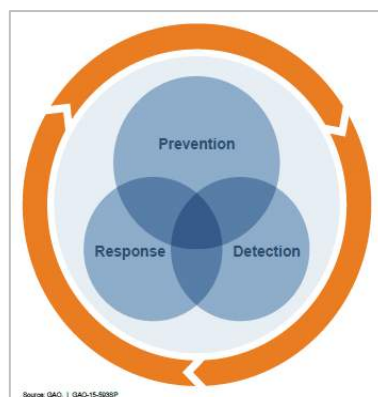
The critical control activities for managing fraud risks fall into three general categories: (1) prevention, (2) detection, and (3) response. These

Figure 4 - Critical control activities in magening fraud risk

categories are interdependent and mutually reinforcing. For instance, detection activities, like surprise audits, also serve as deterrents because they create the perception of controls and possibility of punishment to discourage fraudulent behavior. In addition, response efforts can inform preventive activities, such as using the results of investigations to enhance applicant screenings and fraud indicators. Generally preventive activities offer the most cost-efficient use of resources, since they enable managers to avoid a costly and inefficient "pay-and-chase" model.

The Framework encompasses the control activities described above, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks. The Framework consists of the following four components for effectively managing fraud risks:

1) Commit — Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.

2) Assess — Plan regular fraud risk assessments and assess risks to determine a fraud risk profile.

3) Design and Implement — Design and implement a strategy with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.

4) Evaluate and Adapt — Evaluate outcomes using a risk based approach and adapt activities to improve fraud risk management.

In addition, the Framework reflects activities related to monitoring and feedback mechanisms, which include ongoing practices that apply to all four concepts above, as depicted in the figure no. 5 below.


Figure 5 - Fraud Risk Management Framework

1.3 GAO's High-Risk Series[3]

Every 2 years, GAO provides the Congress with an update on its High-Risk series, which highlights federal entities and program areas that are at risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement or are most in need of broad reform.

GAO's High-Risk work documents the challenges of managing in a complex governance environment. GAO began the High-Risk program in 1990 and initially focused on bringing attention to

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[3] http://www.gao.gov/assets/690/682765.pdf
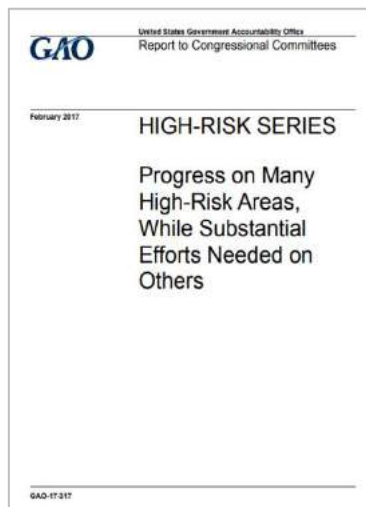
government operations that had greater vulnerabilities to waste, fraud, abuse, and mismanagement.

Those issues remain a central focus of the High Risk program today. However, in recognition that many of the high-risk issues GAO was finding were the product of an inability to adjust to a changing environment or poor working relationships across organizational boundaries (especially with third parties, such as contractors), GAO expanded its focus several years ago to also include critical areas needing transformation to address economy, efficiency, and effectiveness challenges.

GAO's High Risk List continues to be an important tool for Congress and policymakers to call attention to the agencies and program areas that are vulnerable to fraud, waste, abuse, and mismanagement or are most in need of broad reform. Finding lasting solutions to issues in these high-risk areas could save billions of dollars, improve service to the American public, and strengthen public trust in the federal government.

Currently the GAO 2017 High Risk Report identifies 34 high risk areas adding 3 new areas and removing 1 from the previous list of 2015 Report. As stated in the Report, GAO uses five criteria to assess the progress made by the Agencies in addressing high-risk areas: (1) leadership commitment, (2) agency capacity, (3) an action plan, (4) monitoring efforts, and (5) demonstrated progress.

1.4 GAO's Generally Accepted Government Auditing Standards (GAGAS or Yellow Book)[4]

The Generally Accepted Government Auditing Standards, also known as the Yellow Book, provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence. The Yellow Book is for use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. These standards provide the foundation for government auditors to lead by example in the areas of independence, transparency, accountability, and quality through the audit process.
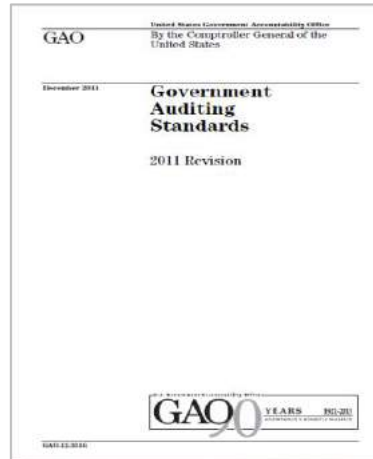
Figure 7 - GAO's Yellow Book

The Yellow Book is comprised of 7 Chapters out of which 3 main Chapters (Chapter 4 - Standards for Financial Audits, Chapter 5 – Standards for Attestation Engagements, and Chapter 6 – Field Work Standards for Performance Audits) mention and elaborate different aspects in dealing with fraud, abuse, and noncompliance with provisions of laws, regulations, contracts, and grant agreements, during the audits. It is interesting to note that the term "waste" is not mentioned anywhere in the Yellow Book Chapters except in one sentence in Appendix I (Supplemental Guidance).

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[4] http://www.gao.gov/assets/590/587281.pdf

1.5 GAO's Standards for Internal Control in the Federal Government (Green Book)[5]

The General Accounting Office (GAO) issues standards for internal control in the federal government as required by 31 U.S.C. 3512(c), commonly referred to as the Federal Managers Financial Integrity Act of 1982. GAO first issued the standards in 1983. They became widely known throughout the government as the Green Book.

Internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. The Green Book sets the standards for an effective internal control system for federal agencies and specifically for identifying and addressing major performance challenges and areas at greatest risk for fraud, waste, abuse, and mismanagement.

Differently from the Yellow Book the Green Book is comprised by 17 Principles (not Chapters) where Principle 8 (Assess Fraud Risk) deals specifically with fraud, waste and abuse (but mostly with fraud) by elaborating types of fraud (fraudulent financial reporting, misappropriation of assets and corruption), fraud risk factors incentive/pressure; opportunity and
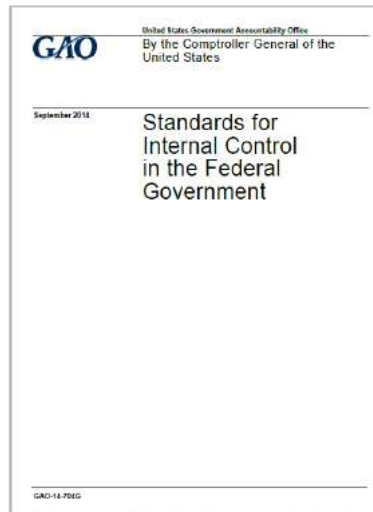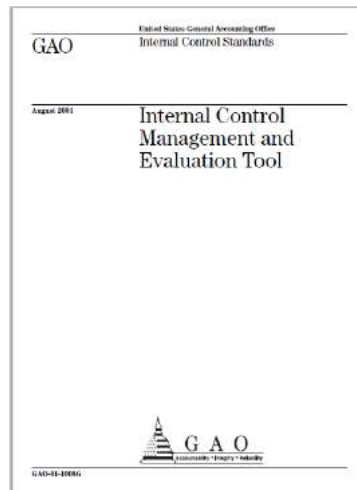
Figure 8 - GAO's Green Book

Figure 9 - GAO's Internal Control Management and Evaluation Tool

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[5] https://www.gao.gov/assets/670/665712.pdf

attitude/rationalization) and response to fraud risks.

Also Principle 10 (Design Control Activities) mentions fraud, waste and abuse when elaborating the concept of segregation of duties that the management should take in consideration when designing control activities.

Apart from the Green Book and based on it, GAO has issued the **Internal Control Management and Evaluation Tool [6]** to assist agencies in maintaining or implementing effective internal control and, when needed, to help determine what, where, and how improvements can be implemented.

This tool could be useful in assessing internal control as it relates to the achievement of the objectives in any of the three major control categories, i.e., effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. It may also be useful with respect to the subset objective of safeguarding assets from fraud, waste, abuse, or misuse. In addition, the tool may be used when considering internal control as it relates to any of the various activities of an agency, such as administration, human capital management, financial management, acquisition and procurement, and provision of goods or services.

Although this tool is not required to be used, it is intended to provide a systematic, organized, and structured approach to assessing the internal control structure.

Also, apart from the GAO's Green Book and Internal Control Management and Evaluation Tool, the US Office of Management and Budget (OMB) has issued the **Circular A-123[7]** that defines the management responsibilities for internal controls in Federal agencies. The Circular is addressed to all Federal Chief Financial Officers, Chief Information Officers, and Program Managers. The Circular and the statute it implements (the Federal Managers' Financial Integrity Act of 1982)

Figure 10 - Circular A-123

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[6] https://www.gao.gov/assets/80/76615.pdf
[7] It was first issued in 1981 by OMB's Office of Federal Financial Management and underwent numerous updates through 21 December 2004

are at the center of the existing Federal requirements to improve internal financial controls.

To assist in the implementation of Circular A-123, the Chief Financial Officer (CFO) of US has issued the **Implementation Guide for OMB Circular A-123[8]**.

Both Circular A-123 and its Implementation Guide give specific focus to issues of fraud and abuse (mostly fraud) and they both refer to the GAO's Standards for Internal Control (Green Book).

GAO's Standards for Internal Control (Green Book), GAO's Internal Control Management and Evaluation Tool, and the Circular A-123 of OMB, should be used

Figure 11 - Implementation Guide for Circular A-123

concurrently and judgment must be applied in the interpretation and application of this tool to enable a user to consider the impact of the completed document on the entire internal control structure.
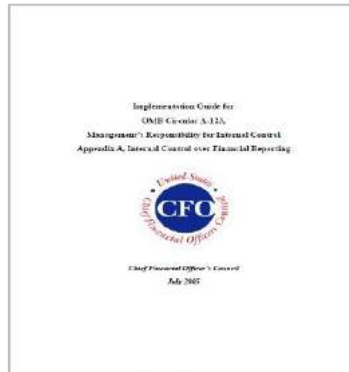
1.6 GAO's Forensic Audits & Investigative Service (FAIS)

As stated in the GAO Strategic Plan 2014-2019, GAO focuses and organizes its work and mission in 4 Goals out of which the 3rd one deals with the help that GAO should give to transform the Federal Government to Address National Challenges and more specific like stated in Strategic Objective 3.2 in supporting Government Accountability by identifying fraud, waste, and abuse. Based on these 4 Goals
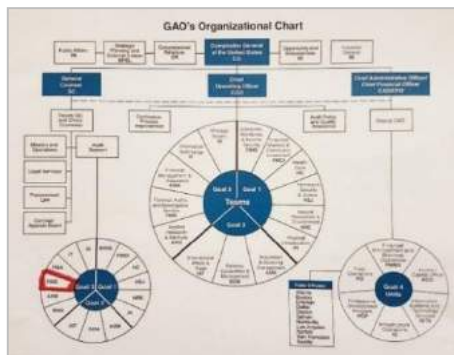

Figure 12 - GAO's Organizational Chart

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[8]https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A123/a123_appx_a_implementation_guide.pdf

GAO has conceptualized the structure of its own organization were teams are grouped based on their main goal to which they serve.

In this context GAO has created a special team called the Forensic Audits and Investigative Service (FAIS) which main goal is to provide Congress with high-quality forensic audits and investigations of fraud, waste, and abuse; other special investigations; and security and vulnerability assessments. This team is also responsible for managing Fraudnet, an online system for the public to report allegations of fraud, waste, abuse, or mismanagement of federal funds.

FAIS work addresses fiscal challenges facing US government, organizational and individual ethics, stewardship over government resources, and issues related to homeland and national security. Its work is government-wide in scope rather than confined to one issue area. The team is composed of investigators, analysts, and auditors who have experience with forensic auditing and data mining. What is interesting regarding FAIS is that it has some investigative competences like doing undercover tests, witness interviews and social engineering.

The impact of FAIS work is big. In fiscal year 2013, FAIS work identified more than $1.4 billion in financial benefits for the federal government, as well as 60 other efficiencies and through special investigations and forensic audit work, FAIS provided support for 3 congressional hearings with other GAO teams.

1.7 GAO's FraudNet

FraudNet[9] is GAO's hotline for the public to report government fraud, waste, abuse or mismanagement of federal funds. In 2015 the public send to FraudNet 2,097 complains out of which 1,066 were considered to be allegations worth pursuing.

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[9] http://www.gao.gov/fraudnet

The Department of Justice in FY 2015 recovered $ 3.5 billion from civil cases involving fraud.

The webpage gives to the viewers a short description of what it is considered a fraud, waste, abuse and mismanagement of federal funds and also some examples of them like for example:

Figure 13 - GAO's FraudNet

-       Underreporting income to receive federal subsidies for food and housing,

-       Selling counterfeit electronics to an agency,

-       Buying overpriced office equipment from a favored vendor,

-       Buying unnecessary equipment for personal use or gain,

-       Writing technical specifications or contract terms to favor a specific contractor,

-       Continuing to pay utility bills for formerly leased office space,

-       Renewing a technical support contract for software the agency no longer uses,
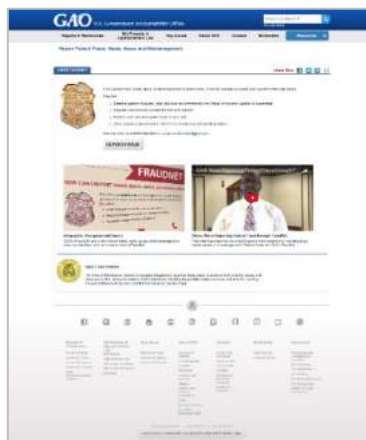
-       Stock picking equipment beyond its shelf-life, etc.

FraudNet can refer allegations to federal, state, and local law enforcement, and Offices of Inspector General, as appropriate Supports congressional investigation and audit requests Provides audit and investigative leads to GAO staff Offers support to government at all levels for establishing and operating hotlines.

2. HSC's Framework and Organization Structure in dealing with fraud, waste and abuse.

2.1 HSC's Strategy of Development 2013 - 2017[10]

The HSC Strategy emphasizes 6 Objectives among which the 5th objective deals with the HSC contribute in good governance through the fight against corruption.

The action plan of the Strategy sets out 8 key activities in elaboration of the 5th objective:

Figure 14 - HSC Strategy Development 2013-2017

1) Drafting a specific audit manual on fraud and corruption.
2) Develop specific trainings for auditors in relation to fraud and corruption auditing.
3) Institutionalization of cooperation relations with agencies engaged in the fight against corruption
4) Exchange experience with experienced SAI counterparts in the field of financial fraud auditing.
5) Identification of hazardous areas of abuse in the laws governing public property, drafting of recommendations for limiting and removing them.
6) Formulate a recommendation to the Government with regard to promoting transparency in managerial decision-making.
7) Identify the weaknesses of managerial accountability tools and their coverage in audit reports.
8) Setting up a portal and placing a phone line for denouncing corruption.

As stated in the Monitoring Report[11] of the Strategy HSC has implemented all the above activities except for the drafting of a specific audit manual on fraud and corruption which is under way as part of an EU funded project.

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[10] http://www.klsh.org.al/web/strategjia_e_ripunuar_3158.pdf
[11]http://www.klsh.org.al/web/02raport_monotorimi_2016_strategjia_zhvillimit_2013_2017_e_rishikuar_2859_1_2679.pdf

2.2 HSC's Internal Regulation[12]

On June 2015 the Chairman of HSC approved the new Internal Regulation on the Organization and Administrative Functioning of HSC. The Internal Regulation is the main document in which are described the duties and procedures of all the organizational structures of HSC. The Internal Regulation does not deal with the concepts of fraud, waste and abuse but it mentions in few of its parts the terms "corruption" and "criminal charges" while describing some procedural steps regarding the Department that compiles the criminal cases (files) referred to the

Figure 15 – HSC's Internal Regulation

prosecution authority, the approvement of these criminal files by the Chairman of HSC and the Department that follows the in approving the criminal cases that out to be referred and the Department that follows the progress of the joint institutional strategies in the fight against corruption.

The Internal Regulation also mentions the specific competence of the Chairman of HSC to approve a special audit manual regarding corruption but until now the HSC hasn't drafted yet such manual.

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[12]http://www.klsh.org.al/web/rregullore_e_brendshme_e_organizimit_dhe_funksionimit_admisnitrativ_te_klsh_1894.pdf

2.3 HSC's Compliance Audit Manual[13]

On December 2015 the Chairman of HSC approved the Compliance Audit Manual that is based on provisions made in ISSAI 400 and ISSAI 4000.

The Manual has a separated section on "Considerations related to the reporting of suspected unlawful acts" where are described the factors that contribute in fraud and some techniques that should be used by the auditors in evaluating the existence and the risk of fraud like: observation, inspection, interviewing and analytic procedure. The manual mentions only the terms of fraud and corruption and does not deal with certain aspects of waste or abuse.

Figure 16 - HSC's Compliance Audit Manual

2.4 HSC's Financial Audit Manual[14]

On December 2015 the Chairman of HSC approved the Financial Audit Manual that is based mainly on the provisions made in ISSAI 200 and International Audit Standards of IFAC.

The manual mentions only the terms of fraud and does not deal with certain aspects of waste or abuse (or corruption).

The term fraud is mentioned in the manual in the sections prescribing and elaborating: the determination of materiality, risk evaluation, and giving an opinion on the financial statements.

Figure 17 - HSC's Financial Audit Manual

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[13] http://www.klsh.org.al/web/compliance_audit_manual_2183.pdf
[14] http://www.klsh.org.al/web/sgma_kozma_sigma_financial_audit_manual_2185.pdf

2.5 HSC's Strategy on Risk Management[15]

On March 2015 the Chairman of HSC approved the Strategy on Risk Management. The purpose of the Strategy is to ensure that the concept of risk management is the foundation of organizational culture through the risk reduction philosophy and its assessment of any activity performed by the institution of the Supreme State Audit.

The Risk Management Strategy focuses on both strategic and operational risk.

The Strategy is followed by a special order of the Chairman on the drafting of yearly plan of audits based on risk evaluation and by a risk matric that lists all the risky areas

Figure 18 - HSC's Strategy on Risk Management

regarding: (i) the audit activity (ii) institutional management, and (iii) supporting functions and activities.

In analysis of the Risk Matric produced by HSC it can be stated that it is not similar to the GAO's High-Risk series, in structure and in context. Also the risk analysis of HSC, although published on HSC website, is conceptualized for HSC personal use and is not intended to be utilized or used by Parliament, Government or audited entities.

2.6 HSC's Authority Regarding Internal Control Guidelines

In Albania, the Minister of Finance is the only responsible authority for approving the guidelines for internal control and HSC can only audit the implementation of internal controls. Recently inn November 2016, the Albanian Minister of Finance approved a new guideline on financial management and control.

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[15] http://www.klsh.org.al/web/strategjia_menaxhimit_te_riskut_1818.pdf

2.7 HSC's Special Structure on Fight against Corruption

In reality HSC has not created until now a special organizational structure with the sole purpose to fight against corruption or in dealing with fraud, waste and abuse. As stated in the Internal Regulation of HSC, the Department of Legal Affairs and of the Control of Standard Implementation is the assigned department that deals with drafting of criminal charges or cases that are send to the prosecution authorities after the approval by the Chairman of HSC.

The current structure of this department is very small and its job covers almost every aspect of HSC activities. Until now this department has focused its work mainly on the direct detection and response of fraud and corruption based on the quality control that this department does to the audit reports without doing any field work or focusing too much toward the prevention of fraud and corruption in the public administration through improvement of laws, regulations, systems and procedures.

Also this Department or HSC as a state institution does not have any legal right to apply investigative audits like GAO. The application of these powers needs first of all new legal changes that not only take time but also have the potential to create a repressive institutional image for HSC.

2.8 HSC's Portal for Denouncing Corruption

Setting up a portal and placing a phone line for denouncing corruption has been already implemented by HSC as part of the Objective no. 5 of the Strategy of Development 2013 – 2017 but this portal and the dedicated telephone number is not operated by a special structure in HSC dedicated to fraud, waste and abuse or even corruption. Also HSC does not have any special regulation on procedures that the dedicated HSC staff has to follow regarding the referrals made by citizens in this portal or even in handling hard copy letters that still continue to come in HSC and that denounce possible cases of fraud, abuse and corruption.

3. Differences and conclusions regarding the GAO's and HSC's Framework and organizational structure in dealing with fraud waste and abuse (corruption).

Analyzing the Framework and Organization Structure of GAO and HSC in dealing with fraud, waste and abuse (corruption) there can be noted several crucial differences based on which it can be concluded in general that the GAO approach toward its engagement in relation to fraud, waste and abuse is much more better conceptualized, organized, structured, implemented and therefore can be considered as much more efficient. More concretely the differences between two SAI's approaches can be divided as follows:

3.1 Differences in framework terminology

In its entire framework, GAO uses the phrase "*fraud, waste and abuse*" while constantly joining that with the phrase "*internal control*". Meanwhile HSC uses more often the terms "*corruption*" and sometimes the term "*fraud*" leaving so almost totally out of the framework terminology the terms of "*waste*" and "*abuse*".

The GAO's approach in regard to terminology is much more well-structured and the term "*fraud, waste and abuse*" covers not only criminal acts but also administrative or civil aspects of those actions or other audit findings related to irregularities and noncompliance with the laws and regulations. Apart from that, the terms cover not only the aspect of compliance or financial audits but also aspects of the performance audit because the notion of waste might be elaborated by both types of audit. In contrary the HSC approach in regard to terminology used in its framework is focused mainly in the criminal aspects of the irregularities without giving to much importance to the administrative or civil aspect and also leaving no room for the engagement of the performance audit in the elaboration of waste.

This difference in terminology gives immediate consequences in the approach that the SAI's have towards irregularities during and after their audits. While GAO can focus in different aspects of a finding that might have criminal, administrative and civil impact, HSC approach is more focused on its criminal aspect. One of the reasons for this difference in our SAI framework terminology might be the differences in our own legislation terminology.

Even if HSC would chose to transfer and apply directly the GAO's framework towards fraud, waste and abuse, this framework and its terminology should find connection and should relate with the current Albanian legislation. The concepts of fraud, waste and abuse, should originate from criminal, civil and administrative legislation and SAI's cannot create for them a concept of their own (no meter how good or perfect it might be). The definitions of fraud, waste and abuse are and should be considered as the criteria in our audit findings and this criteria should be founded in our own legislation.

In fact even the GAO's terminology cannot be considered as totally in compliance with the terminology used by some of the main documents that constitute the SAI's approach toward irregularities and that is because even these international documents don't use a structured and well defined terminology. The terminologies used by different UN documents or ISSAI's cover a wide and different range of terms like: "corruption", "fraud", "abuse of power", "abuse of duty", "fraud, waste and abuse", good governance", "money laundering", etc. Fraud does not cover all the criminal acts that an SAI might find during its audits or that an SAI might contribute in their prevention, detection or response and also waste cannot be considered and does not cover all the damage done by an act. Abuse on the other hand has the potential to shift from an administrative misdemeanor to a criminal act. Furthermore the criminal, administrative and civil legislations in each country are different and they are always in development.

SAI's cannot create definitions that aren't covered in their own legislation or that do not comply with the already established terminology. Evaluating and choosing the proper terminology in the framework regarding HSC' approach toward fraud, waste and abuse, should be considered as a cornerstone in creating the basis for a well-structured and effective approach toward our strategic goals and objectives.

3.2 Differences in Framework approach

Fromm the studying of both SAI's approach it can be noted that the GAO's framework is well-structured, clearly defined, easier to apply and all covering than the HSC's Framework.

The GAO's Yellow Book seems to be a much more practical approach than the HSC's different Manuals of Audit that should always be combined with

the rules established in the Internal Regulation. Having so many documents not only increases the chances for conflicts of regulations but also creates difficulties in the application of these rules during the audits.

HSC does not have until now a special framework like the one GAO has on Managing Fraud Risks in Federal Programs and also HSC does not produce a similar report like the one GAO High Risk Series. The approach of GAO in producing and updating these two documents is a direct contribution to the prevention and detection of fraud, waste and abuse. The special Audit Manual on the Audit of Corruption that HSC is developing will cover only the aspect of detection and response. Therefore having a wide spread framework that covers all three aspects of an SAI approach (prevention, detection and response) is necessary to fulfill the established goals and objectives in our institutional strategies.

On the other hand HSC does not have the legal power to create internal control standards for the state institutions but only to audit the internal controls. In this aspect GAO is different because GAO has the competence to create, modify and audit the implementation of the internal controls. This lack of legal competence of the HSC has created problems in practice because the already established regulatory framework on internal control by the Ministry of Finance shows a lot of problems is not clear and therefore is not well absorbed and applied by the state institutions. On the other hand HSC regulatory framework on the internal control cannot get more advanced than the reality of the already established regulatory framework by the Ministry of Finance. Therefore it is important that HSC not only gets included in the process of auditing the internal controls but also in the process of approving the framework for internal controls like GAO.

3.3 Differences in organizational structure

GAO's and HSC's organizational structures respond to the current needs of the organization and also the goals and objectives they have established in their own Strategies. Nevertheless our similar goals and objectives toward fraud, waste and abuse (or corruption) seem to have differences in the establishment of dedicated structures in our organization. GAO's FAIS team seems to be a very practical and logical approach toward detection and response of fraud, waste and abuse while leaving the prevention aspect in the organizational level.

On the other hand GAO's FAIS team is equipped with some very effective investigative competences that cannot be applied by the auditors but that can produce the main findings of an audit. The application of these investigative powers by HSC needs first of all some legislative changes not only in our law but also in other state laws in the criminal field. Therefore it is very unlikely that HSC could use in the near future investigative powers like those of GAO's FAIS team.

Creating a dedicated institutional structure that deals with fraud, waste and abuse (or corruption) should be considered as a minimum requirement for a SAI's serious engagement in the response against these phenomena. Every SAI approach toward the detection and response of fraud, waste and abuse should use some of the core and basic principles of a criminal investigation like for example confidentiality or secrecy which can be meet only by having a dedicated and specialized structure inside our organization.

4. Relevant international developments that should be taken into consideration.

4.1 The UN 2030 Agenda for Sustainable Development and the INTOSAI Strategic Plan 2017-2022.

In 2015, the United Nations agreed in consensus on the approval of the UN 2030 Agenda for Sustainable Development[16] that consisted in a plan of action for all the people, the planet and prosperity of all nations. The Agenda comprised 17 Sustainable Developments Goals and 169 targets[17] that sought to build on the previous Millennium Developments Goals and further complete what they did not achieve. Considered as integrated and indivisible to each they aim to balance the three dimensions of sustainable development: economic dimension, social dimension and environmental dimension.

In its statements the Agenda is clearly aware that the sustainable development requires the existence of peaceful, just and inclusive societies that are based on effective rule of law and good governance at all levels as well as on transparent, effective and accountable institutions, by addressing specifically

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[16] http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E
[17] The new Goals and targets of 2030 Agenda for Sustainable Development came into effect on 1 January 2016 and will guide the decisions of UN for the next 15 years till 2030.

in the Agenda factors which give rise to violence, insecurity and injustice, such as inequality, corruption, poor governance and illicit financial and arms flows.

The Agenda also emphasizes the importance of qualitative, accessible, timely and reliable disaggregated data required in the process of follow-up and review of the progress made by the countries in implementing the Goals and targets of the Agenda by stating: "*baseline data for several of the targets remains unavailable, and we call for increased support for strengthening data collection and capacity building in Member States, to develop national and global baselines where they do not yet exist. We commit to addressing this gap in data collection so as to better inform the measurement of progress, in particular for those targets below which do not have clear numerical targets*".

Among the 17 Goals of the Agenda, Goal no. 16 deals exclusively with the building of effective, accountable and inclusive institutions at all levels, aiming that by 2030 all nations significantly reduce illicit financial flows, strengthen the recovery and return of stolen assets and combat all forms of organized crimes, substantially reduce corruption and bribery in all their forms, develop effective, accountable and transparent institutions at all levels and ensure responsive, inclusive, participatory and representative decision-making at all levels.

In 2016 INTOSAI adopted its new Strategic Plan for the years 2017-2022[18] during its Congress held in Abu Dhabi (UAE). The new Strategic Plan not only recognized the special role of INTOSAI and SAI's in relation to the implementation and evaluation of the Sustainable Development Goals of UN 2030 Agenda but it also conceived all the INTOSAI's Goals and Objectives in function of these SDG's, thus creating a new and very important mission for all SAI's.

In its preface, the Strategic Plan of INTOSAI 2017-2022 clearly states: "*Consistent with the Beijing Declaration, there is a growing global recognition—and importantly, expectation—of the central roles of INTOSAI and SAIs in promoting good governance and accountability. The recognition of these roles was prominently shown in the United Nations (UN) General Assembly Resolution of December 2011, "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions" (A/66/209).*

Building on that recognition, the UN, in various forums and through the active engagement of INTOSAI, has underscored the indispensable role of independent and capable SAIs in the efficient, effective, transparent, and accountable implementation of the 2030 Agenda for Sustainable Development. This recognition was explicitly recognized by the UN Member States in the General Assembly's December 2014 resolution, "Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions" (A/69/228).

The Sustainable Development Goals (SDGs), which the UN Member States jointly committed to in September 2015, provide an ambitious and long-term "plan of actions for people, planet, and prosperity," for all nations. The declaration on the SDGs, "Transforming Our World: The 2030 Agenda for Sustainable Development," noted that "Our Governments have the primary responsibility for follow-up and review, at the national, regional and global levels, in relation to the progress made in implementing the Goals and targets over the coming fifteen years." SAIs can, through their audits and consistent with their mandates and priorities, make valuable contributions to national

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[18]http://www.intosai.org/fileadmin/downloads/downloads/1_about_us/strategic_plan/EN_ INTOSAI_Strategic_Plan_2017_22.pdf

efforts to track progress, monitor implementation, and identify improvement opportunities across the full set of the SDGs and their respective nations' sustainable development efforts.

INTOSAI has an important supporting and leveraging role to play in national, regional, and global efforts to implement the SDGs and to follow-up and review progress that is made. However, to meet global expectations, INTOSAI must operate in a more integrated and effective manner. […]

Effective implementation of this plan and the decisions made at the Congress will be crucial as INTOSAI and its member SAIs help promote "the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals" (UN A/69/228)."

The INTOSAI Strategic Plan 2017-2022 provides 4 Goals comprised each by its own specific Objectives: (1) Professional Standards, (2) Capacity Development, (3) Knowledge Sharing and Knowledge Services, (4) Maximize the Value of INTOSAI as an International Organization. These 4 Goals and their specific Objectives are crosscutted by 5 Crosscutting Priorities among which no. 2 deals with INTOSAI's contribution in the follow-up and review of the SDG's within the context of each nation specific sustainable development efforts and SAI's individual mandates. In elaboration of the no. 2 Crosscutting Priority, the INTOSAI Strategic Plan states that SAI's can make valuable contributions to the national, regional, and global follow-up and review efforts of the SDGs, by:

−   Assessing the preparedness of national governments to implement, monitor, and report on progress of the SDGs, and subsequently to audit their operation and the reliability of the data they produce;

−   Undertaking performance audits that examine the economy, efficiency, and effectiveness of key government programs that contribute to specific aspects of the SDGs;

−   Assessing and supporting, as appropriate, the implementation of SDG 16 which relates in part to transparent, efficient, and accountable institutions; and SDG 17, which concerns partnerships and means for implementation;

- Being models of transparency and accountability in their own operations, including auditing and reporting.

- Advocate improvements in public financial management systems through, for example, improved governmental accounting and auditing practices.

- Review national transparency, risk management, anti-fraud protections, and internal control processes to contribute to corruption prevention efforts consistent with the United Nations Convention Against Corruption.

- Audit the capacity of national statistical and vital records systems to produce the data needed to ensure that no individual or social issue is "invisible" from a data standpoint and assess national preparations to report progress on implementation of the national sustainable development goals.

- Assess the validity of the chosen national targets and performance measures, the availability of baseline performance data, and the sufficiency of the overall performance measurement system.

- Review and engage in the "data revolution" by assessing government's ability to harness large complex datasets for decision-making and use data analytics to pinpoint improvement opportunities.

- Examine national Open Data and civic engagement strategies as they relate to the achievement of the SDGs.

- Report on the nation's overall progress in meeting the SDGs and/or providing data and insight for the country report to be developed as part of the global follow-up and review processes.

In the light of the above analysis of the current UN 2030 Agenda for Sustainable Development and its reflection in the INTOSAI's Strategic Plan 2017-2022 it can be concluded clearly that every SAI has to elaborate and amend its own Strategic Plan in order to be in compliance with these two main documents. The current SAI's contributions in good governance, and especially in the fight against corruption, fraud, waste and abuse, are just a small fraction of this enormous new and multidimensional mission of contributing in the progress and development of their own states.

Following up the INTOSAI's Strategic Plan 2017-2022, each SAI should change their approaches toward their engagements in promoting good governance and more specifically toward the fight against corruption, fraud, waste and abuse.

The new INTOSAI Strategic Plan states clearly the role and responsibilities for INTOSAI and SAI's in the years to come leaving no doubt on their active engagement in areas and topics considered until now by many SAI's as exclusively pertaining to Governments and Justice Institutions. This new mission of INTOSAI and SAI's puts them in the center of every state engagement toward SDG's by being directly engaged in the evaluation and the reporting of the progress that each country is making in meeting the SDG.
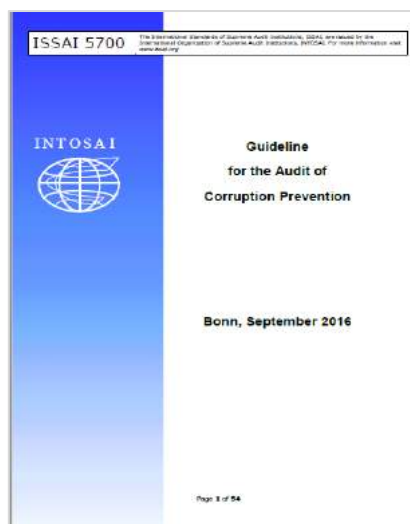
4.2 ISSAI 5700 – Guideline for the Audit of Corruption Prevention[19].

On September 2016 INTOSAI endorsed ISSAI 5700 "Guideline for the Audit of Corruption Prevention. This guideline is designed to help SAI auditors in preparing and conducting the audit of anti-corruption policies and procedures in government organizations within the scope of their mandate. It highlights anti-corruption policies, structures and processes in these organizations and can be used as an audit tool by the auditors.

The guideline covers key areas of anti-corruption structures and procedures that may be found in government organizations. It also describes the setting up of anti-corruption-structures, the approaches for risk assessment and risk analysis and monitoring processes. The main emphasis is placed on the modules of an effective anti-corruption organization such as the delimitation

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[19] http://www.issai.org/en_us/site-issai/issai-framework/4-auditing-guidelines.htm

of duties, job rotation, role of internal review, human capital including raising awareness and training of employees.

Applying in practice this guideline will involve SAI's even more directly in the fight against corruption by taking the responsibility of monitoring constantly the implementation of state strategies in this field and evaluating their impact.

Recommendations for an Action - Plan

Based on the conclusions elaborated in Chapter III the following suggestions should be taken in consideration:

1. Establishing and adapting the best terminology
HSC should consider the best applicable terminology in its framework that not only is in compliance with its own internal legislation but also with the international legislation and foremost with the INTOSAI standards. This terminology should be spread then in all of its regulatory framework. In cases of difficulties in arriving in a clear and comprehensive terminology HSC should see the possibilities in proposing to the relevant state institutions changes in the criminal, administrative or civil legislation.

2. Restructuring, improving and enlarging the current regulatory framework
HSC should consider the possibility of comprising its current audit regulatory framework (Manuals) in a single document like GAO's Yellow Book by creating a more practical approach toward the development of audits.
HSC should consider in having a dedicated framework (or that its framework covers) all the three aspects of an SAI approach toward fraud, waste and abuse (prevention, detection and response) like for example the GAO's approach toward having a the High-Risk Series and a special Framework on Managing Fraud Risks in Federal Programs.
HSC should try to propose to the relevant state institutions changes in the current legislation by gaining the right to be involved in the process of the approvement of internal control regulatory framework together with the Ministry of Finance.

3. Creating a dedicated structure specialized in the fight against fraud, waste and abuse

HSC should see the possibility of creating in the near future a dedicated special structure for the detection and respond towards fraud, waste and abuse (or corruption). The competences of this special structure can comprise: intervening in normal audits when auditors find or suspect for fraud, waste and abuse, conduct special audits on very high risky areas or entities, verify the denunciations of citizens send through the special portal, train HSC staff, analyze and over watch the regulatory frameworks and systems for possible improvements and loopholes, collaborate with police and prosecution authorities, develop and monitor strategies on fraud, waste and abuse (corruption).

To strengthen the power of this special structure and to handle them more effective tools HSC might seek collaboration of police and prosecution authorities by coordinating its work with the police and prosecution agents before and during the audits.

4.   *Focusing more on the audits of internal controls*

HSC should consider the proper implementation of internal control standards, overall the Albanian institutions, as the best preventive tool against fraud, waste and abuse (corruption) and as the proper and solid way in which HSC can contribute to the good governance and strengthening of the Albanian institutions, economy and finances.

5.   *Monitoring the strategies on the fight against corruption and the implementation of Sustainable Development Goals*

Based on the provisions made in INTOSAI Strategic Plan 2017-2022 and ISSAI 5700 HSC should consider starting to evaluate and monitor the implementation of SDG's by the Government and also of the current governmental strategies in the fight against corruption. This should be considered as the top contribution of an SAI toward the development of its country, good governance and the fight against corruption.

6.   *Analyzing and evaluating fraud, waste and abuse (corruption) and their costs*

HSC should take in consideration developing the methodology in analyzing and evaluating fraud, waste, abuse (corruption) and their costs on the state economy and finances. The problem with the process of analyzing and evaluating a criminal act is the lack of data because the majority of this crimes remains hidden. Nevertheless SAI's have the possibility to estimate scientifically by using the right methodology the costs of found and hidden

fraud, waste and abuse (corruption). Until now state institutions have been relying on the evaluations made by different NGO like for example the Corruption Perception Index done by Transparency International. Based on this evaluations state institutions create and monitor the implementation of their strategies on the fight against corruption. If SAI's should be engaged in evaluating state strategies on the fight against corruption they should be able to evaluate by themselves every known or hidden data about these criminal activities and their cost on the economy and finances of the state.

Bibliography

GAO's Strategic Plan 2014-2019

GAO's Framework for Managing Fraud Risks in Federal Programs

GAO's High-Risk Series

GAO's Generally Accepted Government Auditing Standards (GAGAS or Yellow Book)

GAO's Standards for Internal Control in the Federal Government (Green Book)

GAO's Internal Control Management and Evaluation Tool

Circular A-123 issued by the US Office of Management and Budget (OMB)

Implementation Guide for OMB Circular A-123 issued by the US Chief Financial Officer

HSC's Strategy of Development 2013 - 2017

HSC's Internal Regulation

HSC's Compliance Audit Manual

HSC's Financial Audit Manual

HSC's Strategy on Risk Management

UN 2030 Agenda for Sustainable Development

INTOSAI Strategic Plan 2017-2022

ISSAI 5700 – Guideline for the Audit of Corruption Prevention
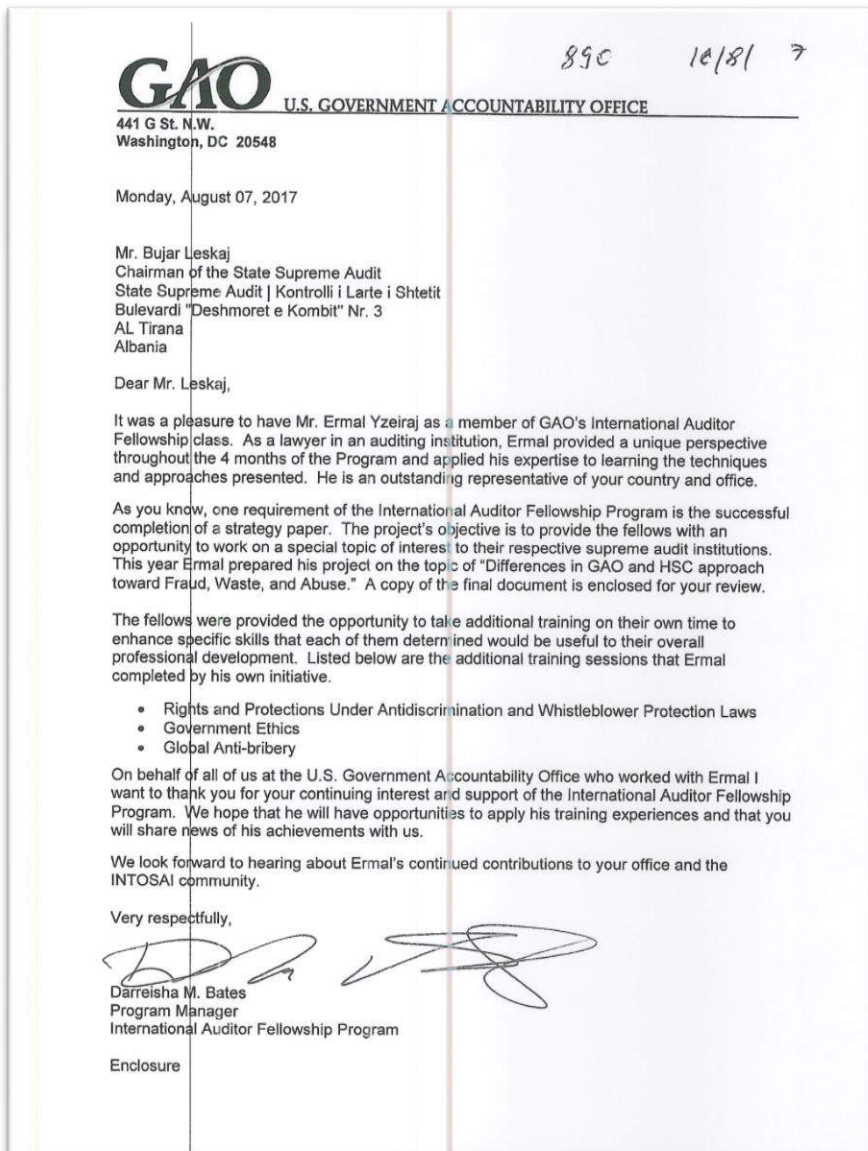
List of Abbreviations

GAO – Government Accountability Office

HSC – High State Control (Albanian Supreme Audit Institution)

FAIS - GAO's Forensic Audits & Investigative Service

OMB - US Office of Management and Budget

CFO - Chief Financial Office

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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Monday, August 07, 2017

Mr. Bujar Leskaj
Chairman of the State Supreme Audit
State Supreme Audit | Kontrolli i Larte i Shtetit
Bulevardi "Deshmoret e Kombit" Nr. 3
AL Tirana
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Dear Mr. Leskaj,

It was a pleasure to have Mr. Ermal Yzeiraj as a member of GAO's International Auditor Fellowship class. As a lawyer in an auditing institution, Ermal provided a unique perspective throughout the 4 months of the Program and applied his expertise to learning the techniques and approaches presented. He is an outstanding representative of your country and office.

As you know, one requirement of the International Auditor Fellowship Program is the successful completion of a strategy paper. The project's objective is to provide the fellows with an opportunity to work on a special topic of interest to their respective supreme audit institutions. This year Ermal prepared his project on the topic of "Differences in GAO and HSC approach toward Fraud, Waste, and Abuse." A copy of the final document is enclosed for your review.

The fellows were provided the opportunity to take additional training on their own time to enhance specific skills that each of them determined would be useful to their overall professional development. Listed below are the additional training sessions that Ermal completed by his own initiative.

- Rights and Protections Under Antidiscrimination and Whistleblower Protection Laws
- Government Ethics
- Global Anti-bribery

On behalf of all of us at the U.S. Government Accountability Office who worked with Ermal I want to thank you for your continuing interest and support of the International Auditor Fellowship Program. We hope that he will have opportunities to apply his training experiences and that you will share news of his achievements with us.

We look forward to hearing about Ermal's continued contributions to your office and the INTOSAI community.

Very respectfully,

Darreisha M. Bates
Program Manager
International Auditor Fellowship Program

Enclosure

GAO's appreciation for Mrs. Ermal Yzeiraj

The Comptroller General of USA, Mr. Dorado giving the Certificate of Achievement to Mr. Ermal Yzeiraj

2017 group photo of International Auditor Fellowship Program

An approach for enhancing Internal Controls within the Albanian Public Sector

Mrs. Aulona Jani (Jonuzi)

2017

TABLE OF CONTENTS

Acknowledgements

Recognizing opportunity is difficult for most people because it goes around disguised in overalls, looking like hard work.[1]Accepting the above requires strong will. However, nothing can be achieved without the support of a visionary mind that inspires you to work hard. Because of that,I would like to deeply thank the Chairman of the Albania Supreme Audit Institution, *Dr. Bujar Leskaj*, who by nominating me as a fellow to the GAO's 2016 International Auditor Fellowship Program, gave me the opportunity to work hard at a work worth doing. To me this is also a sign of encouragement that I can still get better. It has been a privilege for me to be part of the GAO team, during these 4 months. The program has learned to me that the cost of following a disciplined learning process is always less than the cost of lacking it. I would also like to extend my sincere gratitude to:

- Comptroller General of the United States of America, *Mr. Gene L. Dodaro,* for supporting the Fellowship Program and for allowing me to be part of its success;

- Managing Director of the Strategic Planning and External Liaison Office (SPEL) *Mr. James- Christian Blockwood, Mrs. Mary A. Mohiyuddin*, Program Manager *Ms. Darreisha Bates,* and all other officers of SPEL involved in administering the program;

- my mentor, Assistant Director, Financial Management and Assurance, *Mrs. Phyllis L. Anderson* for her guidance in the preparation of this paper;

- all Instructors, who had taken the time to provide us with the informative briefings/trainings despite their busy schedules; and

- my sponsor *Ms. Anne Hopewell,* and other officers of the GAO who accompanied us in various social events throughout the four-month period at GAO.

At the end, a special thanks to all my fellows' friends, wishing them to find the courage anytime is needed to continue what counts, whenever the duty as public money safeguards asks for it, however challenging it might be.

Thank you!

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[1] Thomas Edison quote

Introduction

Internal controls help entities achieve important objectives and sustain and improve performance. They are important components of both Albanian and U.S government's approach for enhancing accountability in their operations. Policymakers and program managers are continually seeking for ways to improve accountability in achieving an entity's mission.[2] A key factor in improving accountability in achieving entity's mission is to implement an effective internal control system.[1] Internal control is a process put in place by an entity's oversight body, management, and other personnel that provides reasonable assurance that objectives related to operations, compliance and reporting will be achieved and serves as the first line of defense in safeguarding assets.[3]In Albania, the concept of internal control has been established quite recently. The first legislation relating to internal control in the Albanian public sector was enacted in 2010. The Albanian government uses the term financial management and control when referring to internal control. Financial management and control is one of the pillars of the public internal financial control (PIFC) systems developed by the European Commission to assist prospective European Members' understanding and subsequent implementation of well-developed and effective control systems during their accession to European Union membership. Countries that have received the status of candidate country must comply with the requirements of the public internal financial control systems. Albania was assigned the status of a candidate country in June 2014, and subsequently entered into negotiations for Acquis Communautaire (the acquired common legislation applicable to Member States) to transpose this legislation into Albanian law.[4] During the negotiations, the candidate country must agree to adopt the PIFC model and introduce the international standards. This agreement is to be reflected in the country's national policy statements and is part of its commitment and legal basis for membership in the European Union.

In the U.S. federal government, the legislation relating to internal control was established through the Federal Managers' Financial Integrity Act of

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[2]Standards for Internal Control in the Federal Government, by the Comptroller General of the United States, GAO-14-704G
[3]Public law 111-352 -jan. 4, 2011, 124 STAT. 3866,GPRA modernization act of 2010,
[4]European Commission Directorate-General for Budget,
http://ec.europa.eu/dgs/budget/index.htm

1982. This law requires the U.S. Government Accountability Office to issue standards for internal control in the federal government. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. The U.S. Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, provides the specific requirements for assessing and reporting on controls. The term internal control is synonymous with the term management control and A-123 covers all aspects of an agency's operations (programmatic, financial, and compliance). In addition, other laws have been enacted. The Government Performance and Results Act of 1993 requires agencies to clarify their missions, set strategic and annual performance goals, and measure and report on performance toward those goals. Internal control plays a significant role in helping managers achieve those goals. Also, the Chief Financial Officers Act of 1990 calls for financial management systems to comply with internal control standards and the Federal Financial Management Improvement Act of 1996 identifies internal control as an integral part of improving financial management systems.[5]

The paper discusses

- the Albanian government's approach to internal control;
- the U.S. government's approach to internal control;
- observations on differences between the two approaches; and
- considerations for enhancing the Albanian government's approach on internal control systems.

1. The Albanian Government's Approach to Internal Control Systems

In 2010, the Albanian government established the law relating to financial management and control which stated that the Minister of Finance is the responsible authority for the approval of guidelines on financial

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[5]Standards for Internal Control in the Federal Government (Green Book), November 1999, US GAO, GAO/AIMD-00-21.3.1

management and controls in public entities.[6] The guideline requires all public entities to establish and assess financial management and control systems based upon the methodology provided in the guideline. The public entities include:

- general government units;

- commercial companies,

- nonprofit organizations and joint authorities which are owned, controlled, funded, or given financial guarantee from a general government unit; and

- other units spending public funds based on an international agreement regarding these funds.

 After receiving the status of candidate country by European Union in July 2014, it became compulsory for the Albanian government to comply with European Union's PIFC requirements. According to those requirements, the candidate country must agree to adopt the PIFC model and introduce

Public Internal Financial Control Systems		
Strong financial management and control systems to carry out the tasks of planning, programming, budgeting, accounting, reporting, archiving and monitoring	A functionally independent and objective internal audit service supporting management / Authorizing Officer and giving an objective assurance and advice that risk management and control and governance processes are established in accordance with the rules and standards and with principles of sound financial management, in order to improve the achievement of objectives.	Central Harmonization unit for developing and implementing a harmonized methodology and standardized quality of FMC system and of the internal audit service

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[6] Law on FMC, 2010, as amended

internal control international standards. The PIFC system aims to provide reasonable assurance that public funds are being used for the objectives selected by the budgetary authority (i.e. government and parliament). The system is subject to an annual progress evaluation performed by the European Commission, as part of the development program for Albanian government.[7]

Table: Three Pillars of Public Internal Financial Control

Source: 2016 Financial Management and Control guideline[8]

European Union's Public Financial Internal Control has three main pillars and financial management and control is one of the three, also named as managerial accountability.[9] In the European Union framework, management and financial control is understood to be the set of responsibilities of the management to establish and implement a set of rules aiming at an efficient, effective and economic use of available funds (comprising income, expenditure and assets).[10] The table below presents the three pillars of PIFC such as: (1) Financial management and control systems; (2) Internal Audit; and (3) the Central Harmonization Unit (CHU)[11] in the ministry of finance which is responsible for developing methodologies to support the two other pillars:

In the Albanian government, the terminology used for internal control is financial management and control. Financial management and control is a system of policies, procedures, activities and controlsby which financial resources are planned, directed and controlled to enable and influence the

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[7] The program has a total of 33 chapters and PIFC is included in Chapter 32.

[8] Based on European Commission Directorate-General for Budget. See: http://ec.europa.eu/dgs/budget/index.htm

[9] According to European Commission, managers of all levels in both public income and spending centres should be accountable for the activities they carry out - not only in operational policies but also in financial management and control policies. The concepts of managerial accountabilty and finanical management and control are used interchangebly. See http://europa.eu/dgx/budget/index.htm

[10] European Commission,Directorate-General for Budget: http://ec.europa.eu/dgs/budget/index.htm

[11] In Albania ministry of finance Directorate of Central Harmonization Unit is compounded by two sub directorates that are: CHU on financial management and control (CHU/FMC) dealing with methodologies and guideline to support financial management and control; and the other CHU on internal audit that develops methodologies for internal audit. CHU/FMC will be In the focus of the paper.

efficient and effective delivery of public service goals. The system established by law is to be maintained and regularly updated by the heads of public units and is put into practice by all the personnel aiming to address risks and to provide sufficient assurance that the objectives of the public unit are achieved through:

- efficient, effective and economic activities;

- compliance with the existing legislation and internal regulations and contracts;

- reliable and complete operational financial information;

- safeguarding of information and assets. [12]

1.1 The Role of Standard Setters in Public Financial Internal Control Systems.

The Albanian Minister of Finance is the responsible authority for: (1) approving guidelines with regard to internal controls in compliance with internationally accepted internal control standards; and (2) presenting the annual declaration of the quality of internal controls. To fulfill these tasks, the Minister of Finance is to be supported by the structure responsible for the harmonization of financial management and control currently named the Central Harmonization Unit of Financial Management and Control (CHU/FMC) established within the ministry of finance.[13] The CHU/FMC is required to: (a) develop, disseminate and update strategies and methodological guidelines on public financial management and control in compliance with the internationally accepted standards on internal control and with applicable regulations and the good practices; and (b) to produce a consolidated annual report for the implementation and operation of PIFC in the public sector. This report is to be submitted to the Parliament and the Albania Supreme Audit Institution (ALSAI).

For the CHU/FMC to effectively fulfill its role, it is essential to have quality guidelines and to understand the importance of the guidelines and their

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[12]According to the law no. 10296, date 08.07.2010 "On financial management and control" as amended.
[13]Law on Financial Management and Control 2010 (as amended) – more specifically provisions 6 and 26.

implications on the design and implementation on internal control systems. Internal control systems may be ineffective even when the guidelines are developed using international standards and good practices if there are deficiencies in design and implementation. However, without appropriate guidelines in place, internal control system cannot be effective.

It is widely accepted that management, during its monitoring and assessment of the effectiveness of the design and implementation of internal controls, is to apply professional judgment. To avoid being overly prescriptive with regard to internal control, a sound framework should be in place that specifies what constitutes an internal control system and how to determine whether internal controls are effectively implemented. Although it cannot guarantee perfect outcomes by allowing the use of judgment within the boundaries established by laws, rules, regulations, a sound internal control Framework can enhance management's ability to make better decisions about internal controls.

In November 2016, CHU/FMC approved a new guideline on financial management and control which was first developed in 2010. In 2013, the Committee of Sponsoring Organizations of the Tread way Commission (COSO) updated its internal control framework 21 years since the inception of the original framework. The COSO framework sets out of the five components of internal control, seventeen (17) principles representing the fundamental concepts associated with each component.[14] Supporting each principle are 77 points of focus representing important characteristics associated with the principles. In the2016 FMC guideline on financial management and control, there is not a distinction between components and principles and the components are described almost as they were in the previous Guideline (of 2010). Even though some changes have been made in the 2016 FMC guideline, still there are opportunities for enhancement so that CHU/FMC can fulfill its role as the responsible authority appropriately.[15]

The CHU/FMCis required producing a consolidated annual report for the implementation and operation of PIFC which is an assessment of the five

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[14] Based on COSO framework the five components of internal control are control environment, risk management, control activities, information and communication, and monitoring.

[15] The changes will be further explained in the coming session.

components of internal controls. According to the annual report prepared by CHU/FMC in May 2016, financial management and control is not understood from the top-level management as well as the staff in public institutions.[16]No root cause analyses have been made in the report to elaborate further the reasons why financial management and control is not understood appropriately and to what extent the level of comprehensiveness might have compromised the design and implementation of internal controls. As a result, CHU/FMC is currently using that state of fact (that financial management and control is not understood from top level management as well as the staff in public institutions) as a cause of the current state of internal control systems, rather than a condition which in fact should be and for which recommendations should be done.

The Ministry of Finance's efforts with regard to PIFC is also subject of an annual assessment from the European Commission based on the Albanian Development Program. According to the latest Progress Report of ECin November 2016, the Albanian public sector is moderately prepared in the area of financial controls.[17]The report states that some progress has been made in enhancing internal controls. For example, the Albanian government has amended the Public Internal Financial Control legislation in line with the international standards. However, many public entities have not implemented internal control in line with the PIFC legislation or they do not have effective systems in place to protect their assets. This also affects proper development of external audit as Albania Supreme Audit Institution continues to focus primarily on compliance audits and detection of irregularities. Internal control including reporting is considered purely financial and does not include information on performance.[18]

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[16] Ministry of Finance, Republic of Albania, Report on the functioning of public internal control system in the general government units for the year 2015; See also:
http://www.financa.gov.al/files/userfiles/Drejtorite/Drejtoria_e_Pergjithshme_rregullator e_Kontrolluese/raportime/Raporti_PIFC_-_30_05_2016.pdf
[17] Commission staff working document, Albania 2016 report, European Commission (EC), SWD(2016) 364 final.
[18] Commission staff working document, Albania 2016 report, European Commission (EC), SWD(2016) 364 final;

1.2 A Comparison between Financial Management and Control Guidelines' in Albania

In Albania the first guideline on financial management and control was developed and approved by Minister of Finance in 2010, followed by FMC guideline approved in November 2016.[19]Only few changes are noticed in the 2016 FMC guideline compared to the previous one. In addition, the 2016 FMC guideline does not reflect the updated COSO Integrated Framework requirements of 2013.The 2016 FMC guideline development process has been financed by European Union funds.

Further on, when comparing the 2016 FMC guideline with the previous one of 2010, it appears that the content of 2016 FMC guideline has not changed; whereas the structure represents some changes.[20]Some of them consist of adding two elements under risk assessment component such as objectives setting and risk management. These two elements were also presented at the 2010 FMC guideline under another chapter rather than under risk assessment component. Same has happened with the control activities component being added by 5 elements out of which 3 appear to be literally prescribed in the previous guideline such as business processes map, audit trails, and checklists.[21] In addition, report and monitoring component has been added by the element of financial management and control reporting.[22]

The table below shows only those chapters of 2016 FMC guideline where new elements have been added, and next to each of those additional elements there are indicated the respective chapters in the 2010 FMC guideline where these elements were literally presented.

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[19] Both guidelines are based on the Law on FMC. Paragraph 1.1, Purpose of the Guideline on FMC, Guideline on FMC, Ministry of Finance, Albania, November 2016;
[20] See Annex 2
[21] Business processes was already presented as part of FMC Cycle chapter (step 4); and Audit trails was presented as part of FMC Cycle chapter (step 5) in the 2010 FMC guideline; checklists were presented at annex 8 of 2010 FMC guideline.
[22]Financial management and control reporting is described literally in step 7 of FMC cycle in the 2010 FMC guideline

No	Chapters of 2016 FMC Guideline	Chapters of 2010 FMC Guideline
1	**Risk Management** Setting objectives Risk Management	**Financial management and control cycle** Setting objectives[23] Risk Management[24]
2	**Control Activities** Checklists Business processes map Manual of business processes Audit trails Internal Control Plan	**Financial management and control cycle** Checklists[25] Business processes map[26] - Audit trails[27] -
3	**Monitoring and Reporting** Financial management and control Reporting	**Financial management and control cycle** Financial management and control Reporting[28]

Table: Comparisons between two guidelines on FMC

In 2013, in the spirit of continuous improvement COSO updated the Internal Control Framework. However, 2016 FMC guideline does not reflect the updated changes as of new COSO Framework even though approved three years later (in 2016). According to INTOSAI GOV 9100, the revised guidelines on internal controls should be viewed as a living document which

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[23] Described idem as Step 2 of Financial management and control cycle, in chapter 3 of 2010 FMC guideline

[24] Described idem as Step 6 of Financial management and control cycle, in chapter 3 of 2010 FMC guideline

[25] Presented at Annex 8 of 2010 FMC Guideline

[26] Described idem as Step 4 of Financial management and control cycle, in chapter 3 of 2010 FMC guideline

[27] Described idem as Step 5 of Financial management and control cycle, in chapter 3 of 2010 FMC guideline

[28] Described idem as Step 7 of FMC Cycle

over time will need to be further developed and refined to embrace the impact of new developments such as COSO's Integrated Framework[29.] When comparing the updated COSO framework and the 2016 FMC guideline, it results that no change in the 2016 FMC guideline has been made to reflect the introduction of 17 principles associated with the five components.[30] The introduction of 17 principles is also considered the first most important change of COSO Framework aiming to increase management's understanding as to what constitutes effective internal control.[31]Supporting each principle there are points of focus representing important characteristics associated with the principles. Points of focus are intended to provide helpful guidance to assist management in designing, implementing and conducting internal control and in assessing whether relevant principles are present and functioning. However, while the 2013COSO Framework defines 77 points of focus, it does not require separate evaluation of whether the points of focus are in place. Management has the latitude to exercise judgment in determining the suitability or relevancy of the points of focus provided in the 2013 COSO framework. Together the components and principles constitute the criteria, and the points of focus provide guidance that will assist management in assessing whether the components of internal control are present, functioning and operating together within organization.

In addition, a clarification of definitions between internal control and financial management and control within Albanian public sector context is needed. Even though the law on financial management and control clearly describes the two definitions for internal control and financial management and control separately and differently, the 2016 FMC guideline (and the law itself further on) uses both concepts interchangeably. However, there are some distinctions in the various definition of:

- public internal financial control,
- internal control, and
- financial management and control

when used in the Albanian Law and in the European Commission legislation. The table below presents the definitions for public internal

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[29] INTOSAI GOV 9100, Guidelines for Internal Control Standards for the Public Sector
[30] See Annex 2
[31] The updated COSO Internal Control Framework, Frequently asked questions, Third Edition/Protiviti

financial control, financial management and control and internal control, based on European Commission manual on PIFC, and on Albanian law on financial management and control:

EUROPEAN COMMISION MANUAL	ALBANIAN LAW ON FMC
Public internal financial control is the overall <u>financial control system</u> performed internally by a Government or by its delegated organizations, aiming to ensure that the financial management and control of its national budget spending centers (including foreign funds) complies with the relevant legislation, budget descriptions, and the principles of sound financial management, transparency, efficiency, effectiveness and economy. Public internal financial control comprises all measures to control all government income, expenditure, assets and liabilities. It represents the wide sense of internal control. It	**Public internal financial control** is the overall <u>internal control system</u> performed by public units aiming to ensure that the financial management and control of the public units complies with the relevant legislation, budget requests, and the principles of sound financial management with transparency, efficiency, effectiveness, and economy. Public internal financial control comprises all activities aiming control of incomes, expenditures, activities and, liabilities of public units. It also includes central harmonization and coordination of financial management and control as well internal audit.

includes but is not limited to ex ante financial control (EAFC) and ex post internal audit (EPIA)	
In the framework of Enlargement, the term **financial management and control** is understood to be the set of responsibilities of the management (which is responsible for carrying out the tasks of government budget handling units) to establish and implement a set of rules aiming at an efficient, effective and economic use of available funds (comprising income, expenditure and assets). It refers to planning, budgeting, accounting, and reporting and some form of ex ante financial control. FM is subject to internal and external audit.	**Financial management and control** is a system of policies, procedures, activities and controls, by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals. This system is established, maintained and regularly updated by the head of public unit and are put into practice by all the personnel aiming to address risks and to provide sufficient assurance that the objectives of the public unit are achieved through: 1. efficient, effective and economic activities; 2. compliance with the existing legislation and internal regulations and contracts; 3. reliable and complete operational financial information; 4. safeguarding of information and assets.
Internal control is the whole system of financial and other controls, including the	**Internal control** is an integral process of financial management and control as well internal audit, established by the head of the management unit within its governance objectives, to assist in

organizational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular, economic, efficient and effective manner.	conducting the activities of public unit in a regular, economic, efficient and effective manner

Table: Comparing concepts of Public internal financial control, internal control and financial management and control

Source: Manual of European Commission on Public internal financial control and Albanian law on financial management and control[32]

1.3 Roles and responsibilities of Albania Supreme Audit Institution (ALSAI) in Internal Control Systems

Roles and responsibilities of Albania Supreme Audit Institution with regard to internal controls stems from:

- The Law on the organization and functioning of Albania Supreme Audit Institution;[33]
- The Law on financial management and control; and
- Guideline of Financial Management and Control.

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[32]http://ec.europa.eu/dgs/budget/index.htm

[33]In the framework of fulfilling ALSAI's obligation for the European integration process, in autumn 2012, the ALSAI has submitted to Parliamentary Committee of Economy the proposal on the amendment of the existing Law no. 8270 date 23.12.1997 "On the State Supreme Control Institution", as amended. After several discussion sessions held in Parliament, on November 27th, 2014, the Albanian Parliament has passed the ALSAI's new law, no. 154/2014, "On the organization and functioning of the State Supreme Audit Institution"[33]., which is fully compliant with International Standards for Supreme Audit Institutions (ISSAI-s). Based on the new law, ALSAI's activities were expended from a narrower scope of controlling the administration of public sector properties and budget execution to a broader one, allowing ALSAI conducting all types of audits according to ISSAI's.

According to law, ALSAI in its activity should reflect the highest level of international standards of INTOSAI that are largely based on COSO framework with respect to internal control.[34]Currently, ALSAI has not developed any guideline on assessing internal controls and it is using as an audit criteria the guideline developed by CHU/FMC. Using a guideline that does not reflect the recent changes of COSO Framework in an already changed environment is not effective. [35]

The law allows for ALSAI to develop its own manual for internal control auditing standards which on the other hand also needs to comply with the guideline developed by Minister of Finance as the responsible authority for approving it. Consequently, if the guidelines approved by Minister of Finance is based on the 1992 COSO framework, it would prevent ALSAI from developing guidelines based on a more updated framework (COSO 2013), since the whole public sector is expected to design and implement internal controls based on the guideline developed by Minister of Finance.

By not establishing effective guidelines (criteria) for internal controls, the work of ALSAI also risks to be negatively impacted when:

-   according to its law, ALSAI needs to assess the overall functioning of internal control systems in public entities by giving opinions and recommendations;[36]
-   according to International Standards of Supreme Audit Institutions - ISSAI 1315, state auditors during financial audits need to assess internal controls as a first step to identify and assess risks.[37]

According to the Albanian Law and the guideline on financial management and control, the quality of the functioning of financial management and control system should also be subject to an external audit or independent

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[34]According to INTOSAI GOV 9100 "Guidelines for Internal Control Standards for the Public Sector": INTOSAI's vision with regard to internal controls involves a continuing effort to keep updating internal control guidelines by continuously relying upon COSO integrated framework.

[35] Ever since 2001, in the 17-th International Congress of SAI-s, it was agreed that the COSO integrated framework for internal control should be relied upon when updating the guidelines on internal controls

[36] Provision 16 of Albania Supreme Audit Institution Law

[37] According to ALSAI Financial Audit Manual, when conducting financial audits auditors should use the Risk Model: Audit Risk = Inherent Risk * Internal Control Risk * Detection Risk. In order to evaluate Internal Control Risk, first auditors should asses at what extent internal controls are in place.

assessment by the Albania Supreme Audit Institution.[38] With reference to the guideline, ALSAI represents an important source of information for the budget users as per functioning of internal control systems. Hence, external audit performed by ALSAI in accordance with international standards and good practices provides additional information and assurance concerning the way public funds are being spent by also point out weaknesses that need to be addressed.[39]   In addition to the financial management and control guideline, the directives issued by Ministry of Finance emphasizes that public entities should also consider activities that aim addressing some flaws and weaknesses discovered when audits are conducted by ALSAI, with regard to Budget Monitoring, Public Financial Inspection, etc. [40]

2. US Government Approach on Internal Control Systems

Internal control legislation in U.S. federal government was established through Federal Managers' Financial Integrity Act of 1982, which requires the U.S. government Accountability Office to issue standards for internal control in the federal government. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. The Office of Management and Budget (OMB) is required by the same Act to issue evaluation guidelines. Based on that, the U.S. Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, provides specific requirements for assessing and reporting on controls. In addition, other laws have been enacted. The Government Performance and Results Act of 1993 requires agencies to clarify their missions, set strategic and annual performance goals, and measure and report on performance toward those goals. Internal control plays a significant role in helping managers achieve those goals. Also, the Chief Financial Officers Act of 1990 calls for financial management systems to comply with internal control standards and the

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[38]ALSAI is not accountable to the executive branch of power but to the Parliament.
[39]Financial Management and Control Guideline, prepared by Ministry of Finance on November 2016
[40]Directives issued by Ministry of Finance40 no.16, date 20.07.2016 "On roles and responsibilities of financial management and control coordinator and risk coordinator in public entities"

Federal Financial Management Improvement Act of 1996 identifies internal control as an integral part of improving financial management systems.[41]

2.1 The Role of Standard Setters of Internal Control in the U.S

The Federal Managers' Financial Integrity Act (FMFIA, 1982) requires the Comptroller General to issue standards for internal control in the Federal Government. After the FMFIA Act in 1982, GAO developed and released the first set of Standards for Internal Control in the Federal Government, popularly known as the Green Book in 1983 (first revision in 1999) with the latest revision released in 2014.

GAO's mission is to support Congress in meeting its Constitutional responsibilities and to help in improvement of performance as well as ensuring accountability of the Federal Government for the benefit of the American people. It also undertakes research under the authority of the Comptroller General. GAO supports congressional oversight by (1) auditing agency operations; (2) investigating allegations of illegal and improper activities; (3) reporting on how well government programs and policies are meeting their objectives; (4) performing policy analyses and outlining options for congressional consideration; and (5) issuing legal decisions and opinions.

GAO has also developed Generally Accepted Government Auditing Standards (GAGAS) popularly known as the Yellow Book. These standards aim to provide the foundation of government auditors to lead by example in the areas of independence, transparency, accountability, and quality through the audit process.[42]To help to ensure compliance with Generally Accepted Government Auditing Standards (GAGAS), GAO has developed a Quality Assurance Framework which includes Engagement Performance component. GAO's engagements include evaluations of federal programs and performance, and financial audits, policy analysis, legal opinions, bid protest adjudications, and investigations. As part of Engagement Performance component, GAO auditors and analysts consider Internal Control when planning and performing engagements.

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[41]Standards for Internal Control in the Federal Government(Green Book), November 1999, US GAO,GAO/AIMD-00-21.3.1

[42] GAO-12-331G, Government Auditing Standards by the Comptroller General of the U.S (2011 Revision)

2.1.1 Generally Accepted Government Auditing Standards (GAGAS)

The Generally Accepted Government Auditing Standards (GAGAS), commonly referred to as the "Yellow Book", are produced in the United States by the Government Accountability Office (GAO). The standards apply to both financial and performance audits of government agencies. GAGAS provide auditors a framework for performing high-quality audit work with competence, integrity, objectivity, independence, accountability as well as guidance on helping improve government operations and services.

GAGAS contains requirements for reporting identified deficiencies in internal control:

1. For financial audits: According to GAGAS, when providing an opinion or a disclaimer on financial statements, auditors should also report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements. Auditors report on internal control and compliance, regardless of whether or not they identify internal control deficiencies or instances of noncompliance.[43]

2. For attestation engagements: When performing GAGAS examination engagements, auditors should report, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control;95 94 (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and (4) abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. Auditors should include this information either in the same or in separate report(s).[44]

3. For performance audits: Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.165 When auditors detect

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[43]Government Auditing Standards, GAO-12-331G, para. 4.19 through4.24.
[44] Government Auditing Standards, GAO-12-331G, para 5.20 through 5.23

deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. Auditors should refer to that written communication in the audit report if the written communication is separate from the audit report. When auditors detect deficiencies that do not warrant the attention of those charged with governance, the determination of whether and how to communicate such deficiencies to audited entity officials is a matter of professional judgment.[45]

2.1.2 Standards for Internal Control in the Federal Government (Green Book)

Standards for Internal Control in the Federal Government (known as the Green Book), provide the overall framework for establishing and maintaining an effective internal control system. The Green Book may also be adopted by state, local, and quasigovernmental entities. It also provides criteria for analysts and auditors to evaluate the design, implementation and operating effectiveness of entity's internal control system.

A direct relationship exists among an entity's objectives, the five components of internal control, and the organizational structure of an entity. The objectives are what an entity wants to achieve while the five components of internal control are what the entity requires to achieve the set objectives. Organizational structure encompasses the operating units, operational processes, and other structures management uses to achieve the objectives. This relationship is clearly shown in form of the cube developed by COSO as depicted by the diagram below:

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[45] Government Auditing Standards, GAO-12-331G, para 7.19 through 7.20
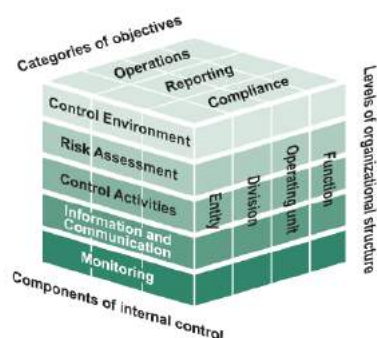
Sources: COSO and GAO Green Book

Figure: The Components, Objectives, and Organizational Structure of Internal Control

In addition to the COSO framework, the Green Book which incorporates the concepts developed by COSO, provides definitions and fundamental concepts pertaining to internal control at the federal level and may also be useful to auditors at other levels of government.[46] The related Internal Control Management and Evaluation Tool based on the federal internal control standards, provide a systematic, organized, and structured approach to assessing the internal control structure.[47]

The Green Book approaches internal control through a hierarchical structure of five components and 17 principles (adapted as per COSO framework, 2013).

In order to achieve each of the principles, an entity should meet the attributes related to that specific principle. The five components which represent the highest level of the hierarchy of standards of internal control in the federal government are as follows:

Component 1: Control Environment provides the discipline and structure, which affect the overall quality of internal control and influences on how objectives are defined and how control activities are structured. There are 5 principles with regard to control environment component such as:

1. The oversight body and management should demonstrate a commitment to integrity and ethical values;

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[46] Government Auditing Standards, GAO-12-331G
[47] Internal Control Management and Evaluation Tool, GAO-01-1008G (Washington, D.C.: August 2001).

2. The oversight body should oversee the entity's internal control system;

3. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives;

4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals; and

5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Together with the five principles there are 14 attributes.[48]

Component 2: Risk Assessment deals with assessing the risks facing the entity as it seeks to achieve its objectives. There are 4 principles attached to the component as follows:

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances;

7. Management should identify, analyze, and respond to risks related to achieving the defined objectives;

8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks;

9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Together with the four principles there are 9 attributes.

Component 3: Control Activities consist of the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. Component 3 is compounded by 3 principles as follows:

10. Management should design control activities to achieve objectives and respond to risks;

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks; and

12. Management should implement control activities through policies.

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[48] As presented in Annex 3

Together with the three principles there are 11 attributes.[49]

Component 4: Information and Communication consists of the quality information management and personnel communicate and use to support the internal control system. Component 4 is compounded by 3 principles that are:

13. Management should use quality information to achieve the entity's objectives;

14. Management should internally communicate the necessary quality information to achieve the entity's objectives;

15. Management should externally communicate the necessary quality information to achieve the entity's objectives**.**

Together with the 3 principles there are 7 attributes.

Component 5: Monitoring consists of activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews. There are 2 principles relating with component 5 such as:

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results; and
17. Management should remediate identified internal control deficiencies on a timely basis.

Together with the 2 principles there are 6 attributes.

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[49]As presented in Annex 3

3. Comparisons between Internal Controls Frameworks (US and Albanian government approaches)

Comparisons between US government approach and Albanian government approach with regard to internal controls helps to identify the areas that need improvements for Albanian government approach. In this perspective, US government approach has also the potential to effectively address the issues of concern in Albanian government with regard to internal controls since Green Book best embodies both theoretical (COSO Framework) and practical side of the topic[50]. According to OECD, Green Book is already being considered internationally as a useful guide as it is free and accompanied by supporting guidance documents.[51]. A comparison between US government approach on internal control and Albanian government approach is presented in the table below:

No	UNITED STATES	ALBANIA
1	The Federal Managers' Financial Integrity Act of 1982 requires the U.S. Government Accountability Office to issue standards for internal control in the federal government.	There isn't any law providing the responsible authority for issuing standards on internal controls
2	The U.S. Office of Management and Budget (OMB) Circular A-123, Management's Responsibility on Enterprise Risk Management and Internal Control, provides the specific requirements for assessing and reporting on controls	The law No 10296 dated 8/7/2010 "On the financial management and control" requires the Minister of Finance to be the responsible authority for the approval of guidelines and Financial Management and Control Manuals in public entities.

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[50]According to "Green Book", the standards are effective beginning with fiscal year 2016 and the FMFIA reports covering that year. Management, at its discretion, may elect early adoption of the Green Book

[51] OECD Public Governance Reviews, Supreme Audit Institutions and Good Governance (oversight, insight and foresight), 2016, OECD Publishing, Paris

3	The term internal control is synonymous with the term management control A-123 and covers all aspects of an agency's operations (programmatic, financial, and compliance).	The Albanian government uses the term financial management and control when referring to internal control. Financial management and control is one of the pillars of the public internal financial control systems developed by the European Commission to assist prospective European Members' understanding and subsequent implementation of well-developed and effective control systems during their accession process to European Union membership
4	Standards on internal control (Green Book) are revised in 2014 and are largely based on COSO Integrated Framework (2013)	The guideline on internal controls has been revised in November 2016 and it is still based on COSO Framework (1992)
5	The 17 underlying COSO principles have been introduced to support the five overarching components of internal control. Also attributes that support the design and implementation of each of the principles are identified in the updated Green Book.	No changes have been done to the new guideline even though it is approved 3 years later after COSO Framework (updated version).[52]

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[52] Annex 3 Comparisons between Green Book and Albanian Guideline on financial management and control

6	The Federal Managers' Financial Integrity Act (FMFIA) requires federal executive branch entities to establish internal control in accordance with these standards. The Green Book may also be adopted by state, local, and quasigovernmental entities.	The guideline on financial management and control is applicable for all public entities such as: (a) General government units; (b) Commercial companies, nonprofit organizations and joint authorities which are owned, controlled, funded, or given financial guarantee from a general government unit; and (c) Other entities spending public funds based on an international agreement regarding these funds.
7	Green Book also provides criteria for analysts and auditors to evaluate the design, implementation and operating effectiveness of entity's internal control system	ALSAI has not developed any manual on internal controls so that it can be used as criteria for auditors to evaluate the design, implementation and operating effectiveness of entity's internal control system. Currently state auditors are using the guideline of Ministry of Finance as criteria.
8		Ministry of Finance prepares an annual report on internal control as well as a declaration on quality of internal controls in public sector and submits it to Parliament and to ALSAI

4. Conclusions

As a subsystem of management system, internal control could be viewed as the primordial condition for the efficient and effective accomplishment of the general and specific objectives of any public entity. From the audit perspective, the internal control represents both an objective of the internal auditor activity, and a means to achieve a goal for the external auditor.

However, before designing, implementing and conducting internal controls and assessing their effectiveness, there are two factors that should be considered: first, the level of comprehensiveness of internal controls; and second, the continuous environmental changes.

The need to revising the existing internal control guidelines and standards is promoted by changes in operating and regulatory environments, such as the expanded use of information technology and other challenges. New and rapidly changing in operating and regulatory environments, demand internal control systems to be agile in adapting to those changes.   In addition, Albanian government has also been facing changes with regard to Public Internal Financial Control requirements, imposed by its status as a European Union candidate country. All of the above incentivized the need to revising the existing internal control guideline. In 2016, Albania ministry of finance revised the guideline on financial management and control.

However, no change in terms of content has been done to the 2016 FMC guideline by indicating that those incentive factors in fact are not considered when developing the guideline. Even though developed 3 years later after issuance of COSO Framework on internal controls (updated version of 2013), the 2016 FMC guideline does not reflect any of those changes.

With reference to 2016 consolidated annual report of ministry of finance on internal control, financial management and control is not understood properly from the top-level management as well as the staff in public entities. Making few /or at all changes in 2016 FMC guideline after that statement, means that issues dealing with not understanding internal controls are not addressed at all and that chances that financial management and control will not be understood might be the same as they were before the 2016 FMC guideline to be issued.

The revision process of internal control framework needs to be developed based on international standards and good practices, by taking into consideration the level of comprehensiveness of internal controls by all personnel involved in the process. In this perspective, GAO Green Book is an ample example of what is internationally known as e good practice to be followed.

5. Matters for Management Consideration - Action Plan

To enhance internal controls within the Albanian public sector, the following suggestions will be presented to the Albania Supreme Audit Institution's management for consideration:

1. Albania Supreme Audit Institution should influence using its legal authority to recommend the revision of 2016 financial management and control guideline with consideration of the Standards for Internal Control in the Federal Government, by the Comptroller General of the United States (Green Book of GAO) as e good practice. The guideline should reflect the most recent international standards (COSO Framework at which Green Book is largely based) in order to give impetus to effective designing, implementing, conducting and assessing effectiveness. An effective guideline will enable public entities to effectively and efficiently develop and maintain systems of internal control that can enhance the likelihood of achieving the entity's objectives and adapt to changes in operating environments.

2. Albania Supreme Audit Institution should be part of the working group for developing the guideline. Shared authority between Ministry of Finance and Albania Supreme Audit Institution is needed when working for the guideline on internal controls. This requirement should be reflected in the law on financial management and control as well as in the law on the organization and functioning of Albania Supreme Audit Institution.

3. In addition to the above, Albania Supreme Audit Institution should develop an internal manual on internal controls, considering simultaneously COSO Framework, the Green Book, Internal Control Evaluation Tool, and INTOSAI standards as well as the guideline on financial management and control. This manual should be used as an evaluation tool for auditors when assessing internal control systems in public system and it needs to be made public so that entities would be able to understand the criteria based on which their internal systems will be audited and assessed.

4. In order to enhance the understanding of internal controls, Albania Supreme Audit Institution should develop and provide training programs dedicated to internal controls for state auditors, also with participation of other personnel of public sector entities. Learning about internal control concept, procedures and regulations from auditor's perspective will also help

public sector employees to gain a better understanding on how the system works and how it will be assessed.

5. Albania Supreme Audit Institution should influence using its legal authority to recommend clarifications of the concepts of: internal control, public internal financial control, and financial management and control in the law on financial management and control as well as in the guideline. Convoluted and vague definitions risks making the process more difficult, whereas a thorough understanding of them lends to potentially useful insights.

6. Albania Supreme Audit Institution should report on internal controls regardless of whether or not they identify internal control deficiencies or instances of noncompliance, when conducting audits. Based upon the work performed during the specific year, ALSAI should also prepare an annual report on effectiveness of internal controls in Albanian public sector as part of the annual report on budget execution and to present it to the Parliament. Such independent evaluations will help ensure that internal control maintains its effectiveness over time.

References

1   INTOSAI GOV 9100 - Guidelines for Internal Control Standards for the Public Sector (to be reviewed at least every 6 years)

2   INTOSAI GOV 9110 - Guidance for Reporting on the Effectiveness of Internal Controls: SAI Experiences in Implementing and Evaluating Internal Controls

3   INTOSAI GOV 9130 - Further Information on Entity Risk Management

4   INTOSAI GOV 9120 - Internal Control: Providing a Foundation for Accountability in Government

5   http://ec.europa.eu/budget/index.htm;and
    http://ec.europa.eu/dgs/budget/index.htm

6   Albania Public Financial Management Strategy 2014-2017

7   See: Commission staff working document, Albania 2016 report, European Commission (EC), SWD(2016) 364 final

8   Commission staff working document, Albania 2016 report, European Commission (EC), SWD(2016) 364 final;

9   Ministry of Finance, Republic of Albania, "Report on the functioning of public internal control system in the general government units for the year 2015"; see also: http://www.financa.gov.al/files/userfiles/Drejtorite/Drejtoria_e_Pergj ithshme_rregullatore_Kontrolluese/raportime/Raporti_PIFC_- _30_05_2016.pdf

10   "Consolidated report of PIFC in Republic of Albania for 2015", Ministry of Finance, Republic of Albania,

11   Law No 10296, date 8/7/2010, as amended by the Law No. 110/2015, date 15.10.2015 "On financial management and control", Republic of

Albania

12	http://www.klsh.org.al/web/Legislation_90_2.php
13	Law no. 154/2014 "Organization and functioning of State Supreme Audit Institution, Albania"
14	http://www.issai.org/en_us/site-issai/issai-framework/intosai-gov.htm
15	Financial Management and Control Guideline, prepared by Ministry of Finance on November 2016
16	Standards forInternal Control in the Federal Government, By the Comptroller General of theUnited States, GAO-14-704G (Green Book)
17	OMB Circular A-123 - Management's Responsibility for Enterprise Risk Management and Internal Control
18	COSO, Internal Controls – Integrated Framework (1992)
19	COSO, Internal Controls – Integrated Framework (2013)
20	OECD Public Governance Reviews, Supreme Audit Institutions and Good Governance (oversight, insight and foresight), 2016, OECD Publishing, Paris
21	Internal Control Management and Evaluation Tool, August 2001, GAO-01-1008G

List of Acronyms

ALSAI   Albania Supreme Audit Institution

CHU/FMC   Central Harmonization Unit for Financial Management and Control

CHU   Central Harmonization Unit

EC   European Commission

EU   European Union

FMC   Financial Management and Control

GAO   Government Accountability Office

IA   Internal Audit

IC   Internal Control

PIFC   Public Internal Financial Control

Annex 1: Internal Control – Integrated Framework, COSO, May 2013

Control Environment				
Principles			**Points of Focus**	
1	The organization demonstrates a commitment to integrity and ethical values	1	Sets the tone at the top	
		2	Establishes standards of conduct	
		3	Evaluates adherence to standards of conduct	
		4	Addresses deviations in a timely manner	
2	The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control	5	Establishes oversight responsibilities	
		6	Applies relevant expertise	
		7	Operates independently	
		8	Provides oversight on Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities	
3	Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives	9	Considers all structures of the entity	
		10	Establishes reporting lines	
		11	Defines, assigns, and limits authorities and responsibilities	

Control Environment (continued)				
Principles			**Points of Focus**	
4	The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives	12	Establishes policies and practices	
		13	Evaluates competence and addresses shortcomings	
		14	Attracts, develops and retains individuals	
		15	Plans and prepares for succession	
5	The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives	16	Enforces accountability through structures, authorities and responsibilities	
		17	Establishes performance measures, incentives and rewards	
		18	Evaluates performance measures, incentives and rewards for ongoing relevance	
		19	Considers excessive pressures	
		20	Evaluates performance and rewards or disciplines individuals	
Risk Assessment				
Principles			**Points of Focus**	
6	The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives:			
	– Operations Objectives	21a	Reflects management's choices	
		22a	Considers tolerances for risk	
		23	Includes operations and financial performance goals	
		24	Forms a basis for committing of resources	
	– External Financial Reporting Objectives	21b	Complies with applicable accounting standards	
		22b	Considers materiality	
		25	Reflects entity activities	

		48	Establishes policies and procedures to support deployment of management's directives
12	The organization deploys control activities through policies that establish what is expected and procedures that put policies into action	49	Establishes responsibility and accountability for executing policies and procedures
		50	Performs in a timely manner
		51	Takes corrective action
		52	Performs using competent personnel
		53	Reassesses policies and procedures
	– Compliance Objectives	21a	Reflects external laws and regulations
		22a	Considers tolerances for risk

Risk Assessment (continued)			
Principles		**Points of Focus**	
	The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed	26	Includes entity, subsidiary, division, operating unit, and functional levels
7		27	Analyzes internal and external factors
		28	Involves appropriate levels of management
		29	Estimates significance of risks identified
		30	Determines how to respond to risks
	The organization considers the potential for fraud in assessing risks to the achievement of objectives	31	Considers various types of fraud
8		32	Assesses incentives and pressures
		33	Assesses opportunities
		34	Assesses attitudes and rationalizations
	The organization identifies and assesses changes that could significantly impact the system of internal control	35	Assesses changes in the external environment
9		36	Assesses changes in the business model
		37	Assesses changes in leadership
Control Activities			
Principles		**Points of Focus**	
	The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels	38	Integrates with risk assessment
10		39	Considers entity-specific factors
		40	Determines relevant business processes
		41	Evaluates a mix of control activity types
		42	Considers at what level activities are applied
		43	Addresses segregation of duties
	The organization selects and develops general control activities over technology to support the achievement of objectives	44	Determines dependency between the use of technology in business processes and technology general controls
11		45	Establishes relevant technology infrastructure control activities
		46	Establishes relevant security management process control activities
		47	Establishes relevant technology acquisition, development, and maintenance process control activities

Information and Communication

	Principles		Points of Focus
13	The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control	54	Identifies information requirements
		55	Captures internal and external sources of data
		56	Processes relevant data into information
		57	Maintains quality throughout processing
		58	Considers costs and benefits
14	The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of other components of internal control	59	Communicates internal control information
		60	Communicates with the board of directors
		61	Provides separate communication lines
		62	Selects relevant method of communication
15	The organization communicates with external parties regarding matters affecting the functioning of other components of internal control	63	Communicates to external parties
		64	Enables inbound communications
		65	Communicates with the board of directors
		66	Provides separate communication lines
		67	Selects relevant method of communication

Monitoring Activities

	Principles		Points of Focus
16	The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning	68	Considers a mix of ongoing and separate evaluations
		69	Considers rate of change
		70	Establishes baseline understanding
		71	Uses knowledgeable personnel
		72	Integrates with business processes
		73	Adjusts scope and frequency
		74	Objectively evaluates
17	The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate	75	Assesses results
		76	Communicates deficiencies to parties responsible for corrective action and to senior management and the board of directors
		77	Monitors corrective actions

Annex 2: Comparison between Albanian Financial management and control guidelines (2010 and 2016)

No	FMC 2010	FMC 2014
1	**Control Environment**	**Control Environment**
	Integrity and Ethical Values	Integrity and Ethical Values
	Moral	Moral
	Governance	Governance
	Management operating style and management philosophy	Management operating style and management philosophy
	Supportive attitudes	Supportive attitudes
	Organizational Structure	Organizational Structure
	Policies and practices related to human resources	Policies and practices related to human resources
	Staff competencies	Staff competencies
	Delegation of duties	Delegation of duties
2	**Risk Management**	**Risk Management**
	Step 2 of FMC Cycle	Setting objectives
	Step 6 of FMC Cycle	Risk Management
	Risk Identification	Risk Identification
	Risk assessment	Risk assessment
	Risk Treatment	Addressing risk
	Monitoring of risk management process	Monitoring of risk management process
	Risk Strategy	Risk Strategy
3	**Control Activities**	**Control Activities**
	The categories of Control Activities	The categories of Control Activities
	Ex-ante controls (preventive controls	Ex-ante controls (preventive controls
	Ex – post controls (Detective controls)	Ex – post controls (Detective controls)
	Managerial controls	Managerial controls
	-	Authorization procedures
	Segregation of tasks	Segregation of tasks
	Double signature system	Double signature system
	Procedures for complete, true, accurate and timely accounting for all operations	Procedures for complete, true, accurate and timely accounting for all operations
	Supervision procedures	Supervision procedures
	Anti-corruption procedures	Anti-corruption procedures

	Rules for access to assets and information	Rules for access to assets and information
	Rules for HR management	-
	Procedures for documentation, archiving and storing of information	Procedures for documentation, archiving and storing of information
	Reconciliation of data	-
	Control activities related to information technologies	Control activities related to information technologies
	Presented at Annex 8 of the Guideline	Checklists
	Step 4 of FMC Cycle	Business processes map
	-	Manual of business processes
	Step 5 of FMC Cycle	Audit trails
		Internal Control Plan
4	**Information and communication**	**Information and communication**
	Information management systems	Information management systems
	Communication	Communication
	Internal communication	Internal communication
	External communication	External communication
	Signalization	-
5	**Monitoring**	**Monitoring and Reporting**
	Roles in the monitoring process	Roles in the monitoring process
	Role of Internal Audit	Role of Internal Audit
	Reaction toward flaws detected	-
	Step 7 of FMC Cycle	Financial management and control Reporting

Annex 3: Comparisons between Green Book and Albanian government guideline on financial management and control

NO	COMPONENTS	UNITED STATES GREEN BOOK	ALBANIA MANUAL ON FMC
I.	**Component 1**	**Control Environment**	**Control Environment**
	Principle 1	Demonstrate commitment to	Integrity and

		integrity and ethical values	Values
Attributes 1		Tone at the top	Supportive attitudes
		Standards of Conduct	Governance
		Adherence to Standards of Conduct	Moral
			Staff competencies
Principle 2		Exercise Oversight Responsibility	Delegation of duties
Attributes 2		Oversight Structure	Management operating style and management philosophy
		Oversight for the Internal Control System	Organizational Structure
		Input for Remediation of Deficiencies	Policies and practices related to human resources
Principle 3		Establish Structure, Responsibility, and Authority	
Attributes 3		Organizational Structure	
		Assignment of Responsibility and Delegation of Authority	
		Documentation of the Internal Control System	
Principle 4		Demonstrate Commitment to Competence	
Attributes 4		Expectations of Competence	
		Recruitment, Development, and Retention of Individuals	
		Succession and Contingency Plans and Preparation	
Principle 5		Enforce Accountability	
Attributes 5		Enforcement of Accountability	
		Consideration of Excessive Pressures	
Component 2		**Risk Assessment**	**Risk Management**
Principle 6		Define Objectives and Risk Tolerances	Setting objectives

II.	**Attributes 6**	Definitions of Objectives	Process of Risk management
		Definitions of Risk Tolerances	Risk Identification
	Principle 7	Identify, Analyze, and Respond to Risks	Risk assessment
	Attributes 7	Identification of Risks	Addressing risk
		Analysis of Risks	Monitoring of risk management process
		Response to Risks	Risk Strategy
	Principle 8	Assess Fraud Risk	
	Attributes 8	Types of Fraud	
		Fraud Risk Factors	
		Response to Fraud Risks	
	Principle 9	Identify, Analyze, and Respond to Change	
	Attributes 9	Identification of Change	
		Analysis of and Response to Change	
III.	**Component 3**	**Control Activities**	**Control Activities**
	Principle 10	**Design Control Activities**	Authorization procedures
	Attributes 10	Response to Objectives and Risks	
		Design of Appropriate Types of Control Activities	
		Design of Control Activities at Various Levels	
		Segregation of Duties	Segregation of duties
	Principle 11	**Design Activities for the Information System**	
	Attributes 11	Design of the Entity's Information System	Design of Appropriate Types of Control Activities as follows:
		Design of Appropriate Types of Control Activities	Double signature system
		Design of Information Technology Infrastructure	Procedures for a complete, true,

			accurate and timely accounting for all operations
		Design of Security Management	Supervision procedures
		Design of Information Technology Acquisition, Development, and Maintenance	Anti-corruption procedures
	Principle 12	Implement Control Activities	Rules for access to assets and information
	Attributes 12	Documentation of Responsibilities through Policies	Procedures for documentation, archiving and storing information
		Periodic Review of Control Activities	Control activities related to information technology
IV.	**Component 4**	**Information and Communication**	**Information and Communication**
	Principle 13	Use Quality Information	Written procedures
	Attributes 13	Identification of Information Requirements	Checklists
		Relevant Data from Reliable Sources	Business processes map
		Data Processed into Quality Information	Manuals of business processes
	Principle 14	Communicate Internally	Audit trail
	Attributes 13	Communication throughout the Entity	Internal Control Plan
		Appropriate Methods of Communication	
	Principle 15	Communicate Externally	
	Attributes 15	Communication with External Parties	
		Appropriate Methods of	

		Communication	
V.	**Component 5**	**Monitoring**	
	Principle 16	Perform Monitoring Activities	
	Attributes 16	Establishment of a Baseline	
		Internal Control System Monitoring	
		Evaluation of Results	
	Principle 17	Evaluate Issues and Remediate Deficiencies 67	
	Attributes 17	Reporting of Issues	
		Evaluation of Issues	
		Corrective Actions	

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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Monday, August 07, 2017

Mr. Bujar Leskaj
Chairman of the State Supreme Audit
State Supreme Audit | Kontrolli i Larte i Shtetit
Bulevardi "Deshmoret e Kombit" Nr. 3
AL Tirana
Albania

Dear Mr. Leskaj,

It was a pleasure to have Ms. Aulona Jani as a member of GAO's International Auditor Fellowship class. Aulona was highly engaged and thoughtful throughout the 16 week Program. She applied her expertise to learning the techniques and approaches presented with ease. She is an outstanding representative of your country and office.

One requirement of the Fellowship is the successful completion of a strategy paper. The project's objective is to provide the fellows with an opportunity to work on a special topic of interest to their respective supreme audit institutions. Aulona prepared her project on the topic of "An Approach for Enhancing Internal Controls within the Albanian Public Sector." A copy of the final document is enclosed for your review.

The fellows were provided the opportunity to take additional training on their own time to enhance specific skills that each of them determined would be useful to their overall professional development. Listed on the second page are the additional training sessions that Aulona completed by her own initiative. We hope that she will have opportunities to apply her training experiences and that you will share news of her achievements with us.

On behalf of all of us at the U.S. Government Accountability Office who worked with Aulona, I want to thank you for your continued interest and support of the International Auditor Fellowship Program.

Very respectfully,

Darreisha M. Bates
Program Manager
International Auditor Fellowship Program

Enclosure

GAO's appreciation for Aulona Jani

The Comptroller General of USA, Mr. Dodaro giving the Certificate of
Achievement to Mrs. Aulona Jani

2016 group photo of International Auditor Fellowship Program

Differences between U.S. Government Accountability Office and Albania High State Control Approaches toward Performance Audit with a Focus on Measuring the Effectiveness of Government Programs

Mrs. Alma Shehu

2018

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Acknowledgements

I would like to thank the Chairman of High State Control, **Dr. Bujar Leskaj,** for nominating me to participate in the U.S. Government Accountability Office's (GAO) 2018 International Auditor Fellowship Program (IAFP). The program has indeed been a fruitful, enjoyable and challenging learning experience for me.

I would also like to extend my sincere gratitude to Comptroller General of the United States of America, **Mr. Gene L. Dodaro**, for supporting the IAFP over the years and giving me the opportunity to participate to this excellent program.

I would like to thank GAO's Managing Director of the Strategic Planning and External Liaison (SPEL), **Mr. JamesChristian Blockwood**; the Director of International Relations, **Mr. Michael Hix,** Program Manager, **Ms. Darreisha Bates**; and Program Support Specialist, **Ms. Anne Hopewell** for organizing and managing such a comprehensive and successful program.

I am utmost thankful to my mentor, **Mr. Mark A. Pross,** Assistant Director, for the support, advice and instructions in writing the strategy paper.

In relation to the program, I am very grateful to all of the IAFP lecturers and instructors for sharing their knowledge and expertise, to Sponsors, and other GAO staff who have planned various social events for us throughout the four-month period at GAO.

I would like also to extend an enormous 'thank you' to all the fellows who have contributed to the success of this 2018 Fellowship Program. Besides their companionship which I greatly enjoyed, I have also learnt a great deal from everyone, especially with regard to their respective institutions, countries, and cultures.

Thank You!!

Executive Summary

The mission of High State Control of Albania (HSC) as an independent, constitutional institution is to inform the public and the Albanian Parliament about the use of public resources by the central and local government and other public entities. Also, HSC promotes accountability and transparency across the public sector in accordance with International Organization of Supreme Audit Institutions (INTOSAI) standards and best practices, contributing to good governance through the fight against corruption.

In fulfilling its important constitutional mission, HSC performs financial, compliance, regularity, performance, and information technology audits with the goal of measuring effectiveness, efficiency, and economic use of public funds and public and state property.

The change in the management of HSC in December 2011 brought significant changes in the management philosophy of this institution. The new HSC Chairman, Mr. Bujar Leskaj, stressed that in addition to consolidating financial audits, further development can be achieved by drawing attention to performance audits[1] conducted in line with INTOSAI standards.

This purpose of this strategy paper is to introduce the best practices of the U.S. Government Accountability Office that might be applicable to HSC when conducting performance audits in addressing future challenges, especially in measuring the effectiveness of government programs.

With its main mission to support the U.S. Congress and to help improve the performance and ensure the accountability of the federal government, GAO pays particular attention to the entire auditing process, which is conducted in accordance with generally accepted government auditing standards. After the congressional mandate or request is accepted, developing the researchable question(s) and determining criteria, the audit process focuses on data collection and data analysis. The sufficiency and appropriates of the data are key elements that help GAO auditors support conclusions and recommendations about effectiveness of certain programs. In the

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[1]Speech of Mr. Bujar Leskaj, nominated by the President of the Republic of Albania for the post of the HSC Chairman, held in the Commission of Economy and Finance on 14.12.2011, on the occasion of the presentation of his platform for leading HSC

recommendation follow-up process, considered as the last—but not less important-step in the audit process, GAO examines the implementation of the recommendations. This follow-up process measures improvements to the program and how the recommendations have helped make programs more effective.

Being able to implement this good practice of GAO, HSC can increase its credibility and capacity in developing and conducting its performance audits to better suit new challenges and meet the expectations of the Albanian citizens, Parliament, and other stakeholders.

Introduction

The fall of the communist regime and the establishment of democratic order in Albania, as in all institutions, were accompanied by substantial change in the High State Control, which until the beginning of the 1990s, was an institution fully aligned with the government.

Profound democratic reforms that have been carried out in Albania to improve the lives of its citizens and the national goal to a full membership in the European Union were also accompanied by the adoption of the new constitution in which articles 162,163,164, and 165 sanctions the following:

- The authority and the function of High State Control;

- The election of the Chairman of HSC;

- The object of the audit activity;

- Reporting and relations with the Parliament;

- Relations with the government.

Law no. 154/2014, "On the Organization and Functioning of the High State Control", fully in compliance with the International Standards of Supreme Audit Institutions (ISSAI) and the European best practices, and developed in cooperation with the institutions of the European Union, has clearly established the right and duty of HSC to conduct performance audits.

In fulfilling the obligations of the law, HSC established the Department of Performance Audit, which continues to faces different challenges such as the capacity building and professional development of the performance auditors.

In this regard, the IAFP offered by GAO is for HSC an excellent opportunity for the further professional development of its auditors in conducting performance audits. IAFP also is a unique opportunity for HSC auditors to learn from GAO's best practice about the whole process of conducting performance audits; the tools, practices, and policies used to ensure GAO's products are reliable; and help the Congress in fulfilling its mandate.

The expectations of the HSC were that, among other things, by participating in GAO's IAFP, the representative of HSC by the end of 2018 would be able to introduce GAO methods, methodology, and best practices when planning, conducting, and reporting on performance audits with a focus on measuring the effectiveness of Government Programs.

In developing findings, conclusions, and recommendations, auditors conducting performance audits should be aware of and be able to identify the criteria, condition, cause and effect of a finding to measure the effectiveness of government programs and propose further steps to improve these programs. A performance audit can be effective only if it has a sound methodology for collecting and analyzing of the data, which are the key tool for measuring the effectiveness of government programs.

GAO, as a leading institution in the INTOSAI community, has established processes, procedures, and internal structures, which support the audit teams to select the appropriate methodology for collecting and analyzing the data and contributing so in audit reports which clearly address the deficiencies of government programs and provide effective recommendations for the improvement of the effectiveness and the efficiency of this program.

The HSC expectations regarding participation in the IAFP were to identify (1) GAO's approach on conducting performance audits, (2) stakeholders involved in planning, conducting, and reporting in performance audits and their specific role in GAO's audit process,(3) GAO's methodologies used for data collection and data analysis, and (4) GAO's follow-up process with a focus on measuring the effectiveness of the government programs.

After completing the IAFP, HSC expects that this strategy paper would lay out the best practices of GAO that will help HSC to redefine its way for conducting performance audits and develop sound tools and policies, which will help assess and evaluate the effectiveness and the efficiency of government programs.

These best practices that could help HSC include the following:

- To achieve its constitutional mission to inform the Parliament and the public about the use of public resources by central and local governments though promotion of accountability and transparency across the public sector and based on GAOs experience, HSC should take into consideration the development of guidelines on how to determine performance and accountability challenges and high risk in government programs. The guideline should be used as methodology for issuing a High Risk list of government programs and follow up and informing the Parliament about the performance of the government in implementing the National Strategy for Development and Integration.

- Based on GAOs experience, HSC should take into consideration the development of a guideline for the establishment of a database for tracking the implementation of performance audit recommendation. The guideline should clearly define follow-up tools and procedures to be implemented by the Performance Audit Department in order to report about the implementation of recommendations. This data base will serve as the base on reporting about the actions taken by central and local governments to improve the effectiveness of their programs.

- Amending the Performance Audit Department Manual with a focus on: (1) The involvement of other specialists (as stakeholder) in the performance audit process as a support for the audit team and their role and responsibilities in this process and (2)completing the manual with a chapter on methodologies for collecting and analyzing data.

- Reorganizing the Department of Audit Methodologies. This can be done by developing special policies for attracting highly qualified professionals working for HSC while their expertise can support auditors who conduct performance audits through the whole audit process.

- Based in the experience gained in the IAFP and the training materials delivered to the participants by GAO, propose to the management a training program for the HSC auditors who conduct performance

audits with a focus on methodologies for data collection and data analysis that will help them on measuring the effectiveness of government programs.

Objectives

The purpose of this strategy paper is to:

- Describe the Albanian Supreme Audit Institution approach to performance audit, especially in measuring effectiveness.
- Describe the U.S. Government Accountability Office approach to performance audit, especially in measuring effectiveness.
- Analyze and observe differences between the two approaches.
- Make recommendations for improving the Albanian Supreme Audit Institution's approach on performance audits, especially with a focus on measuring effectiveness.

Description of terms

Performance audit is one of the three common audits conducted in the public and private sector. (The other two common audits are financial and compliance audits.)A clear definition of this type of audit, its objectives, and outcomes can be found in the standards and guidelines of the International Organization of Supreme Audit Institutions (INTOSAI), known as International Standards of Supreme Audit Institutions (ISSAI). In ISSAI 300, "Fundamental Principles of Performance Auditing", performance audits described as an independent, objective, and reliable examination of whether government undertakings, systems, operations, programs, activities, or organizations are operating in accordance with the principles of economy, efficiency, and effectiveness and whether there is room for improvement.

Performance audits deliver new information and knowledge by:

- providing analytical insights;
- making existing information more accessible to different stakeholders;
- providing independent and authoritative finding and conclusion based on audit evidence; and
- providing recommendations based on an analysis of audit findings.

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Performance auditing often includes an analysis of the conditions that are necessary to ensure that the principles of economy, efficiency, and effectiveness can be upheld.To reach conclusions and make recommendations on improving the effectiveness of government programs, auditors have to know and understand the definitions of the principles and the logic which makes a close connection between these three principles.

According to ISSAI 300, the principles of economy, efficiency, and effectiveness can be defined as follows:

- The principle of economy means minimizing the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality, and at the best price.
- The principle of efficiency means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality, and timing.
- The principle of effectiveness concerns meeting the objectives set and achieving the intended results.

The logic link between economy, efficiency, and effectiveness is described in the graph below.
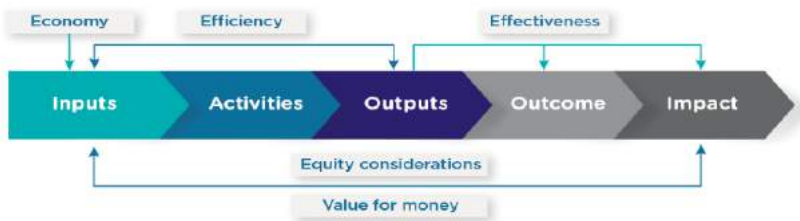
Source: Besley, 2015

Figure 1: Interrelationship between Economy, Efficiency, and Effectiveness

Since the focus of this strategy paper is measuring the effectiveness of government programs, is it important to stress that effectiveness is about the relationship of many performance-related indicators and draw together goal orientation, internal process and systems, outputs, and impacts and stakeholder perspectives.

When measuring effectiveness of government programs, auditors have to keep in mind two main questions: (1) are objectives/ goals achieved and, if yes, (2) can this result of the policy be pursued? In other words, the achievement of the program objectives can be directly linked to an effective and efficient implemented policy. To reach conclusions about the extent of program objectives' achievement, the auditor needs to establish criteria and collect data that makes the assessment possible. The auditor might seek to assess or measure effectiveness of government programs by comparing outcomes with the goals established in the program objectives. However, when auditing effectiveness, the auditor should usually try to determine to what extent the instruments used have, in fact, contributed towards the achievement of the program objectives. This is what measuring effectiveness in performance audits is all about. This asks for sufficient, appropriate, and reliable evidence to ensure that the outcomes that have been observed are the result of the program implementation.

1. HSC's Framework and Organization Structure

The High State Control was established on May 20, 1925, with the Decree of the President of the Republic of Albania on the Law "On Establishment of the Controlling Council". This law entered into force on May 26, 1925, upon the adoption by the Parliament.

The Controlling Council was set up as a constitutional body subordinate to no ministry. From 1928 to 1939, Albania was ruled by an institutional monarchy. The institution was renamed as the State Control and the new law governing the organization and functioning of State Control sanctioned reporting to Parliament and relations with the Government and the King.

In August 1946, by special law, the People's Assembly established the State Control Commission under the full authority of the government, thus losing its independence and becoming subject to the politics of the totalitarian government.

With the establishment of pluralism in Albania, on August 31, 1992, the Parliament adopted the law "On State Audit Control", drafted with European Union (EU) assistance. This law sanctioned giving the description of the methodology; (e.g., interview), characteristics, utilization and benefits,

consideration and staff roles to the State Audit Control as an independent institution from the government.

The full independence of the Supreme Audit Institution of Albania was achieved with the adoption of Law No. 8270 on December 23, 1997.

On November 27, 2014, the Albanian Parliament adopted the new HSC Law No. 154/2014, "On the Organization and Functioning of HSC", which entered into force in February 2015. This act legally marked a turning point for the institution by profiling HSC as a modern supreme audit institution that bases its activity on INTOSAI standards.

The Albanian Supreme Audit Institution is organized in nine departments, seven of them Audit Departments, together with the Department of Law and Standards Control and the Department of Strategy and Audit Methodology. Figure 2 shows how the nine departments are organized within the Albanian Supreme Audit Institution.
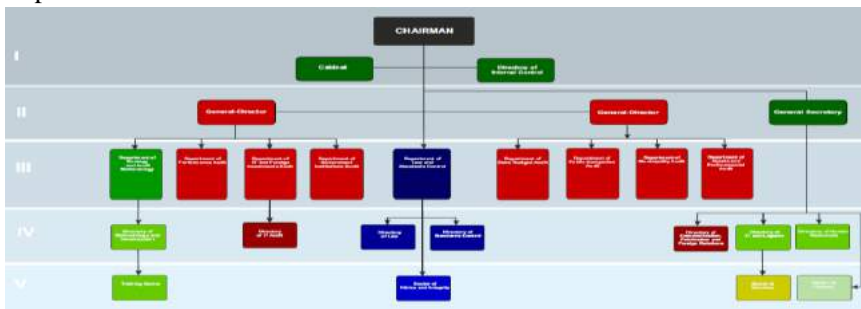
Figure 2: Albanian Supreme Audit Institution Organizational Chart
Source: HSC web

Keeping in mind the stages that HSC has undergone and the tradition created, the activity of HSC until 2008 was focused on conducting compliance audits and few financial and performance audits. It is important to stress that Law No. 8270 of December 23, 1997, amended with the Law No. 8599 of April 10, 2000, had not given a definition or specifically addressed performance audit as one of the audit types. The law states that: "The main objective of High State Control is to control the effectiveness and usefulness of the use of

public funds[2] ..." but it did not give a clear mandate to the HSC to carry out performance audits.

By the management structures at that time, performance audit was seen as a derivative of other audit types rather than as a new type of audit, which contributes on measuring economy, effectiveness, and efficiency. In 2011, HSC had conducted about 152 audits[3], but only one was a performance audit.

To establish the institution's activity in accordance with the INTOSAI standards and the aim of multi-dimensional information of the Parliament on the use of public money, along with the change in the management of HSC in 2011, special attention was paid to performance auditing. In this regard, in the Strategic Development Document 2013-2017 (see figure 3), the third goal focused on the improvement the audit quality and the increase in the numbers of performance audits[4].

Figure 3: HSC Strategy Development 2013-2017

This important document stressed that "Performance audit for the upcoming strategic period will be a consolidated activity with a multiplied volume of audits, with well-trained staff demonstrating very good skills in carrying out this type of audit influential in the Albanian public administration. Performance Audit will be one of the two most important activities throughout the institution's activity.

….Disappointing results of some public policies have shown from one side a gap between policies goals and schemes, and the complex and ever-changing nature of the country's social and economic problems on the other. They require a new type of responsibility, in which public sector auditing should play its role by taking a dynamic rather than a static approach. HSC will focus its performance auditing precisely and mainly on results rather than in the process, emphasizing the need for change, for responsible and continuous

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[2] Article 6 of the Law No. 8270 of December 23, 1997, "For the High State Control."

[3] Anual analysis of HSC 2011, published in 2012.

[4] Strategic Development Document 2013-2017, pages 22-24.

improvement of public management. The institution has the challenge to consider whether policy goals and schemes are related to real-life problems and the concern of stakeholders".

1.1 Performance Audit in HSC

As the first step in fulfilling this important goal, HSC established in October 2012 the Department of Performance Audit, which consisted of 16 auditors. In 2017, the Performance Audit Department consisted of the Department Director and 19 auditors.

With the purpose of conducting audit work on the basis of international auditing standards and help auditors in all the stages of the audit work, HSC published the Performance Audit Guide: ISSAI 3000-3100 (see figure 4). With the publication of this important document HSC goal was to:

Figure 4: Performance Audit Guide 2014-2019

- assist auditors in achieving high quality work in performance audits;
- stimulate the professional competence of HSC auditors;
- provide a basis for carrying out successfully these types of audits; and
- enable the general public and specific users to gain a better perspective and understanding of the practices and the professionalism of the Supreme State Audit.[5]

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[5]Performance Audit Guide: ISSAI 3000-3100, page 3.

Another important milestone in the work of the Performance Audit Department is the publication in 2015 of the Manual of the Performance Audit Department (see figure 5). This manual provides guidance to HSC performance auditors by describing all phases of the performance audit cycle such as strategic planning, annual planning, audit planning, audit approaches, audit criteria, audit methodologies, design matrix, data collection and data analysis, report writing, final report delivering, and follow up.

Figure 5: Manual of Performance Audit Department

In 2015, HSC also published "Performance Indicators" (see figure 6). The publication refers to the British experience and is considered as a guide for the HSC performance auditor in identifying, defining, explaining and illustrating the performance indicator groups through which a public entity can be evaluated by parties within and outside the organization.
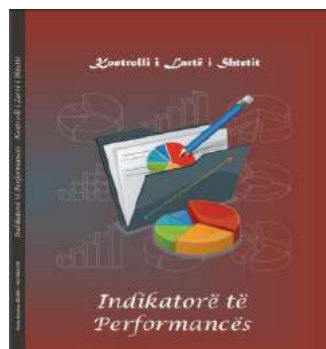
Figure 6: Performance Indicators

Within the goal of increasing the professional capacity of the auditors, HSC has paid particular attention to both internal and external training programs, especially for the performance auditors. During 2012-2017, each HSC auditor attended on average more than 25 days of training per auditor. In comparison, for the period 2002-2011, this indicator had been around 2.1 training days per auditor.

The training of performance auditors took about 25 percent of the training program in HSC in 2014 (see figure 7).
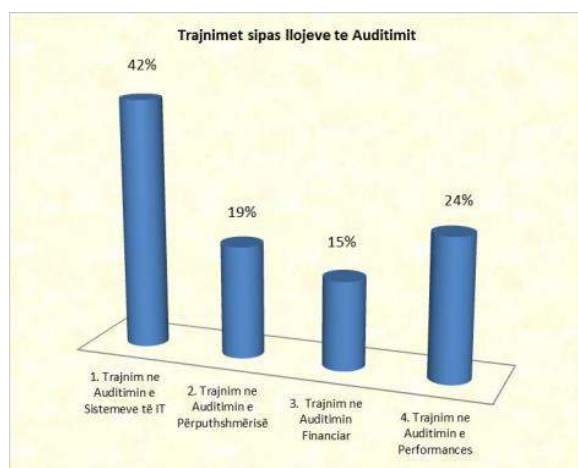
Figure 7: Chart shows the weight of the training on performance audit in HSC

Since 2011, HSC has increased the number of its performance audits each year. For the period 2011 to 2017 (see table 1), HSC has increased the specific percentage of performance auditing in its auditing activity. Performance auditing only comprised 1 percent of HSC's audit activity in 2011, while the percentage of this type of audit increased in 2015 to 8 percent, and in 2017 to about 10 percent.

Table 1: Performance Audit in HSC for the year 2011-2017

Year	Total Number of Audits	Number of Performance Audits	Specific Percentage of Performance Audits in Percentage
2011	152	1	1
2012	158	4	3
2013	153	6	4
2014	160	8	5
2015	158	12	8

2016	154	13	8
2017	156	15	10

Source: Publications "Annual analysis of HSC" for the years 2011-2017

The coverage of performance audit currently ranges from in-depth specific performance of government programs to governmental and administrative reforms undertaken by the government, public finance management evaluation, assessing the effectiveness of development strategies in different fields, fiscal administration programs and reforms evaluation, medical care, government education reforms, evaluation of environmental and energy and projects, and assessing single entity's performance (see table 2)

Table 2: Conducted audits and entities audited in the years 2008-2017

Performance on years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Concluded Audits	3	4	3	1	4	6	8	12	13	15
Audited Institutions	7	9	6	8	9	17	35	73	106	66
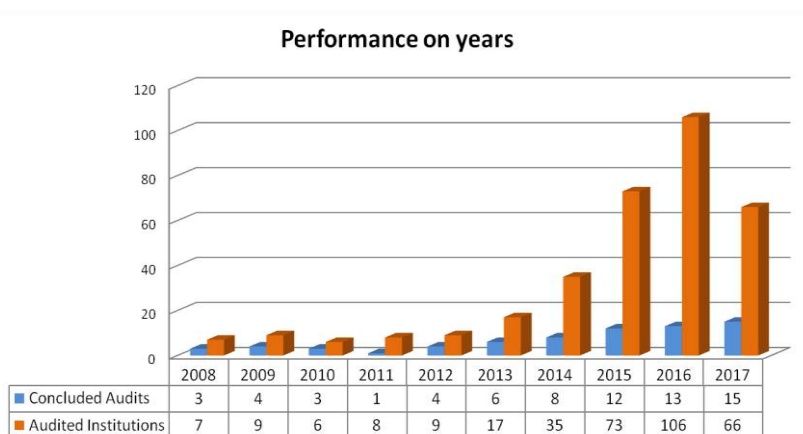
Source: Booklet ALSAI performance 2017, page 23

In his speech on the occasion of the HSCs annual analysis for 2016, the Chairman, Mr. Bujar Leskaj, stressed that "Performance audit will continue to remain a priority of our work, as an audit that prevents before penalizing, studies analytically before mechanically comparing, recommends optimum solutions, aiming primarily to change the behavior and mentality of the public official through open and constructive communication, without compromising decision- or policy-making".

The number of the findings, conclusions and the recommendation has also increased from year to year. In 2017, the totals were as follow:

- 528 findings.
- 424 conclusions.
- 396 recommendations.

The recommendations made by the auditors of the Performance Audit Department are primarily related to the improvement of the legal and regulatory framework, and recommendations are focused on the improvement of the organizational aspects of audited entities.

Given the fact that HSC for years has mainly performed compliance audits and the fact that institutions recognize this type of audit, the initiation and the conduct of performance audits was not easy. Most officials at every level in the public administration have a contradictory approach toward this type of audit and still do not understand the role of performance audit.

The auditors of the Performance Audit Department of are very active in the printed and social media in presenting to the public the reports and recommendations of their audits. They also are active in informing the public about their mission and objectives of this type of audit, the standards on which this audit is conducted, criteria and methodology, and how it is carried out. Other tools used by Performance Audit Department to promote the benefits of performance audits are the cooperation of the department with universities and the involvement of external experts in the audit process.

1.2 Measuring effectiveness in Performance Audits in HSC

HSC can decide independently and at any time on its plan of activities. Before the year end, the Chairman approves the Annual Audit Plan of HSC for next year based on the proposals made by the department directors.

To guarantee product quality, during the preparation of the proposals for the Annual Audit Plan, the Performance Audit Department must carry out two main processes:

- decide and prioritize the audit topics generated by internal discussions in the department, and
- assess the risks for the successful fulfillment of the annual plan.

Criteria used in evaluating audit proposals conducted by performance auditors are:

- public sensitivity to the proposed topic;
- importance of the proposed topic versus public finances;
- human and technical capacities of HSC to successfully carry out the audit;
- experience accumulated from previous audits on the proposed issue; and
- workload of the department.

After the Annual Audit Plan is approved, the group of auditors who will conduct he audit for each topic is established.

In the preparatory phase, the audit team strives to achieve an understanding for both the policy area and the administrative structure of the entity to be audited. After the team has identify the program, the objectives of the program, inputs, and expected outputs, the team continues its discussion with the Department Director and develops the researchable question and designs the matrix.

Figure 8: Example of the Audit Matrix used by the HSC Auditors[6]

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[6]HSC, Manual of the Performance Audit Department, page 40.

For the researchable question and the sub-questions, the teams establishes the criteria, data, sources of the data, methods used for gathering the data, analytical techniques, limitations in the conclusions that can be reported, and the description of unusual events on the basis of its analysis (see table 4).

Table 3: Design matrix used by HSC auditors while planning and conducting performance audits.

Researchable question/ sub-question	Criteria	Methodology					
		Data	Sources of the data	Metho ds used for gatheri ng the data	Analytical techniques	Limitatio ns in the conclusio ns that can be reported	Descrip tion of unusua l events
	Objectives, laws, and regulatory framework,g uidelines	Evide nces, analy tical infor matio n, etc.	Ministries, scientific research, etc.	Observ ation, intervie ws, surveys	Qualitative and quantitative evidence, study cases	Sample size, quality and reliability of the data, etc.	

Performance auditing is not a classic audit and its goal is to go farther and give answers to questions such as:

- Are things done properly?
- Are these the things to be done?

To answer the questions above and develop solid findings, conclusions, and recommendations, the success of performance audits depends on setting solid and based criteria, and using the proper methodology for gathering and analyzing data.

Measuring the effectiveness of the central and local government programs and policies is closely linked to the resource of data, their authenticity and reliability, the methods selected by the audit team to collect the data which, after being properly analyzed, can provide a clear picture of the effectiveness of these programs.

Part of the HSCs Manual of Performance Audit Department is also a short guide of audit approach/methodology. This section stresses "…Audit Methods/Techniques—This section should list all techniques for collecting, processing, analyzing and publication of information. The methods must be consistent with the selected approach. For example, the audit team cannot choose a quantitative approach and questionnaires with open questions are used as a method for collecting data".[7]

Data in HSCs performance audits is mainly collected from file reviews, interviews of audited entity employees, open-ended and close-ended questionnaires, active research, and best practices. The audit team based on audit experience, knowledge gained during the pre-phase study, trainings and the background education of the team members, is responsible for setting the criteria's and the decision for what data to collect and analyze. The lack of the knowledge in the methodologies about data collection and data analysis and each methods limitation in this important field makes it difficult for HSC auditors to properly measure the effectiveness of governmental programs.

Since the audit techniques for different types of audits and the techniques for gathering and analyzing data are the core work of the Methodology Department, HSC's Manual of Performance Audit Department does not have a specific section that describes each method that can be used for data collection and data analysis.

1.3 Follow up in HSC as a mechanism for measuring the effectiveness of central and local government program and policies

The new law of HSC No. 154 approved by the Parliament in November 2014 "On the Organization and Functioning of High State Control" clearly sets out how the HSC will follow the recommendations given for how the audits are to be carried out. Article 15 j, "Rights and duties of HSC" states that "High State Control, when appropriate, at the beginning, during and/or at the end of the audit …set a deadline for implementing the recommendations and has to

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[7]Manual of Performance Audit Department, page 51

be informed by the audited entities about the implementation of the recommendations within 20 days ".

Article 30, paragraph 2, "HSC recommendations and follow up", states that "Audited entity reports to the High State Control on the progress of the implementation of the recommendations given within 6 months of the notification date of the audit report".

The document of HSC Internal Regulation and the decision of Chairman of HSC in 2016 "On procedures for tracking and documenting the verification work on the implementation of HSC recommendations" are the guiding documents for the follow up. The follow up is an important procedure in the audit process in HSC and is done for all types of audits. In the successive audits, reporting about the follow up of the recommendations is an important part of the audit report in which detailed information is provided on how the HSC recommendations given in the previous audit have been implemented. Based on the information and their action plans that the audited entities have presented to HSC, at the end of each year, HSC conducts a follow up audit on how the action plans have been implemented. Each audit department performs the follow up of its recommendations and reports separately. HSC has not yet a consolidated a data base for audit recommendations and that makes it difficult to follow up, especially for performance audits. As mentioned before, the recommendations of HSC performance audit are related to the organizational nature of internal control issues and proposals for improvement of the legal and regulatory framework. The entities tend to implement more the recommendations for the improvement of internal controls. Changes in laws and regulatory frameworks require time and the involvement of many parties, and this makes it difficult for the performance department to report on the implementation of these recommendations.

The government of the Republic of Albania has developed the National Strategy for Development and Integration (NSDI) and this document combines the EU integration agenda with the country's sustainable economic and social development, including the interconnection with Sustainable Development Goals. NSDI is the document that presents the vision for the development of democracy, the social and economic development of the country, outlining the aspirations for integration into the European Union. NSDI presents how this vision will be achieved through the policies and priorities that aim to:

- Encourage country development rates, generating sustainable economic growth, through a macroeconomic and financial stability;
- Achieve the standards that serve citizens, increasing welfare and providing protection of

  their rights;

- Transform Albania into a standard country, enabling membership in the Union European; and
- Build policies that increase competitiveness and economic growth of the country, compared to countries of the region and beyond.

Duo to its limited capacities and experiences, HSC has not yet developed a specific document/guideline on how to follow up and report to the Parliament about the achievement of the goals set in the NSDI.

1.4 The role of HSCs Department of Audit Methodologies in supporting audit activities

In the Strategic Development 2013-2017 document, the second goal of HSC was "Increasing audit capacities and audit quality" and objective 2.7 was focused on "Strengthening the role of the Audit Policy Department for designing methodologies and related training activities". In fulfilling the goal and the objective, in 2016, HSC built up the Department of Strategy and Audit Methodology, which consists of the Directorate of Methodology and Development and the Training Unit.

This department, in cooperation with the other HSC structures, has worked on the drafting of the Development Strategy 2018-2022 and has been fully involved in the:

- revision of the financial and compliance audit manuals,
- development and presentation of the related methodology for programming audit based on risk,
- revision of the IT Audit Manual in collaboration with the IT Audit Directorate,
- development of specific methodologies for Performance Indicators, and

- development of training programs for HSC auditors.[8]

In 2016, HSC in cooperation with the Polish National Audit Office and the Croat National Audit Office (CNAO) has started the implementation of the twinning project "Strengthening external audit capacities", financed by the European Union. This project will be finalized in July 2018.The second core component of this project is related to the methodology of audit in the public administration. CNAO experts have worked closely together with the department director and auditors of the Performance Audit Department and the Director of Methodology and Development Directorate in the revision of the Manual of Performance Audit Department. Currently, the Department of Strategy and Audit Methodology consists of the Department Director and three specialists and cannot cover all the areas in which HSC is working to improve its work and build up capacities.

2. GAO's Framework and Organization Structure

The U.S. Government Accountability Office (GAO) is an independent, nonpartisan institution that works for the United States Congress. Its mission is to support the Congress in meeting its constitutional responsibilities, to help improve the performance and ensure the accountability of the federal government for the benefit of the American citizens. GAO supports congressional oversight by:

- auditing agency operations to determine whether federal funds are being spent efficiently and effectively;
- investigating allegations of illegal and improper activities;
- reporting on how well government programs and policies are meeting their objectives; and
- performing policy analyses and outlining options for congressional consideration.

The Budget and Accounting Act of 1921 transferred auditing responsibilities from the Treasury Department to a new agency and thus began the activity of

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[8]Source:Monitoring matrix of the Monitoring Report on the Strategy for Institutional Development, 2013 - 2017

the U.S. General Accounting Office.[9] The act made GAO independent of the executive branch and gave it a broad mandate to investigate how federal money is spent. Later legislation clarified or expanded GAO's role, but the Budget and Accounting Act of 1921 continues to serve as the basis for its operations. GAO is headed by the Comptroller General, who is appointed to a single 15-year term. GAO is organized by 14 mission teams, Office of the General Counsel, and the Office of Inspector General.

The audit activity of GAO is based on the professional standards and guidance contained in Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book. This document provides a framework for conducting high-quality government audits. These standards also are used by auditors of state and local government entities and entities that receive government awards and audit organizations performing GAGAS audits. These standards contain requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality control, the performance of the audit, and reporting.
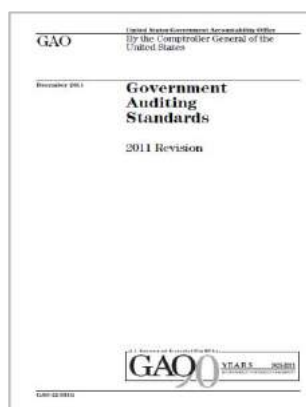

Figure 9: Government Auditing Standards

2.1 Performance Audit in GAO

The audit work of GAO and the products presented to the Congress and to the public are mainly performance audits, financial audits, and attestation engagements.

GAO does its work at the request of congressional committees or subcommittees or is mandated by public laws or committee reports. GAO also undertakes audits under the authority of the Comptroller General. In accepting

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[9] The U.S. General Accounting Office became the U.S. Government Accountability Office in 1994.

the requests received by Members of Congress, GAO can only undertake work that is within the scope of its authority and competency. In determining whether to accept congressional requests, along with the scope and timing of any related work, GAO assesses whether the entity, program, or activity to be evaluated receives federal funds or is carried out under existing federal law. About 80 present of the audits conducted by the GAO are performance audits.

The success of the work done by GAO is mainly in the planning process of the audit. This is the process in which the audit team tries to understand and clarify the engagement objectives, conducts background research about the request received to inform the stakeholders involved, design the audit matrix, and develops proposed scope and the methodology of the audit. The audit team, in collaboration and continuous discussion with the stockholders, identifies the risks and determines the data to be collected and assessed to develop findings, reach conclusions, and make recommendations in measuring the economy, efficiency, and effectiveness in performance audits.

Table 4: Design matrix used by GAO auditors while planning and conducting performance audits

Researchable Question(s)	Criteria and Information Required and Source(s)	Scope and Methodology Including Data Reliability	Limitations	What This Analysis Will Likely Allow GAO to Say
What question(s) is the team trying to answer?	What information does the team need to address the question? Where will they get it?	How will the team answer each question? Describe strategies for collecting	What are the engagement's design's limitations and how will it affect	What are the expected results of the work? Describe what can

Researchable Question(s)	Criteria and Information Required and Source(s)	Scope and Methodology Including Data Reliability	Limitations	What This Analysis Will Likely Allow GAO to Say
Identify key researchable questions. Ensure each question is specific, objective, neutral, measurable, and doable. Ensure key terms are defined.	For performance audit objectives that will evaluate evidence against explicit criteria, identify the criteria or plans to collect documents that will establish the criteria to be used. For performance audit objectives that will not evaluate evidence against explicit criteria but instead add assurance related to a program (implicit criteria), add "Criteria: A6.03" here. Identify documents or types of information that the team must have.	the required information or data, such as conducting random sampling, case studies, DCIs, focus groups, questionnaires; benchmarking to best practices; using existing data bases; taking or acquiring photographs, video or audio recording, etc. Describe the planned scope of each strategy,	**the product?** Cite any limitations as a result of the information required or the scope and methodology, such as: - Questionable data quality and/or reliability. -Inability to access certain types of data or obtain data covering a certain time frame. -Security classificatio	likely say. Draw on preliminary results for illustrative purposes, if helpful. Ensure that the proposed answer addresses the question in column one. As appropriate, describe potential video, audio, animatio

Researchable Question(s)	Criteria and Information Required and Source(s)	Scope and Methodology Including Data Reliability	Limitations	What This Analysis Will Likely Allow GAO to Say
	Identify whether photographs, video, audio, or other media could be collected to enhance documentation and communication of information.

Identify plans to address internal controls and compliance.

Identify plans to follow up on known significant findings and open recommendations that team found in obtaining background information.

Identify sources of the required information, such as databases, studies, subject | including the timeframe, locations to visit, and sample sizes.

Describe the analytical techniques to be used, such as regression analysis, cost benefit analysis, sensitivity analysis, modeling, descriptive analysis, content analysis, case study summaries, etc.

Describe the steps to be taken to | n restrictions.

-Inability to generalize or extrapolate findings to the universe.

-Be sure to address how these limitations will affect the product. | n, or other media that could help communicate information. |

Researchable Question(s)	Criteria and Information Required and Source(s)	Scope and Methodology Including Data Reliability	Limitations	What This Analysis Will Likely Allow GAO to Say
	area experts, program officials, models, etc.	assess reliability of the data sources.		

As part of the legislative branch of government, which helps and supports the Congress on taking sound decisions for benefit of the American citizens, GAO presents to the Congress reports that are fact based and help the agencies to identify the challenges and the gaps and take action to improve their activity. The presentation of a fact-based report means in GAO well-established internal structures that collaborate together through the whole audit process from the acceptance of the engagement until the product's publication. GAO uses a risk-based management approach throughout the whole performance audit uses the stakeholders and expert involvement in its engagements from initiation of work through product issuance. Using risk management, coupled with a matrix management concept that leverages the knowledge, skills, and experience of all employees, GAO provides the highest quality products and services to the Congress.

The design matrix or design paper prepared by the audit team describes the audit objectives, scope, and methodology. In addition to the design matrix, the team prepares a project plan which specifies the tasks, staff responsibilities, and estimated dates for completing steps in the audit. The project plan generally contains the key activities and tasks to:
- carry out methodologies described in the design matrix or paper;
- meet the requirements of each job management phase;
- develop and process the product;

- coordinate with internal (e.g., Applied Research and Methods (ARM), and General Counsel (GC) and external (e.g., requester, agency officials, other agencies) stakeholders;
- dates for completing the key activities and tasks;
- names of staff assigned to each task; and
- other major resources required to complete the tasks (e.g., travel funds).

2.2 Stakeholders and their role in the audit process

Depending on the complexity of the topic and the impact the GAO report could have, directors and assistant directors throughout the process of the engagement planning identify potential internal stakeholders who can add value and quality to the engagement. GAO stakeholders are GAO management and staff whose skills are necessary for the quality and timely completion of the audit. The term used for the internal stakeholder is specialists. They are typically involved from the beginning of the engagement and work as part of the team to design the engagement, collect and analyze evidence, develop the audit message and draft the product. Because they help to develop as well as review the product, they usually participate in the team's decision-making meetings.

Specialists are typically identified at the engagement acceptance meeting (EAM), with input from the team, but they also may be added later if the circumstances change. Specialists can be attorneys and their involvement in an engagement depends on the legal sensitivity. Their work can range from a formal review for products having little or no legal content to ongoing participation from start to finish for legally intensive engagements.

ARM methodologists in ARM's Center for Design, Methods, and Analysis (CDMA) or team-based methodologists provide assistance in formulating researchable questions and in identifying methodological issues. ARM specialists are involved in discussing and selecting the methodological approaches. ARM or team specialists, including statisticians, survey specialists, economists, and other specialists are consulted as appropriate when audits include approaches in their areas of expertise. For example, ARM specialists are frequently responsible for documenting sampling plans and surveys. Other stakeholders, when needed, provide expert advice on the

written audit plan. They are prepared to identify potential risks and suggest appropriate audit steps to address those risks if warranted.

FAIS (Forensic Audits and Investigative Service team) is consulted when auditors identify a potential for fraud, ethics violations, conflicts of interest, waste and abuse, or mismanagement. Al stakeholders are accountable for their contributions to the engagement to ensure their effective involvement in it. Stakeholders document their concurrence with the quality of the work vary depending on their role on an engagement. They play also an important role in determining the product's message and review findings, conclusions, and recommendations.
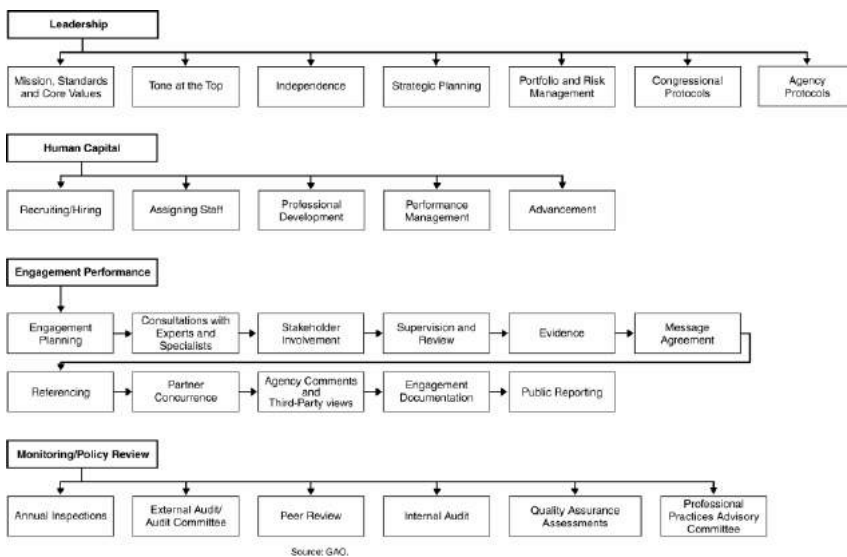

Figure 10: GAO's Quality Assurance Framework for assuring Compliance with Government Audit Standards

2.3 Measuring effectiveness in Performance Audits in GAO

As mentioned before, the whole work and the audit process performed by GAO is accordance with the provision of the Generally Accepted Government Auditing Standards (GAGAS).In GAGAS, performance audits are defined as audits that provide findings or conclusions based on an evaluation of **sufficient, appropriate evidence** against criteria (emphasis added.). GAO's

performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating internal controls to determine the reasons for a program's lack of effectiveness or how effectiveness can be improved.

For performance audits, GAGAS does not incorporate other standards by reference, but recognizes that auditors may use or may be required to use other professional standards such as the following:

- International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors;
- Guiding Principles for Evaluators, issued by the American Evaluation Association;
- The Program Evaluation Standards, issued by the Joint Committee on Standards for Education Evaluation;
- Standards for Educational and Psychological Testing, issued by the American Psychological Association;
- IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals, ISACA.

Chapter 6 of GAGAS is dedicated to the field work standards in performance audits. In the introduction of this chapter is underlined that" The purpose of field work requirements is to establish an overall approach for auditors to apply in obtaining reasonable assurance **that the evidence is sufficient and appropriate to support the auditors' findings and conclusions**" … "the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives, findings, and conclusions".

In this chapter GAO auditors get familiar and can find a definition of effectiveness in government programs. So, effectiveness of program operations is defined as controls over program operations include policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost-effectiveness and efficiency. Understanding these controls can help auditors understand the program operations that convert inputs to outputs and outcomes. In assessing and measuring the effectiveness of the certain program towards the goals and the objectives set by the audited entity, GAO's auditors include in the audit plan the evaluation of internal policies and procedures. In assessing the internal control GAO auditors focus on reporting how planning,

organizing, directing, and controlling program operations influence in the effectiveness of the certain government programs.

2.4 The role of Applied Research and Methods team (ARM) in supporting audit activities

The Applied Research and Methods (ARM) Team is one of 14 mission teams in GAO that is made up of professionals with expertise in designing and executing appropriate methodologies that help GAO audit teams on informing Congress about government operations.

ARM consists of five teams:

- Center for Design Methods, and Analysis;
- Center for Economics;
- Center for Enhanced Analytics;
- Center for Evaluation Methods and Issues; and
- Center for Science, Technology, and Engineering.

The centers offer expertise in many areas, including cost analysis, engagement design, economics, data analysis, evaluation, science, statistics, surveys, technology, engineering, and IT security.
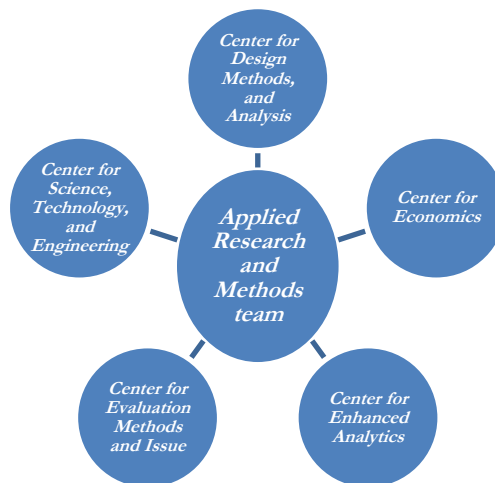

Figure 11: ARM's Organizational Structure

Center for Design Methods, and Analysis (CDMA)

CDMA enhances the quality of GAO's work by providing methodological, analytical, and technical assistance to teams. The mission of CDMA is to develop strong job designs, introduce innovative methods, and transfer skills and knowledge to audit which comply with GAO and professional standards. The audit team contacts CDMA to obtain assistance from CDMA at any point during an engagement. Early involvement of CDMA allows it to identify research options and outline advantages and disadvantages of various approaches. Generally at the beginning of each engagement, a CDMA staff member discusses with the audit team the purpose of the engagement and the expected need for assistance.

Center for Economics (CE)

CE's mission is to provide expertise in a broad range of issues, approaches, and methodologies to economic analysis. They can help the audit team identify economic issues relevant to the engagement and discuss the most appropriate and feasible approaches and methodologies to address these issues or they can enlist other CE economists to provide the needed assistance throughout the engagement.

CE economists collaborate with audit teams to identify and scope economic issues and perform work that addresses the engagement's objectives. CE includes economists with expertise on issues that span the federal government and economy, such as: analyses of risks, alternatives, taxes and subsidies, and the economic effects of a law, rule, regulation, project, or program. CE economists also provide assistance answering many questions that, at first glance, may not be considered to involve economics.

Center for Enhanced Analytics (CEA)

CEA enhances the quality of GAO's work by providing mission teams with advanced analytics assistance for structured and unstructured data using descriptive, predictive, and prescriptive analytics. CEA's experts can help any stage of an engagement, but their help is most effective early in the engagement planning to identify the most appropriate analytical methods and approaches for the entire engagement process.

Center for Evaluation Methods and Issues (CEMI)

CEMI's mission is to improve evaluation at GAO and government-wide. CEMI produces reports and other studies involving program evaluation, performance measurement, applied statistics, applied social science research, and future-oriented analyses such as "grounded foresight". The publications and related networking efforts of CEMI aimed at strengthening evaluation methods, setting directions for improvements, and promoting knowledge development. The ultimate purpose of CEMI is to support effective governance and a stronger evidence-base for policy, thus helping Congress and the Executive Branch meet their constitutional responsibilities.

To promote effective governance and a stronger base of evidence for policy, CEMI:

- strengthens the evaluation methods "toolbox";
- sets directions for incorporating evaluation information into policy, budgets, and program management; and
- promotes knowledge development.

The staffs of CEMI conduct studies of their own and in partnership with other teams, produce guidance papers, and consult on program evaluation methods and policies within and outside GAO to help share knowledge and increase federal agencies' evaluation capacity.

Center for Science, Technology, and Engineering (CSTE)

CSTE helps mission teams with engagements on system acquisition, contractor evaluation and cost estimation, systems development and reengineering, investment and technology management, and computer security and vulnerability assessment, as well as counterterrorism analysis, including weapons detection and disaster preparedness. CSTE also identifies best practices in the private and public sectors and uses them as criteria for GAO's work. CSTE's experts can help at any time in an engagement, but their help is most effective early in the engagement planning process.

CSTE's expertise focuses on improving computer security, information technology, and system modernization; assessing the maturity of technology for homeland security; and ensuring the technical accuracy of GAO's work. The CSTE staff that assists the audit teams brings a wide range of skills and experience to their work. Some are engineers with expertise in systems engineering, software development and acquisition, real-time systems, data

networks, and related technology assessments and cost analysis. Some are experienced in security-related audits, including electronic security and controls in computer security, which involve testing systems to identify vulnerabilities. Others are social scientists whose education and experience includes science, research, and technology involving terrorism and the use of nuclear, biological, and chemical weapons.

The staff of CSTE can help teams identify and interpret criteria for assessing the performance of federal programs that acquire and use nearly every type of technology.

2.5 Data used in the engagement process and the importance of data collection and data analysis in GAO

To asses and evaluate the effectiveness of the federal agencies or a certain program implemented by them, GAO uses different methodologies for data collection and data analysis. The methodology of data collection and data analysis depends from the scope and the complexity of the engagement.

The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. According to the Yellow book (GAGAS), auditors should design the methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives and to reduce audit risk to an acceptable level.

It is important to stress that GAO's auditors should identify potential sources of information that could be used as evidence and determine the amount and type of evidence needed to obtain sufficient, and appropriate evidence to address the audit objectives and adequately plan audit work.

The concept of sufficient, appropriate evidence is for GAO's auditor an integral part of the audit. In the Yellow Book (GAGAS), appropriateness is described as the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objectives. In assessing the overall appropriateness of evidence, GAO auditors should assess whether the evidence is relevant, valid, and reliable. Sufficiency in the Yellow Book (GAGAS)is described as a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. In assessing the

sufficiency of evidence, GAO auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.

Establishing the sufficiency and appropriateness of the information on which GAO relies as evidence begins with the planning process and continues throughout the audit. The design matrix or design paper indicates how the collected evidence will be used to develop findings, conclusions, and recommendations. The level of specification may vary depending upon the types of analyses and how much is known about the analyses. At GAO, audit teams conduct and document assessments of validity and reliability for all key evidence used in GAO products to support the findings, conclusions, and recommendations. Auditors, as appropriate, follow GAO's guidance on assessing the reliability of computer-processed data. In the reporting phase, it is important that the auditors include a description of the methodology used for addressing the audit objectives. The methodology of data collection and data analysis depends on the scope and the complexity of the engagement.

The table below, lists methods of data collection used by GAO's auditors while conducting performance audits, descriptions of the methods, characteristics and applications of data and findings, the utility, the benefits of each method, and the limitations.

Table 5: Methods of data collection used by GAO's auditors while conducting performance

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
Survey	Structured method of gathering information from individuals or institutions in a population or from a sampler.	• Often applicable when testimonial evidence needs to be as structured and precise as possible.	• Data collection can answer to what extent kind of question. • Precise estimate (with confidence	• Requires experienc e and expertise in questionn aire develop ment and

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
	Various modes of data collection (self - administered or interviewer administered) using phone, mail, fax, in person, web based and e-mail.	• Can collect data on household, establishment, or special population. • Can generalize sample results to population if sample design and reasonable rates are adequate.	intervals) can be provided when using a sample.	time intensive. • Requires testing if instrume nts to achieve reliability . • Sample frame can be difficult to develop or obtain. • Might require statistical tests if conducte d in a sample. • Low response/ collective rate can limit generaliz ability.
Intervie ws	An individual (interviewer) asks	• Qualitative data- descriptive,	• Semi- structured and	• Is structure d or semi

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
	questions of a person (interviewee). Can be conducted by phone or in person. Three types: structured (questions are standardized), semi-structured (some questions are standardized but allows for probing and in-depth discussion), and unstructured (questions are not structured).	good for examples and information. • Generalizable if conducted as part of probability sample survey or interviewing whole population.	unstructured can be developed fairly quickly. • Can gather lots of information and allows for follow-up question. • Allows for spontaneity and probing during interviews. • Can elicit opinions of key informants, corroborate evidence from sources, and provide leads on audit.	structured requires experience and expertise in questionnaire development. • Conducting interviews, data reduction, and analysis of data collected from semi-structured and unstructured interviews can be time consuming. • May be tempting to generalize results

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Consideration
				beyond the cases selected, which be only appropriate men interviewed the probability sample.[?} • A relatively small number of cases may result in extreme responses demanding analysis. • When conducting more structured interviews, pretesting and other

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
				quality assurance methods are important to assure reliability and validity. • Unstruct ured and semi-structure d interview s may introduce inconsist encies that make reporting very difficult.
File reviews or structur ed observat ions	Researcher follows protocol and uses structured data collection instrument to observe, abstract, and record data	• Quantitative and qualitative, numeric and narrative information. • Can be applied to small non-probability selections of cases or larger	• Enables systematic data collection. • Improves ability for researches to more easily analyze collected data.	• Requires preparati on and testing of protocols and instrume nts to ensure reliability of

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
	from physical collection of files, sites, or objects	probability samples.	• Multiple staff can collect data at the same time.	measure ments and coding. • Abstracti on and reduction of data collectio n can lose the valuable context.
Case studies	In-depth look at one or more complex events, incidents, or locations, multiple resources of information can be used to help compare, contrast, and combine different perspectives of the same process.	• Requires plan of action or steps to be taken (protocol). • Typically qualitative but could include quantitative data, for example, if file reviews or surveys are used as data collection methods in the case study. • Typically based on nonprobability sample and non-generalizable.	• Can provide more in-depth information about a topic. • Multiple method approach to data collection in some case studies is corroborativ e. • Increases reliability and validity of findings.	• Method of case (site) selection important to validity the study. • Time and resources needed depend on the number of the cases, number of methods involved, and

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Consideration
		• Often used to answer complex "how" and "why".		intensity of data. • Lots of information to shift through to develop a message; data reduction and analysis can be difficult and time consuming.
Small group methods	Host of methods to collect opinions and ideas from small group of people and to generate overall ideas. There are various types, including focus groups and	• Qualitative data, usually not generalizable. • Data collection answer "how" and "why" kind of questions. • Requires limited number of people in a group for optimum discussion, depending on	• Can provide in-depth information about a topic or relationships between concepts. • Intended to provide for group interaction on a topic. • Can surface information	• Requires trained or experienced moderator. • Not a substitute for individual interview. • Preparation can

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
	discussion sessions.	type of small group method. • Can be appropriate for explanatory or early design work or to help interpret results at end of assignment.	and detail otherwise not obtained from single interview or serial interviews. • Can obtain information from people with particular expertise or interest in a topic.	require time. • Data reduction and analysis can be difficult and time consumin g. • Certain group methods may not obtain results that demonstr ate a consensu s of opinion, common themes, or patterns.
Agency or seconda ry data	Analysis of existing data as part of the audit. Data can be from databases created and maintained	• Quantitative results that can range from descriptive to evaluative, from anecdotal to generalizable depending on	• Can analyze complete set of data on a topic. • Is usually much more efficient than	• Experien ce in quantitati ve data is needed. • Have to gather all appropria

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
	by various government agencies, other organizations like universities, or private research firms	the data being analyzed. • Involves documentation and assessment of how data collected and maintained, data reliability and sampling methods, if relevant	collecting our own data on topic. • Administrative records are generally not subject of self reporting biases.	te documentation, including data record layout, data maintenance procedures etc. Can be intensive. • Depending on the data base can be very complex and assumption, limitations and caveats pertaining the data analyzed may be included. • Requires data reliability

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
				assessment. • Original data may have been collected for a different purpose; as a result data and analysis may not mirror the research question.
Review of studies	Assessment of published studies. Includes a range of techniques, including the review of one or more studies, evaluation synthesis, and meta - analysis	• Requires systematic selection of studies to review and a standardized way to collect study information. • Reviews of one or more studies focused in a particular area can provide the answer to	• Involves systematic collection of known research and may allow us to address claims that can often be made on either side of issue. • Could be much faster than	• Reviews need methodol ogical expertise and can be time consumin g. • Requires multiple reviewers for each study to improve

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Considera tion
		specific questions such as "what is known about…" • Variations include evaluation synthesis (designed to comprehensivel y collect and review all relevant studies, to answer questions about what is known as well as where information gaps exist in a given area) and meta-analysis (numeric combine results of studies to come up with new broader set of results)	developing own research on the topic. • By assessing quality of studies and pointing out any limitation can add value to the body of existing research.	validity and reliability . • The selection of studies to be reviewed can be critical to the validity of the method, regardles s of the type of the review being planned. • Result of the review can be mixed, with some studies on one side of an issue and the rest

Method	Description	Characteristics and applications of data and findings	Utility and the benefits	Consideration
				on the other.
Content analysis	Method for structuring and analyzing qualitative data such as written material, film, and other media so that data can be sorted and simplified into themes that can be summarized	• A central idea in content analysis is that the many words, utterances, or other blocks of text a classified into few content categories. • Used data collection instruments or some strategy for systematically classifying data. • Quantitative data analysis results from "qualitative" data sources. • Can be generalizable.	• Gives ability to systematically analyze information from written material. • Allows content of data to guide development of analytic categories. • Result of analysis can be summarized an understood.	• Requires training of coders to code the text or media to ensure consistency. • Requires inter-coder agreement- with complex material reliability could be low.

Source: GAO Learning Centre, Data collection seminar

2.6 Follow up in GAO as a mechanism for measuring the effectiveness of programs and policies of the federal agencies

In the Yellow Book (GAGAS) GAO's recommendations are effective when the recommended actions are specific, practical, cost effective, and measurable. These recommendations should:

- arise logically from the evidence presented;
- clearly link to the objectives, four elements of the findings, and conclusions;
- specify actions that are feasible, cost-effective, and measurable;
- be well-supported and convincing; and
- address the cause of identified deficiencies.

After conducting the audit, the purposes of GAO's audit report is to (1) communicate the results of audits to the audited entity; (2) make the results less susceptible to misunderstanding; (3) make the results available to the public, and (4) facilitate follow up to determine whether appropriate corrective actions have been taken.

GAO teams follow up on recommendations contained in prior GAO reports. As part of GAO's audit responsibilities under GAGAS, GAO follows up on recommendations it has made and reports to the Congress on their status.

GAO's experience has shown that it takes time for some recommendations to be implemented. For this reason, the measure—the percent of recommendations implemented—is the percentage rate of implementation of recommendations made 4 years prior to a given fiscal year (e.g., the fiscal year 2017 implementation rate is the percentage of recommendations made in fiscal year 2013 products that were implemented by the end of fiscal year 2017). GAO's experience is that if a recommendation has not been implemented within 4 years, it is not likely to be implemented. The implementation status of recommendations is reported on GAO's Recommendation Follow-up application. This web-based application allows staff to update the status of recommendations throughout the year. The application records information on recommendations status and on whether timely and appropriate corrective actions have been taken. The information is used to measure the implementation rate of recommendations and with this the effectiveness of the government programs. It is important to note that 80 present of GAO's recommendations are implemented by the federal agencies.

Although the rate of the implemented GAO's recommendation is high, in order to help the Congress to make government more accountable GAO has developed e-document for the high-risk government programs. The document "Determining Performance and Accountability Challenges and High Risks" highlights the resulting criteria and process for determining performance and accountability challenges and those that are deemed to be high risk.

For each federal agency, GAO identifies major program and areas that are the primary basis for reporting in the Performance and Accountability Series and that:

- are at the center of congressional and Executive Branch attention,
- have high public interest and/or large-dollar outlays,
- figure prominently in agencies' strategic plans and annual performance plans and reports, and
- have known performance and accountability or high-risk issues.

Qualitative factors used by the GAO in determining high risk for federal agencies programs are:

- health or safety,[10]
- service delivery,
- national security,
- national defense,
- economic growth, and;
- privacy or citizens' rights;

The Risk of the above mentioned factors also could result in:

- significantly impaired service,
- program failure,
- significantly reduced effectiveness,
- significantly reduced efficiency,
- injury or loss of life,
- unreliable decision-making data,
- reduced confidence in government, and

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[10]"Determining Performance and Accountability Challenges and High Risks", pg. 9

- unauthorized disclosure, manipulation, or misuse of sensitive information, such as personal, financial management, or programmatic data maintained in computerized systems.

GAO's experience has shown that the key elements needed to make progress in high-risk areas are top-level attention by the administration and agency leaders grounded in the five criteria for removal from the High-Risk List.

The five criteria for removal from the High List are as follow:

• **Leadership Commitment**- Demonstrated strong commitment and top leadership support.

• **Capacity**- Agency has the capacity (i.e., people and resources) to resolve the risk(s).

• **Action Plan**- A corrective action plan exists that defines the root cause, solutions, and provides for substantially completing corrective measures, including steps necessary to implement solutions GAO recommended.

• **Monitoring**- A program has been instituted to monitor and independently validate the effectiveness and sustainability of corrective measures.

• **Demonstrated Progress**- Ability to demonstrate progress in implementing corrective measures and in resolving the high-risk area.

For each High Risk area, GAO describes in its report why this is a High Risk area, what GAO found while auditing the area, what remains to be done, benefits achieved by implementing GAO's recommendations. The actual list of GAO contains 34 High Risk areas. The table below shows how GAO evaluates the efforts of federal agencies to be removed from the High Risk List.

Figure 12: Criteria for removal from the High Risk List
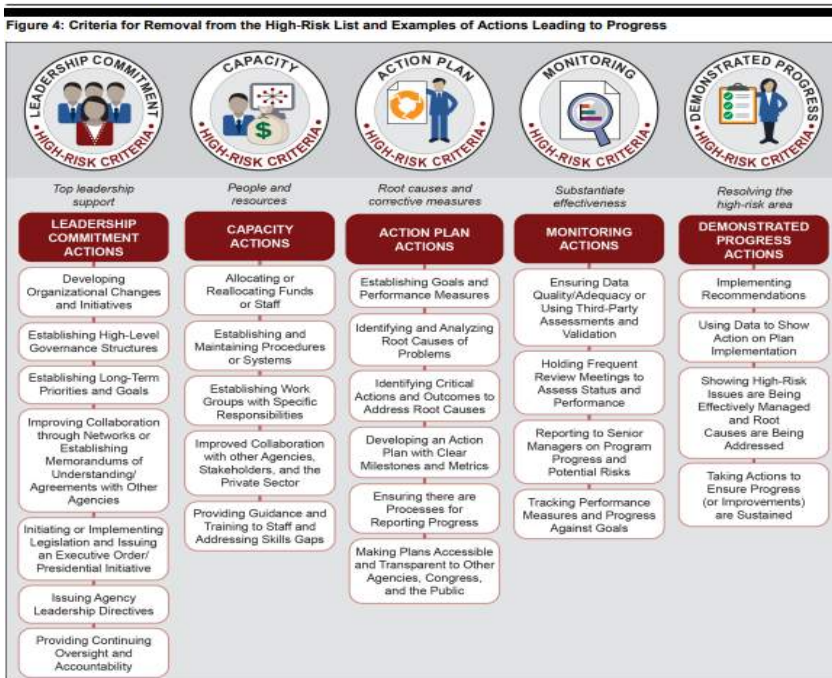
Source: High-Risk Series, February 2017 *Figure*

The report on high risk programs is published by GAO every 2 years and is publicly available. These reports help the Congress to identify the progress done by the agencies in addressing GAO's recommendations and take measures (such as cutting the budget) towards agencies that do not implement GAO's recommendations. This tool used by GAO has been proven to be very effective. In the report published in February 2017, GAO's reports that many of the 32 high-risk areas on the 2015 list have shown solid progress.[11] Twenty-three high-risk areas, or two-thirds of all the areas, have met or partially met all five criteria for removal from the High Risk List; 15 of these areas fully met at least one criterion. Progress has been possible through the concerted efforts of Congress and leadership and staff in agencies.

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11 High-Risk Series, February 2017.

3. Differences between U.S. Government Accountability Office and Albania High State Control on Measuring the Effectiveness of Government Programs

Comparisons between GAO's approach and HSC's approach with regard to conducting performance audits with a focus on measuring the effectiveness of the government program helps to identify the areas that need improvements by HSC and has also the potential to effectively address the issues of concern in HSC.

The table below presents a comparison between GAO's approach and HSC's approach on conducting performance audits with a focus on measuring the effectiveness of the government.

Table 6: GAO's approach and HSC's approach while conducting performance audits

Institution	GAO	HSC
Mandate	Auditing the use of the public money by the federal agencies.	Auditing the use of public money by the central, local, and other public entities.
Mission	The U.S. Government Accountability Office (GAO) is an independent, nonpartisan institution that works for Congress. Its mission is to support the Congress in meeting its constitutional responsibilities, to help improve the performance and ensure the accountability of the federal government for the benefit of the American citizens.	The mission of High State Control of Albania (HSC) as an independent constitutional institution is to inform of the public and the Albanian Parliament about the use of public resources by the central and local government and other public entities, and the promotion of accountability and transparency across the public sector in accordance with International Organization of Supreme Audit Institutions (INTOSAI) standards and

		best practices, contributing to good governance through the fight against corruption.
Initiating Audit work	Request from a Member of Congress, by mandates in the law, and initiated by the Comptroller General.	Free to decide about the audit plan, the audit topic, and the adequate time for conducting the audit work.
Types of audits conducted	80 percent are performance audits and the rest of the work is financial audits and attestation audits.	Mostly compliance audits, but HSC also conduces financial, performance, and IT audits.
Standards for conducting audit work	• Generally Accepted Government Auditing Standards	• International Standards of Supreme Audit Institutions (ISSAI) • Manual of Performance Audit • Performance Audit Guide • Performance Indicators
Methodology	Detailed methodology described in GAGAS about data collection and data analysis.	Gaps on detailed discretion about methodology in data collection and data analysis in Manual of Performance Audit Department.
Stakeholders involved	Managing Director, Director, Assistant Director, audit team (Analyst-in-Charge, senior analysts, and analysts), and specialist such as attorneys, statisticians, survey specialists, economists, and other specialists with subject matter expertise are consulted as appropriate when audits include approaches in their areas of expertise.	Managing Director, audit team, and senior auditor.

Follow up	• GAO's experience has shown that it takes time for some recommendations to be implemented. For this reason, the measure—the percent of recommendations implemented—is the percentage rate of implementation of recommendations made 4 years prior to a given fiscal year (e.g., the fiscal year 2017 implementation rate is the percentage of recommendations made in fiscal year 2013 products that were implemented by the end of fiscal year 2017). • Follow up is done as the part of the process of the new engagement in the same federal agencies. The implementation status of recommendations is reported on GAO's Recommendation Follow-up application which is updated each year. GAO has developed e document for the high risk government programs. The document "Determining Performance and Accountability Challenges	•The follow up is done successive audits, reporting how the HSC recommendations given in the previous audit have been implemented. •At the end of each year, HSC conducts a follow up audit on how the action plans reported by the audit entities have been implemented. •HSC has not yet a consolidated a data base for audit recommendations and that makes it difficult to follow up, especially for performance audits. • HSC as not developed tools and processes to identify a High Risk List of government programs.

	and High Risks" highlights the resulting criteria and process for determining performance and accountability challenges and those that are deemed to be high risks. GAO publishes every 2 years a report on high-risk programs and the report is publicly available.	

4.   Conclusion

The high rate of recommendations implemented by the federal agencies in the United States demonstrates once again the success of GAO in fulfilling its mission to help to improve the performance and ensure the accountability of the federal government for the benefit of the American citizens. As in the previous chapters, the success of GAO in measuring the effectiveness of the government programs relies in establishing successful audit standards and procedures that are very detailed and help auditors in all the phases of the audit work. In answering the needs of the Congress, GAO has built institutional capacities and has given special importance to the professional development of its audit staff for the final purpose of producing quality audit products.

By analyzing the approaches of GAO and HSC in conducting performance audits and especially with a focus of measuring the effectiveness of government programs, HSC still faces some challenges. Some of these challenges require action within the HSC and are entirely dependent on the tools and procedures that will be developed by management to respond to these challenges. Other challenges are more complex and require not only the development of policies but also the involvement and the support of stakeholders.

Summarized below are the challenges HSC is facing in conducting effective performance audits, and what obstacles hinder HSC in taking action to overcome those challenges.

1. The mission of High State Control of Albania (HSC) as an independent constitutional institution is to inform of the public and the Albanian Parliament about the use of public resources by the central and local government and other public entities. HSC's mission also is the promotion of accountability and transparency across the public sector in accordance with International Organization of Supreme Audit Institutions (INTOSAI) standards and best practices, and contribution to good governance through the fight against corruption. To increase the implementation rate of its recommendations and report about the effectiveness of government programs, HSC needs to develop a guideline and establish tools and processes for high-risk government programs. HSC has not taken these actions primarily due to its limited institutional capacities and experience. A list of high risk government programs would be helpful in following up and reporting to the Parliament about the progress achieved by the Albanian Government in the implementation of the National Strategy for Development and Integration. The guideline could serve as methodology for issuing a list of high risk government programs. This list would help the Parliament in making sound decisions in the face of budget approval. Taking as the example the High Risk List developed by GAO, the main challenge for HSC for developing this guideline will be the institutional capacities and the involvement of other stakeholders and external experts. This process will require in-depth research and data gathering and data analysis to develop a repeatable high risk list. To overcome thus important challenge, HSC would need the strong support of the Parliament and commitment of HSC's management and all of its auditors.

2. The follow up of recommendations, especially in performance audits, is one of the biggest challenges for HSC. HSC has not established a database for recording and tackling the progress in the implementation of its recommendations Based on GAO's experience, HSC should take into consideration the development of a guideline for the establishment of a database for tracking the implementation of performance audit recommendations. The introduction of such a database would serve as the base on reporting about the actions taken by central and local government to improve the effectiveness of their programs. The main obstacle will be the establishment of the process for putting the information needed into the data base, since this will require some training for the auditors.

3. The Manual of the Performance Audit is incomplete and has deficiencies in describing the methodology for collecting and analyzing the data that serve as the base for measuring the effectiveness of government programs. A review and an amendment of this manual is necessary to ensure that this crucial document will assist the auditor with appropriate methodologies for collecting and analyzing the data, giving them a description of each method, when the method can be used for collecting and analyzing data, and limitations of specific methods. The main challenge will be the involvement of persons with enough expertise to work on the amendments of the manual. GAO's experience, GAGAS, and other important documents used by GAO can be the best reference for these amendments. Besides other amendments, the focus should be on developing a special chapter on methodologies for collecting and analyzing data.

4. The Department of Audit Methodologies is small and has insufficient capacity to provide to the performance auditors the expertise needed to carry out quality audits based on a sound methodology. In this regard, HSC's challenge is not only the reorganization of the department but the development of an attractive human resources policy for hiring highly qualified experts. A successful policy would be the key tool to help secure needed financial support from Parliament's Commission for Economy and Finance.

5. The experience of the last 7 years has shown that one of the highest priorities of HSC management is building great institutional capacities with the main goal of delivering excellent audit products. This has been done, in part, through the reformation of departments and the creation of new departments. As previously mentioned, one of the new a department is the Department of Performance Audit. However, in conducting performance audits, even for specific methodologies, auditors have had to rely only on their knowledges, experience, and their educational background. They are not supported by other stakeholders such as the methodology department or statisticians when in-depth knowledge is needed. As experience has shown, the lack of support by other stakeholders mention above in specific methodologies has the consequence of the lack of knowledge in choosing the right methodologies for collecting and analyzing the data and formulating the

right recommendations. To increase the value of the work of this department and based on the experience that GAO has in involving other stakeholder in planning, conducting, and reporting about the effectiveness of government programs, HSC can take into consideration a deep analysis of this practice and how to implement it in HSC's daily business. Since HSC has the wide mandate in auditing central and local government entities, but a relatively small number of audit personnel, the main obstacle for other stakeholder's involvement in performance audit will be to find the right proportion of their involvement and their added work load.

6. Keeping in mind that the process of selecting a certain methodology for collecting and analyzing data in HSC's performance audits is dependent only upon the professional judgment of its auditors, their experience, and their background education, the immediate need is the development of training programs that are focused on the methodologies of data collection and data analysis. The main obstacle for HSC is the development, in a short period of time, of effective training material and the development of tools to measure the effectiveness of the training.

5.   Recommendations

Based on the conclusions in Chapter IV, I respectfully submit the following suggestion to be taken into consideration:

1. *Developing a guideline and a list of high risk government programs.*

To increase the implementation rate of its recommendations and to report to the Parliament and the public about the effectiveness of government programs, HSC should develop a guideline about how to determine performance and accountability challenges and high risk in government programs. The guideline should be used as methodology for issuing a list of high risk government programs. This list would help Parliament in making sound decisions in approving the budget and increasing public confidence in the government being more transparent and accountable.

2. *Develop a guideline and the needed tools and processes to establish a database for tracking the implementation of performance audit recommendations.*

HSC should develop a guideline and the needed tools and processes to establish a database for tracking the implementation of performance audit recommendations. The introduction of such database would serve as the base for reporting on the actions taken by central and local government to improve their programs and measure the effectiveness of the government activities.

3. *Review and amend the Manual of the Department of Performance Audit.*

HSC should review and amend the Manual of the Department of Performance Audit to ensure that this crucial document will assist the auditor with appropriate methodologies for collecting and analyzing the data, giving them a description of each method, when the method can be used for collecting and analyzing data, and limitations of specific methods.

4. *The reorganization of the Department of Audit Methodologies and Audit Policies and development of an attractive human resources policy for hiring highly qualified experts.*

To ensure the products of HSC are based in sound audit methodologies, HSC should reorganize the Department of Audit Methodologies and Audit Policies by increasing the number of the employees in this department who have the knowledge and the experience to assist the auditors with the proper methodologies throughout the whole audit process. HSC should also consider the development of an attractive human resources policy for hiring highly qualified experts to work for HSC.

5. *Development of policies for the involvement of other stakeholders in supporting performance audit teams throughout the whole audit process.*

HSC should develop policies for other stakeholders (such as survey specialists, economists, and other specialists) in supporting performance audit

teams throughout the whole audit process. The specific expertise of these stakeholders would add value on the whole process of performance audit, ensuring that HSC reports will be a trustful source of information for the Parliament and the public in measuring the effectiveness of government programs.

6. Development of training programs for performance auditors that are focused in the methodologies of data collection and data analysis.

HSC should develop training programs that are focused on the methodologies of data collection and data analysis. These training programs should be very specific to help the performance auditors choose the proper methodology for the needed data to reach conclusions and make recommendations that measure the effectiveness of government programs.

6. Lessons learned

As the experience of the last 7 years has shown, the guarantee for the success of HSC was and is the strong commitment of its management to introduce enormous changes that focus on the continuing improvement of the policies and procedures and the process of continuous learning and training of its auditors.

Based on the experience of GAO, a successful and in-depth analysis of the challenges mention above and proposed policies and procedures to address and overcome these challenges can improve the whole process of performance audit, ensuring that HSC will be a trustful source of information for the Parliament and the public in measuring the effectiveness of government programs.

The list of high risk of Albanian government programs taken as a successful tool developed by GAO and accessible to the public would increase the pressure to the central and local government entities on implementing the recommendations of HSC and improve their programs and operations.

The goal of HSC to make the government more transparent and accountable can be achieved by establishing methodologies that focuses on analyzing the data gathered in order to reach conclusions and make recommendations that

arise logically from the evidence presented, clearly linked to the objectives of performance audit, and specify actions that are feasible, cost-effective, and measurable. As the example of GAO has shown, the success of HSC performance audit will be measured by the recommendations implemented by the audited entities and the impact of recommendations in the growth of the Albania economy and the improvement in the life of its citizens.

All this can be only achieved with the support of the Parliament and the cooperation of HSC with the other stakeholders and the commitment of the staff in delivering quality products.

List of Abbreviations

GAO – Government Accountability Office

HSC – High State Control (Albanian Supreme Audit Institution)

ARM – Applied Research and Methods

CDMA – Center for Design Methods, and Analysis

CE – Center for Economics

CEA – Center for Enhanced Analytics

CEMI – Center for Evaluation Methods and Issues

CNAO – Croat National Audit Office

CSTE – Center for Science, Technology, and Engineering

EU – European Union

FAIS – Forensic Audits and Investigative Service

IAFP – International Auditor Fellowship Program

INTOSAI – International Organization of Supreme Audit Institutions

ISSAI – International Standards of Supreme Audit Institutions

NSDA – National Strategy for Development and Integration

SPEL – Strategic Planning and External Liaison

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

KONTROLLI I LARTË I SHTETIT
NR 948 DATE 8/8/2018

441 G St. N.W.
Washington, DC 20548

Wednesday, August 01, 2018

Mr. Bujar Leskaj, Chairman

The State Supreme Audit| Kontrolli i Larte i Shtetit
RR. ABDI TOPTANI
Nr. 1
Tirana
Albania

Dear Mr. Bujar Leskaj,

It was a pleasure to have Ms. Alma Shehu as a member of GAO's 2018 International Auditor Fellowship class. Alma was highly engaged and studious throughout the 16 week Program. She applied her knowledge to learning the techniques and approaches presented with ease. She is a great representative of your country and office.

In addition to intensive classroom training, fellows are required to develop a strategy paper describing an area where their Supreme Audit Institution could introduce change. The objective is to work on a specific topic of interest as agreed upon through their leadership with the intent of presenting that paper as a proposal for change. Alma prepared her project on the topic of "Differences Between US GAO and Albania SAI Approaches Toward Performance Audit with a Focus on Measuring the Effectiveness of Government Programs." Alma developed a well-organized, clearly written paper that addressed the importance of performance auditing and monitoring progress. Enclosed herein is a final copy for your review.

We also provided the fellows access to an online training tool intended for use on their own time to enhance specific skills that each of them determined would be useful to their overall professional development. This was in addition to their in-person class requirements. Listed on the second page are the additional training sessions that Alma completed by her own initiative. We hope that she will have opportunities to apply her training experiences and that you will share news of her achievements with us.

On behalf of all of us at the U.S. Government Accountability Office who had the pleasure to work with Alma, I want to thank you for your continued interest and support of the International Auditor Fellowship Program.

Very respectfully,

Darreisha M. Bates
Program Manager
International Auditor Fellowship Program

Enclosures (2)

GAO's appreciation for Mrs. Alma Shehu

The Comptroller General of USA, Mr. Dorado giving the Certificate of Achievement to Mrs. Alma Shehu

2018 Group photo of International Auditor Fellowship Program

Internal Controls in the USA: Lessons learned to share with Albania

Mr. Alfonc Gabili

2018

TABLE OF CONTENTS

Acknowledgements

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I am particularly grateful for the assistance given by **Mr. Grant L. Simmons**, Assistant Director for the Financial Management and Assurance team at GAO, for his valuable and constructive suggestions during the planning and development of this strategy paper. His willingness to give his time so generously has been greatly appreciated.

I also am particularly grateful for the assistance given by **Ms. Darreisha Bates** Program Manager, and **Ms. Anne Hopewell**, at the GAO International Auditor Fellowship Program, for their willingness to help and support me during this 4-month program.

I would like to offer my special thanks to the Strategic Planning and External Liaison team: **Mr. Michael Hix** Director of International Relations, **Mr. James-Christian Blockwood** Managing Director of Strategic Planning and External Liaison, for their much appreciated help for this program.

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Preamble

Internal control is not one event or circumstance, but a series of actions that permeate an entity's activities. These actions occur throughout an entity's operations on an ongoing basis. They are pervasive and inherent in the way management runs the organization. Internal control is therefore different from the perspective of some observers who view it as something added on to an entity's activities, or as a necessary burden. The internal control system is intertwined with the entity's activities and is most effective when it is built into the entity's infrastructure and is an integral part of the organization. Internal control should be built in rather than built on. By building in internal control, it becomes part of the basic management processes of planning, executing and monitoring. Built in internal control also has important implications for controlling costs. Adding new control procedures that are separate from existing procedures adds costs. By focusing on existing operations and their contribution to effective internal control, and by integrating controls into basic operating activities, an organization often can avoid unnecessary procedures and costs.

People are what make internal control work. It is accomplished by individuals within an organization, by what they do and say. Consequently, internal control is affected by people. People must know their roles and responsibilities, and limits of their authority.

Any organization is primarily concerned with the achievement of its mission. Entities exist for a purpose – the public sector is generally concerned with the delivery of a service and a beneficial outcome for the public.

Whatever the mission may be, an organization will face risk to achieve it. The task of management is to identify and respond to these risks in order to maximize the likelihood of achieving the entity's mission. Internal control can help to address these risks; however it can only provide reasonable assurance about the achievement of the mission and the general objectives.

No matter how well designed and operated, internal control cannot provide management absolute assurance regarding the achievement of the general objectives. Instead, the guidelines acknowledge that only a "reasonable" level of assurance is attainable. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks. Determining how much assurance is reasonable requires judgment. In

exercising that judgment, managers should identify the risks inherent in their operations and the acceptable levels of risk under varying circumstances, and assess risk both quantitatively and qualitatively.

Internal control is geared to the achievement of a separate but interrelated series of general objectives. These general objectives are implemented through numerous specific sub-objectives, functions, processes, and activities.

Auditors are a part of a governmental organization's internal control framework, but they are not responsible for implementing specific internal control procedures in an audited organization. The auditors' role is to audit an organization's internal control policies, practices, and procedures to assure that controls are adequate to achieve the organization's mission. Although auditors may be part of the organization they audit, it is important and necessary that the auditors' independence be maintained. An external audit unit may also play a role in auditing a governmental entity's internal control.

1.   Introduction into Albanian Internal Control

1.1 Albanian approach to Internal Control

Internal controls help entities achieve important objectives and sustain and improve performance. They are important components for enhancing accountability in government operations. Policymakers and program managers are continually seeking for ways to improve accountability in achieving an entity's mission. A key factor in improving accountability in achieving entity's mission is to implement an effective internal control system. Internal control is a process put in place by an entity's oversight body, management, and other personnel that provides reasonable assurance that objectives related to operations, compliance and reporting will be achieved. It also serves as the first line of defense in safeguarding assets.

The roots of the Albanian regulation of the internal control begin in 1992. This was the date of the establishment of the High State Control, the Albanian Supreme Audit Institution. In 2003, the first law on internal audit was approved by the Parliament, which established the General Internal Audit department within Ministry of Finance. This law provided the basis for developing the concept of performing audits in the public sector and

established the independent structure of internal audit. Based on this law, the financial control structures turned into internal audit structures. In 2007, based on best practices of other internal audit organizations a new law on Internal Audit in the Public Sector no.9720, was approved.

Furthermore, as a part of the legislative improvement process, in 2008 the Parliament approved the law no. 9936 "On the Management of the Budgetary System in the Republic of Albania." This law introduced the guidelines for internal control in public entities or as it is called Public Internal Financial and Control (PFIC).In 2010, the Albanian government established a law relating to financial management and control which stated that the Minister of Finance is the responsible authority for the approval of guidelines on financial management and controls in public entities. According to this law, Internal Control is defined as "…*an integral process of financial management and control as well internal audit, established by the head of the management unit within its governance objectives, to assist in conducting the activities of public unit in a regular, economic, efficient and effective manner*".

Financial Management and Control is defined as: "…*a system of policies, procedures, activities and controls, by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals. This system is established, maintained and regularly updated by the head of public unit and are put into practice by all the personnel aiming to address risks and to provide sufficient assurance that the objectives of the public unit are achieved through:*

1. Efficient, effective and economic activities;

2. Compliance with the existing legislation and internal regulations and contracts;

3. Reliable and complete operational financial information;

4. Safeguarding of information and assets".

The Ministry of Finance issued a guideline that requires all public entities to establish and assess financial management and control systems based upon the methodology provided in the guideline. The public entities include:

- General government units;
- Commercial companies,

- Nonprofit organizations and joint authorities which are owned, controlled, funded, or given financial guarantee from a general government unit; and
- Other units spending public funds based on an international agreement regarding these funds.

As a result, the legislative basis for a harmonized PIFC is composed of three pillars:

(i) Sound financial management and control (FMC) systems as a primary responsibility of managers in each unit of public expenditure.

(ii) Independent and objective Internal Audit (IA) group, to support management and to provide reasonable assurance that control systems are established in accordance with rules and standards, according to the principles of a sound financial management.

(iii) Central Harmonization Units (CHU) in the Ministry of Finance, to design and implement a methodology, and to harmonize and standardize the quality system for FMC and IA.

After receiving the status of candidate country by European Union in July 2014, it became compulsory for the Albanian government to comply with European Union's Public Internal Financial Control (PIFC) requirements. According to those requirements, the candidate country must agree to adopt the PIFC model and introduce internal control international standards. The PIFC system aims to provide reasonable assurance that public funds are being used for the objectives selected by the budgetary authority (i.e. Government and Parliament).

The Albanian Ministry of Finance is responsible for: (1) approving guidelines on internal controls in accordance with internationally accepted internal control standards; and (2) presenting the annual declaration of the state of internal controls. To fulfill these tasks, the Minister of Finance is to be supported by the structure responsible for the harmonization of financial management and control currently named the Central Harmonization Unit of Financial Management and Control (CHU/FMC) established within the Ministry of Finance. The CHU/FMC is required to: (a) develop, disseminate and update strategies and methodological guidelines on public financial management and control in compliance with the internationally accepted standards on internal control and with applicable regulations and good

practices; and (b) to produce a consolidated annual report for the implementation and operation of PIFC in the public sector. This report is to be submitted to the Parliament and the Albania Supreme Audit Institution (ALSAI).

For the CHU/FMC to effectively fulfill its role, it is essential to have quality guidelines and to understand the importance of the guidelines and their implications on the design, implementation, and operation of an internal control system. Internal control systems may be ineffective even when the guidelines are developed using international standards and good practices if there are deficiencies in design, implementation, and operation. However, without appropriate guidelines in place, internal control system cannot be effective. It is widely accepted that management, during its monitoring and assessment of the effectiveness of the design, implementation, and operation of internal controls, is to apply professional judgment. To avoid being overly prescriptive with regard to internal control, a sound framework should be in place that specifies what constitutes an internal control system and how to determine whether internal controls are effectively implemented. Although it cannot guarantee perfect outcomes by allowing the use of judgment within the boundaries established by laws, rules, regulations, a sound internal control Framework can enhance management's ability to make better decisions about internal controls.

In November 2016, CHU/FMC approved a new guideline on financial management and control which was first developed in 2010. In 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) updated its internal control framework for the first time since the inception of the original framework twenty one years ago. The COSO framework sets out of the five components of internal control, and the seventeen supporting principles. Supporting these principles are 77 points of focus representing important characteristics associated with the principles. In the 2016 FMC guideline on financial management and control, there is not a distinction between components and principles and the components are described almost as they were in the previous Guideline (of 2010). Even though some changes have been made in the 2016 FMC guideline, there are still opportunities for enhancement so that CHU/FMC can fulfill its role as the responsible authority appropriately.

The CHU/FMC is required to produce a consolidated annual report for the implementation and operation of PIFC which is an assessment of the five components of internal controls. According to the annual report prepared by CHU/FMC in May 2016, financial management and control is not understood from the top level management as well as the staff in public institutions. No root cause analyses have been made in the report to elaborate further the reasons why financial management and control is not understood appropriately and to what extent the level of comprehensiveness might have compromised the design and implementation of internal controls. As a result CHU/FMC is currently using this analysis as a cause of the current state of internal control systems in Albania, rather than as a condition which should be addressed through recommendations. The Ministry of Finance's efforts with regard to PIFC is also subject of an annual assessment from the European Commission based on the Albanian Development Program.

While the Albanian government has amended the Public Internal Financial Control legislation in accordance with the international standards, many public entities have not implemented internal control in line with the PIFC legislation or they do not have effective systems in place to protect their assets. This also affects proper development of external audit, as Albania Supreme Audit Institution continues to focus primarily on compliance audits and detection of irregularities. Internal control including reporting is considered purely financial and does not include information on performance and operational controls.

Modern financial management requires modern and well-integrated systems support. Considerable resources will, therefore, needed to be devoted to designing and implementing an Integrated Financial Management System (IFMIS) supporting all major processes involved in the management of the government's finances and operations. Current laws, regulations, and IT-systems, however, are not sufficient for achieving a professionalized public financial administration.

The Ministry of Finance of Albania adopted a comprehensive Public Finance Management (PFM) reform strategy for 2014-2020 and a relevant action plan. The overall objective of the PFM reform strategy is to achieve a balanced and sustainable budget with a reduced debt ratio through stronger financial management and control and audit processes and where budget execution is properly linked to government policies.

1.2 ALSAI Role & Responsibilities in Internal Controls.

The Albanian Supreme State Audit Institution is a young institution that is founded in 1925, but started operating as a modern Supreme Audit Institution after the fall of the communist regime in 1992.

ALSAI, in the last 6 years has been undergoing an important change, approved by the Parliament through the new ALSAI Organic Law. An important innovation of this law is the fact that ALSAI, can carry out financial audits separately from compliance audits, and that these audits are based on international audit standards.

Internal control systems are vital to identifying and addressing significant risks to the achievement of an entity's objectives. By evaluating internal control not only through a financial audit, it helps government officials assess related risks and therefore identify ways to mitigate fraud and corruption risk. Having suffered corruption for a long time, Albanian Public Sector today recognizes that fraud and public sector mismanagement undermines the confidence of the people in economic development, foreign investments and European Integration.

According to the law, ALSAI assesses the overall functioning of internal control systems and government bodies subject to audit, giving opinions and recommendations. ALSAI, as appropriate, must audit 1) the system of public internal financial control and internal audit functions; 2) the integrity and consistency of administrative decisions taken within the audited entity; and 3) internal audit systems in the public sector.

In order to fulfill its duties, and without prejudice to the right to conduct audits itself, the State Supreme Audit institution may use the findings of audits performed by other firms. The State Supreme Audit institution takes into account these findings, only if the standards used for these audits are in accordance with its own standards and international auditing standards.

Unlike the GAO, ALSAI does not set internal control standards, but audits the application of internal control standards by the Albanian government institutions. In recent years, findings related to internal control were present in many audit reports, and also were present in the annual reports ALSAI produced for the Parliament.

The main reasons for ALSAI's findings are the incomplete internal control framework in the Albanian legislative system, the lack of completing the internal control according to the COSO Model, and the lack of fully understanding the internal control procedures by the main stakeholders (heads of the institutions and CFOs).

1.3 Challenges of Albanian Internal Controls.

The Republic of Albania has undertaken numerous activities during the last few years to establish and develop a cohesive internal control system, including: the adoption of the initial strategic documents, drafting of laws, the creation of organizational capacities and capacity building, and the implementation of the internal control system within public units. Based on the assessment reports of OECD and DG Enlargement in the annual reports published from Ministry of Finance on "Functioning of Public Internal Financial Control System at the General Government Units (GGU)", they noted that Albania has a well-developed PIFC legal framework in place, nevertheless many GGU`s have problems with implementing an effective internal control system.

Based on Public Financial Management Strategy 2014-2020, the future PIFC developments stated in pillar five "On effective internal control", of this document will consist mainly in strengthening implementation of internal control systems in all General Government Units. In addition, the EU progress report recommendations provided yearly are considered to plan reforms to\ strengthen internal control systems. CHU/PFIC plan to develop further guidance to help GGU`s in developing a clear plan to implement FMC systems. This guidance will also provide different FMC tools (such as clear organizational charts, a book of processes, risk mapping and control plans). Moreover, IT supported control activities are expected to be strengthened on all levels in the public sector, with stricter access control, contingency plans for data protection and also developing IT audit capacities. In the IA field, PIFC development will include methods to increase the professionalism of the IA function in the public sector, through continuous professional developments trainings provided by CHU/PIFC.

In Albania there are areas for improvement in the practices and procedures used to establish effective and efficient internal control systems for public units. In many government units, there is a lack of clarity on the steps to be

taken in implementing such systems. None of the public units has an approved plan on implementing FMC.

In general, heads of public units are not familiar with their internal controls systems or the role of the IA function in their unit. Ensuring higher internal audit quality still remains a sensitive issue, although solutions are sought in assessments of internal audit in the public sector.

Risk management is a poorly developed process in the GGUs, as well as risk assessment during auditing. The level of audit testing of GGU internal control systems are unclear. For this purpose additional training in risk assessment is needed, above all, for managers on all levels and for internal auditors.

The recruitment and retention of professional staff in internal audit units remains an issue at all government levels. The absence of professionally qualified internal auditors has contributed to the under development of internal control systems in the public sector. Therefore, a revitalization of the IA function is needed through developing the professional skills of IA staff. Management, should not only establish internal control systems, but also give sufficient consideration to the evaluation and monitoring of such systems in ongoing basis. Engagement of professional staff is an important factor to ensure effective and successful management of internal control systems established in public units.

Also an important matter is the independence of the internal audit units. Most of them face difficulties making their own independent audit plan, conducting an independent and qualitative audit engagement, and the recommendations in most of the cases do not solve the root of the findings, but are more focused on their symptoms. And also the levels of finding change between internal audit reports and SAI audit reports.

2.   Introduction into US Internal Control

2.1 US history and approach of Internal Control.

The US defines internal control in the Standards of Internal Control for the Federal Government (Green Book) as: "… *a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:*

• *Operations - Effectiveness and efficiency of operations*

• *Reporting - Reliability of reporting for internal and external use*

• *Compliance - Compliance with applicable laws and regulations*"

The Green Book goes on to define an internal control system as: "… *a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity`s objectives will be achieved.*"

Internal control in the federal government has evolved throughout the years as seen in the key dates:

1982: Congress passed the Federal Managers Financial Integrity Act (FMFIA). This act included a statement that "…*internal controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General*…" This gave GAO the responsibility and authority to issue internal control standards for the federal government.

FMFIA also requires OMB to issue guidance for evaluating these standards. FMFIA sets the following requirements for agencies in the executive branch of the federal government: (1) Under FMFIA, executive branch agencies are to establish internal control and financial systems that provide reasonable assurance of achieving the objectives of internal control. (2) FMFIA requires the executive branch agency head to provide an annual statement of assurance on whether the agency has met these requirements.

1983: To comply with FMFIA, GAO issued the first Green Book.

1999: GAO issued a revised Green Book in 1999, following updates to other internal control frameworks, to harmonize with those frameworks and reduce burden on the user community.

2001: In response to the user community asking for more guidance related to the 1999 Green Book, GAO issued the Internal Control Management and Evaluation Tool in 2001. This tool provides additional guidance to assist users in applying the Green Book but is not a formal standard on internal control.

2014: GAO issued a revised Green Book in 2014, following updates to other internal control frameworks, to harmonize with those frameworks and reduce burden on the user community.

The Chief Financial Officers (CFO) Act of 1990 imposed new key elements into Financial Management, such as:

- Federal Financial Management,
- Centralized Federal Financial Management,
- Improved Systems and Plans,
- Mandated Audited Financial Statements,
- Required Annual Financial Report Measuring and Reporting on Performance and Costs.

Federal financial management under the CFO Act should be able to produce financial information, establish an integrated financial management system, develop cost information, conduct systematic performance measurement, link budget and accounting information, perform asset management, and produce annual financial reports, and to monitor budget execution.

Centralized federal financial management: OMB was given broad responsibilities for directing federal financial management, modernizing government financial systems, and strengthening financial reporting. The Office of Management and Budget (OMB) serves the President of the United States in overseeing the implementation of his vision across the Executive Branch. Specifically, OMB's mission is to assist the President in meeting his policy, budget, management and regulatory objectives and to fulfill the agency's statutory responsibilities.

New CFO positions were established, positions that are to be filled by individuals with demonstrated ability and practical experience in accounting, financial management, and financial systems who report to the head of the agency. Under the responsibilities of the CFO are the consolidated accounting, financial policies, budgeting, internal controls and system functions.

Under the **Improved Systems and Plans** falls the required 5 year financial management plans, considering integration strategy, systems projects and cross-servicing, equipment/personnel, milestones/costs, and annually updated strategic plan.

The Annual Financial Management Reports (now called Performance and Accountability Reports PAR), are due 60 days after the audit report, and contains audited financial statements, opinion on audited financial statements, report on internal control, report on compliance with the laws & regulations, management discussion and analysis, and other unaudited information.

Embracing new levels of accountability and transparency is the key to achieving world class federal financial management. As part of the vision of the CFO Act, agencies would have modernized integrated systems, which could produce analysis that would support program managers and decision-makers in solving long-standing control deficiencies, and enhancing financial reporting over time.

Internal control objectives

Management groups internal control objectives into one or more of the following three categories:

Operations Objectives: Effectiveness and efficiency of operations.

Operations objectives relate to program operations that achieve an entity`s mission. An entity`s mission may be defined in a strategic plan. Such plans set the goals and objectives for an entity along with the effective and efficient operations necessary to fulfill those objectives.

Reporting Objectives: Reliability of reporting for internal and external use.

Reporting objectives relate to the preparation of reports for use by the entity, or other external parties. Reporting objectives may be grouped further into the following subcategories:

External financial reporting objectives: Objectives related to the release of the entity`s financial performance on accordance with professional standards, applicable laws and regulations, as well as expectations, of stakeholders.

External nonfinancial reporting objectives: Objectives related to the release of nonfinancial information in accordance with appropriate standards applicable laws and regulations, as well as expectations of stakeholders.

Internal financial and non financial reporting objectives: objectives related to gathering and communicating information needed by management to support decision making and evaluation of the entity`s performance.

Compliance Objectives: Compliance with applicable laws and regulations.

In the government sector, objectives related to compliance with applicable laws and regulations are very significant. Laws and regulations often prescribe a government entity`s objectives, structure, methods to achieve objectives, and reporting of performance relative to achieving objectives.

The Five Components of Internal Control

The five components represent the highest level of the hierarchy of standards for internal control in the federal government. The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective. The five components of internal control are as follows:

1. Control Environment

The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.

2. Risk Assessment

Having established an effective control environment, management assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Management assesses the risks the entity faces from both external and internal sources.

3. Control Activities

Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

4. Information and Communication

Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events.

5. Monitoring

Since internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. Corrective actions are a necessary complement to control activities in order to achieve objectives.

A direct relationship exists among an entity's objectives, the five components of internal control, and the organizational structure of an entity. Objectives are what an entity wants to achieve. The five components of internal control are what are required of the entity to achieve the objectives. Organizational structure encompasses the operating units, operational processes, and other structures management uses to achieve the objectives. This relationship is depicted in the form of a cube developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO model defines internal control as "*a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories:*

- *Effectiveness and efficiency of operations*

- *Reliability of financial reporting*

- *Compliance with applicable laws and regulations*"

In an "effective" internal control system, the following five components work to support the achievement of an entity's mission, strategies and related business objectives.

1. Control Environment

- Integrity and Ethical Values

- Commitment to Competence

- Board of Directors and Audit Committee

- Management's Philosophy and Operating Style

- Organizational Structure

- Assignment of Authority and Responsibility

- Human Resource Policies and Procedures

2. Risk Assessment

- Company-wide Objectives

- Process-level Objectives

- Risk Identification and Analysis

- Managing Change

3. Control Activities

- Policies and Procedures

- Security (Application and Network)

- Application Change Management

- Business Continuity/Backups

- Outsourcing

4. Information and Communication

- Quality of Information

- Effectiveness of Communication

5. Monitoring

- Ongoing Monitoring

- Separate Evaluations

- Reporting Deficiencies

These components work to establish the foundation for sound internal control within the company through directed leadership, shared values and a culture that emphasizes accountability for control. The various risks facing the company are identified and assessed routinely at all levels and within all functions in the organization. Control activities and other mechanisms are proactively designed to address and mitigate the significant risks. Information critical to identifying risks and meeting business objectives is communicated through established channels up, down and across the company. The entire system of internal control is monitored continuously and problems are addressed timely.

2.2 GAO Role & Responsibilities in Internal Control.

GAO`s mission is to support Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. GAO has developed a Quality Assurance Framework for ensuring compliance with generally accepted government auditing standards (GAGAS). As part of the Engagement Performance component of GAO`s Quality Assurance Framework, GAO analysts and auditors consider internal control when planning and performing engagements. Auditors are required to consider internal control as it relates to the objectives and scope of their audit by the Government Auditing Standards. It is management's responsibility to establish and maintain these internal controls within an entity. Management implements internal control systems using the standards within the Standards for Internal Control in the Federal Government (Green Book) which provides the overall framework for establishing and maintaining effective systems of internal control. It is the auditor's responsibility to evaluate the effectiveness of these controls. A key factor in improving accountability in achieving an

entity's mission is to implement an effective internal control system. An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities. As programs change and entities strive to improve operational processes and implement new technology, management continually evaluates its internal control system so that it is effective and updated when necessary. The assessment of internal control begins during the planning phase of the audit and, depending on the characteristics of the audit, may continue through the fieldwork and reporting phases. The level of internal control audit work necessary to complete the assessment is dependent on the audit objectives, approach, scope and methodology. In the planning stage of the audit, an auditor will consider the significance of internal control to the audit and what level of assessment is necessary to effectively achieve its audit objectives. During the fieldwork stage, specific internal controls are identified and assessed. This work culminates in the reporting phase where findings are established, communicated to the agency, and reported in the audit report.

GAO in order to fulfill its duties has adapted the Five Components and 17 Principles of Internal Control, as below:

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values;

2. The oversight body should oversee the entity's internal control system;

3. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives;

4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals; and

5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances;

7. Management should identify, analyze, and respond to risks related to achieving the defined objectives;

8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks;

9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks;

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks; and

12. Management should implement control activities through policies.

Information and Communication

13. Management should use quality information to achieve the entity's objectives;

14. Management should internally communicate the necessary quality information to achieve the entity's objectives;

15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results; and

17. Management should remediate identified internal control deficiencies on a timely basis.

2.3 Challenges of US Internal Control

The main challenges found in the USA around internal control as identified by GAO are:

1. Internal control is viewed as a financial reporting and CFO task only.

In the federal government, internal Controls have traditionally viewed as focused on financial reporting controls and any push outside of financial reporting and into operational functions has met with mixed success. There is

no clearly defined responsibility of other program officials to understand and/or utilize internal control framework.

Federal managers have a fundamental responsibility to develop and maintain effective internal controls. Effective internal controls help to ensure that programs are managed with integrity and resources are used efficiently and effectively through three objectives: effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The safeguarding of assets is a subcomponent of each objective.

In response to major management challenges to agency mission and goals, agencies are increasingly recognizing the importance and utility of Enterprise Risk Management (ERM) as a tool for identifying, assessing, mitigating, managing and preparing for risk. Effectively implemented, ERM contributes to improved decision-making, adopting a proactive rather than a reactive approach towards risk. *ERM has the potential to change the perception that internal controls are limited to just compliance and financial reporting*. Instead, internal controls can play a key tool to address management challenges that cut across multiple agency functions. In an effort to improve taxpayers' trust in government and prepare for future challenges, OMB has promoted ERM best practices across agencies.

2. Internal control for non-federal entities.

The Federal Government issues grants to state, local and other nonprofit organizations, which are not required to follow the Green Book as most federal agencies are required. Laws that set up these programs as well as the grant agreements themselves usually specify that these entities have some form of internal control, but some of these entities lack expertise and understanding in internal control. This can be due to a lack of training, professional certification, or funding for development of professional staff at these organizations.

3. Good practices and approaches to take into consideration from GAO

3.1 High-Risk Program

Since 1990, GAO has periodically reported on government programs and functions that were identified as "high risk" because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. In January 1999, GAO issued the first Performance and Accountability Series, which discussed the major issues 20 agencies faced in addressing performance and accountability challenges.

Over time, as high-risk areas have been corrected and other risks have emerged, areas were removed from the list and new ones were added to keep the Congress up to date on areas needing attention. In the January 1999 report series, GAO advised the Congress that because an increasing amount of information is becoming available as a result of implementation of various federal management reform legislation, they planned to reassess the methodologies and criteria used to determine which operations and functions should be included in the Performance and Accountability Series and those which should be designated as high risk.

The reasons for initiating this program mainly were:

- Highly visible problem areas were not being addressed;
- Congressional and media attention increased;
- GAO wanted to bring additional focus to long standing major problem areas.

The High-Risk program:

- Identifies programs and operations at risk for fraud, waste, abuse, mismanagement, or in need to transformation to achieve efficiency and effectiveness;
- Targeted to identify and help address significant problems within the federal government, both short-and long-term;
- Highlight areas that warrant special focus-designed to increase accountability;
- Based on GAO reviews; and
- GAO commitment to review these areas and update progress.

The original High-Risk list included 14 areas. Since that that time 46 new areas have been added and 26 areas have been taken off or consolidated. The actual High-Risk list currently contains 35 areas.

Historically, high-risk areas have involved vulnerabilities due to programs and operations greater susceptibility to fraud, waste, abuse, and mismanagement. The High-Risk program has evolved to include broad-based transformations needed. Many areas require both agency and Congressional oversight and/or legislative solutions.

In order to determine the High-Risk areas, GAO published criteria on "Determining Performance and Accountability Challenges and High Risks (GAO-01-159SP)." This determination is based on two factors:

1. Qualitative factors: national security, national defense, public health or safety; and
2. Quantitative factors: dollars at risk-assets, revenue, payments.

GAO further developed these criteria to assist in forming judgments based on the following factors:

• identifying and assessing the performance of the federal government's major program and mission areas,

• assessing agencies' management functions to determine how they contributed to program performance and affected the agencies' ability to ensure accountability and achieve results,

• determining if individual performance and accountability challenges merit designation as high-risk areas as well as determining government wide high risks, and

• removing high-risk designations.

For each major agency, GAO identifies major program and mission areas that will form the primary basis for reporting in the Performance and Accountability Series and that

• are at the center of congressional and executive branch attention,

• have high public interest and/or large-dollar outlays,

• figure prominently in agencies strategic plans and annual performance plans and reports, or

• have known performance and accountability or high-risk issues.

The major program and mission areas on which GAO will focus are be selected in consultation with the Congress and coordinated with the Office of Management and Budget, the top leadership of the major federal agencies, and the inspectors general at these agencies. Thus, the Performance and Accountability Series may not include all of an agency's program and mission areas, but would focus on those that are among the most important for each agency. Program and mission areas that in the past were designated as high risk or had performance and accountability concerns will be carefully scrutinized to determine if the risks and concerns have been resolved.

GAO also uses agencies' strategic plans, annual performance plans and reports, accountability reports, and audited financial statements to identify the key goals, strategies, performance measures, and reported performance for each of the major program and mission areas. This information, supplemented by relevant GAO products, inspectors general reports, and other independent analyses, will enable us to develop a profile of the actual performance for each of the selected program and mission areas.

Based on its experience in examining a wide range of government programs, GAO has found that effective performance of the management functions shown below, are key to creating and sustaining high performing organizations. Internal control is a critical aspect of each of these management functions.

- Strategic planning
- Budget formulation and execution
- Organizational alignment and control
- Performance measurement
- Human capital strategies
- Financial management
- Information technology
- Acquisition

Internal control underpins each management function mentioned above.

An individual performance and accountability challenge merits a high-risk designation when it meets the criteria presented in this section. GAO will first determine whether the performance and accountability challenge involves

• a program or mission area having national significance or

• a management function that is key to performance and accountability.

GAO will then determine whether the risk stems from one of the following:

- An inherent risk, which may arise when the nature of a program creates susceptibility to fraud, waste, and abuse. A program involving payments to claimants for services provided by third parties could involve inherent risk, for example, due to the need for and difficulty of verifying the accuracy of a large volume of claims.
- A systemic problem, which may arise when the programmatic, management support, or financial systems, policies, and procedures established by an agency to carry out a program are ineffective, creating a material weakness.

Next, GAO will consider a number of qualitative and quantitative factors. Additionally, before making a high-risk designation, will consider the corrective measures an agency may have planned or underway to resolve a material weakness and the status and effectiveness of these actions. In all cases, the ultimate determination of high risk will be made based on the independent and objective judgment of GAO professionals.

Considering Qualitative and Quantitative Factors

GAO will consider the qualitative factors outlined below:

Risk is seriously detrimental to:

• Health or safety

• Service delivery

• National security

• National defense

• Economic growth

• Privacy or citizens' rights

Risk could result in:

• Significantly impaired service

• Program failure

• Significantly reduced effectiveness

• Significantly reduced efficiency

• Injury or loss of life

• Unreliable decision-making data

• Reduced confidence in government

• Unauthorized disclosure, manipulation, or misuse of sensitive information, such as personal, financial management, or programmatic data maintained in computerized systems.

These qualitative factors are not meant to be all-inclusive. Other important qualitative elements of risk may also be applicable to a given situation.

In addition to qualitative factors, GAO will also consider the exposure to loss in monetary or other quantitative terms. At a minimum, $1 billion must be at risk in areas such as:

• The value of major assets (e.g., loans receivable) being impaired;

• Revenue sources (e.g., taxes due) not being realized;

• Major agency assets (e.g., inventory or property) being lost, stolen, damaged, wasted, or underutilized;

• Improper payments; and

• Contingencies or potential liabilities (e.g., environmental cleanup costs).

The $1 billion threshold relates to that portion of a major program or mission area that is at risk not to the financial aspects of the program or mission area as a whole.

In making high-risk determinations, GAO analyzes the risks from qualitative and quantitative standpoints. A program or function may be highly vulnerable to risk arising from a qualitative factor, such as loss of life, but may not necessarily meet the minimum quantitative dollar threshold. Conversely, it is possible for an exposure to be significant quantitatively, that is, placing $1 billion or more at risk, but not involve a qualitative factor. In some instances, individual qualitative and quantitative factors alone will not be high risk, but in combination, they may call for a high-risk designation. Thus, GAO

considers the totality of qualitative and quantitative factors in deciding whether a high-risk designation is warranted.

Considering Corrective Measures

Before assigning a high-risk designation, GAO determines and assesses the effectiveness of an agency's planned or ongoing corrective actions to address a material weakness. In this regard, GAO considers factors such as below:

• Whether the agency has demonstrated its commitment to resolving the problem;

• The extent of an agency's progress to strengthen controls to address the problem;

• Whether the proposed remaining corrective action plans are appropriate;

• Whether effective solutions will be substantially completed near term, as further discussed below;

• Whether the solutions will resolve the root cause of the problem.

For the high-risk initiative, near term is considered to be within the 2-year period covered by the term of the Congress to which a high-risk update report is addressed. In considering whether a corrective action will be substantially completed in the near term, a high level of certainty must be evident. Agencies will need to be able to demonstrate concrete results to date, with a clear path toward addressing remaining problems. The final determination will be based on GAO's professional judgment.

Criteria for Determining Government wide High Risks

In some instances, several agencies may share a common problem that results in a high-risk situation. When this occurs, in order to determine whether a government wide high-risk designation is warranted, GAO uses the criteria as per below:

The material weakness must:

• Be evident at multiple agencies;

• Affect a significant portion of the government's total budget or other resources;

• Stem from a deficiency that should be monitored and addressed through individual agency actions as well as through Office of Management and Budget initiatives, legislative action, and/or Congressional oversight.

If these criteria are met, GAO may designate the matter as a government wide high-risk area.

It may be possible for several agencies to have the same material weakness and for it to rise to a high-risk level for some or all of those agencies, but based on these criteria, it is not considered to be a government wide high risk. In such cases, the weakness would be reported as a performance and accountability challenge or a high-risk area for each of the agencies it affects, as appropriate.

Criteria for Removing High-Risk Designations

When legislative and agency actions, including those in response to GAO recommendations, result in significant progress toward resolving a high-risk problem, GAO removes the high-risk designation. In these cases, GAO continues to closely monitor the areas. If significant problems again arise, GAO considers reapplying the high-risk designation.

The criteria we use for determining whether to remove a high-risk designation are shown as below:

• A demonstrated strong commitment and top leadership support to address the risk(s);

• The capacity (that is, the people and other resources) to resolve the risk(s);

• A corrective action plan(s) that:

> • defines the root causes,

> • identifies effective solutions, and

> • provides for substantially completing corrective measures near term, including but not limited to, steps necessary to implement solutions we recommended

• A program instituted to monitor and independently validate the effectiveness and sustainability of corrective measures;

• The ability to demonstrate progress in having implemented corrective measures.

Calling Attention to Performance and Accountability Challenges and High-Risk Problems

The High Risk List is intended to help GAO, the Congress, and the executive branch give attention to identifying and resolving performance and accountability challenges and high-risk problems. GAO`s Performance and Accountability Series and High-Risk Updates are an important way to gauge progress in achieving this objective.

Through these efforts, GAO is committed to helping the Congress improve the economy, efficiency, and effectiveness of federal operations. Doing so should also enhance the public's respect for and confidence in the federal government.

3.2 Establishing communities of practice

In the federal government, another effective tool in developing an understanding and approach in implementing internal control is through the establishment of communities of practice. The CFO Council is one example of such a community of practice. "*With leadership from federal CFOs, senior officials at the office of management and budget, and U.S. treasury, the CFO council tackles the most pressing issues in federal financial management with collaborative leadership*."

The Council was established pursuant to Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). It is an organization of the CFOs and Deputy CFOs of the largest Federal agencies, senior officials of the Office of Management and Budget, and the Department of the Treasury who work collaboratively to improve financial management in the U.S. Government. The Council was established under the provisions of the CFO Act of 1990 to advise and coordinate the activities of the member agencies on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and any other financial management matter. The membership of the Chief Financial Officers Council includes:

- Deputy Director for Management of the Office of Management and Budget, who shall act as chairperson of the Council;

- Controller of the Office of Federal Financial Management of the Office of Management and Budget;

- Fiscal Assistant Secretary of Treasury; and

- Chief Financial Officers of the agencies listed below.

  o Department of Agriculture

  o Department of Commerce

  o Department of Defense

  o Department of Education

  o Department of Energy

  o Department of Health and Human Services

  o Department of Homeland Security

  o Department of Housing and Urban Development

  o Department of the Interior

  o Department of Justice

  o Department of Labor

  o Department of State

  o Department of Transportation

  o Department of the Treasury

  o Department of Veterans Affairs

  o Environmental Protection Agency

  o National Aeronautics and Space Administration

  o Agency for International Development

  o General Services Administration

  o National Science Foundation

  o Nuclear Regulatory Commission

  o Office of Personnel Management

o   Small Business Administration

o   Social Security Administration

Members of the Council identify the key issues necessary for the successful implementation the Chief Financial Officers Act of 1990 and to improve financial management leadership. Since the Act was signed into law there has been substantial progress and many positive achievements. Individual Council members have stepped forward to lead committees and special projects to improve government-wide financial management. The Council continuously reviews progress in each identified area of emphasis. Current priorities are:

- Improve financial management systems;

- Effectively implement the Government Performance and Results Act;

- Secure clean opinions on agency-wide and the government-wide audited financial statements;

- Develop a quality financial management workforce;

- Improve loan management, tax and debt collection;

- Design management systems to improve accountability for performance;

- Modernize payments and business methods through electronic commerce.

The Council Chairperson is the Deputy Director for Management of the Office of Management and Budget. The Controller of Office of Management and Budget, leads the activities of the Council on behalf of the Chairperson.

Federal financial management conference (JFMIP)

Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative action undertaken by the U.S. Department of the Treasury, Government Accountability Office (GAO), Office of Management and Budget, and Office of Personnel Management. Working in cooperation with each other and other agencies, the goal of the JFMIP is to improve financial management practices in the federal government. This effort culminates in an annual Federal financial management conference attended by hundreds of

financial management professionals and featuring presentations from government leaders.

The current Chief Financial Officer council initiatives:

Controller Alerts are designed to highlight emerging financial management issues that may require agency attention or action. These Alerts are intended to inform the Chief Financial Officer (CFO) community of key issues where the Office of Management and Budget (OMB) believes further action may be warranted, but do not constitute official guidance or prescribe specific tasks for agencies beyond consideration of appropriate steps to address the issue.

The CXO Fellows Program is comprised of rising stars in the federal finance, acquisitions, and IT sectors at the mid-career level that have shown leadership potential and prepares these future leaders to become forward-thinkers in the space of Federal management.

The CXO Fellowship program is dedicated to providing enriching professional development opportunities for the next generation of Federal leaders in acquisitions, finance, human capital, and information technology. The program provides an opportunity for Federal leaders to grow professionally through a unique set of educational seminars and events.

During the year-long program, Fellows meet with leaders in the Federal management community and learn about innovative government operations through educational seminars and "Inside Government" events. The objective of the program is to provide a unique perspective on the innovative missions led by Federal agencies.

Selected Fellows remain in their current positions at their home agency and are participate in two to three program events each month with a total time commitment of ten to fifteen hours per month. All Fellows are expected to participate in unique Program activities including Seminars, "Inside Government" events, and special programs. Fellows are mid-level Federal employees that have demonstrated leadership potential.

Enterprise Risk Management

As federal entities continue to focus on enterprise solutions to manage risks that impact strategic and tactical objectives and use of resources, the CFO Council will work in partnership with other Councils to translate the concept

of enterprise risk management past the abstract into practical solutions that support risk-enabled performance.

Grants

The CFO Council is dedicated to coordinating financial assistance to effectively deliver, oversee, and report on grants and cooperative agreements, as well as sharing with executive departments and agencies (agencies) best practices and innovative ideas for transforming the delivery of grant assistance.

Human Capital

With unprecedented numbers of Federal employees eligible for retirement, the CFO Council is committed to maintaining a robust and expert-level workforce in Federal financial management. Working across agencies, the CFO Council will coordinate the next generation of programs to recruit, train, and retain the best of the federal financial management workforce.

Improper Payments

Reducing the government-wide improper payment rate is a CFO Council a priority. An improper payment is any payment that should not have been made, lacks sufficient documentation, or that was made in an incorrect amount, potentially resulting in monetary loss to the government. As an effective steward of taxpayer dollars, the members of the CFO Council actively work to reduce improper payments and other instances of waste, fraud, and abuse.

Federal Financial Management Reports

In accordance with the CFO Act of 1990 the following information represents the financial management status report and a government-wide 5-year financial management plan. The report references the Financial Management Progress and Priorities section within the Financial Report of the U.S. Government. Additionally, the report highlights the most recent fiscal year's financial reporting results.

4. Recommendations and Conclusion

In order to improve the Albanian internal control framework and to enhance the accountability and transparency of using of public funds for more economy, efficiency, and effectiveness, and doing so to enhance the public's respect for and confidence in the Albanian Institutions, the following suggestions should be taken in consideration:

1. Using generally accepted internal control standards:

- ALSAI should continue to influence to the legislative branch and other stakeholders, in order to set new guidelines for internal control on public sector, based on the International Standards (COSO Model) and also the Green Book.
- ALSAI audits should be more focused on improving internal control gaps in Albanian public sector, and by doing so helping public entities to adapt to shifting environments, evolving demands, changing risks, and setting new priorities.

2. Establishing a High-Risk program:

- ALSAI should consider on establishing a high-risk program similar the GAO model. In establishing this new program ALSAI should be based on main risk areas of its own audits, main focus area of the Parliament, and/or the general public perception of the programs that needs more immediate attention.
- In establishing its own high-risk program, ALSAI should define clearly clear and objectively qualitative and quantitative criteria's for determining Government wide high risks. These criteria should be intended to help ALSAI, the Albanian Parliament, and the executive branch give attention to identifying and resolving performance and accountability challenges and high-risk problems.

3. Establishing communities of practice:

- ALSAI should continuously organize joint conferences with the participation of authorizing and implementing officers, and audit units of all public entities, focused mainly on internal control challenges and ways to improve.
- ALSAI based on its experience should provide training to other public officials, mainly authorizing and implementing officers, audit

units and/or heads of public entities, on the benefits of the institutions in improving internal controls.

Conclusion

Having suffered institutionalized corruption for decades, Albanian Public Sector today recognizes that fraud and public sector mismanagement itself undermines the confidence of the people in economic development, foreign investments and European Integration. Internal control systems are vital to identifying and addressing significant risks to the achievement of an entity`s outcomes.

By evaluating internal control systems across operations and not merely from a financial reporting perspective, it will help government officials effectively respond to fraud and corruption risk.

The implementation of the COSO model for internal control, would significantly improve the current status of internal control, and doing so would improve the public sector performance and improve the general public perception toward Albanian Institutions.

Taking into consideration of other public entities opinion into challenges of internal control, would play a key role in improving the internal control framework in Albanian public sector.

Establishing high-risk programs in ALSAI audits would indirectly help the Albanian Parliament and Government to determine performance and accountability challenges, in order to better serve the Albanian people and their interests.

5. Bibliography

-GAO`s Green Book;

-GAO`s Determining Performance and Accountability Challenges and High Risks;

-Albanian Law No. 154/2014 "Organization and functioning of State Supreme Audit Institution";

-Albanian Law No. 10296 dated 8/7/2010 "On the financial management and control";

-Albanian Public Financial Management Strategy 2014-2020;

-U.S. Chief Financial Officers Act of 1990;

-U.S. Chief Financial Officers Council (https://cfo.gov/);

-ISSAI 9100 Guidelines for Internal Control Standards for the Public Sector;

GAO
U.S. GOVERNMENT ACCOUNTABILITY OFFICE

KONTROLLI I LARTE I SHTETIT
NR 948/1 DATE 8/8/2018

441 G St. N.W.
Washington, DC 20548

Wednesday, August 01, 2018

Mr. Bujar Leskaj, Chairman

The State Supreme Audit | Kontrolli i Larte i Shtetit
RR. ABDI TOPTANI
Nr. 1
Tirana
Albania

Dear Mr. Bujar Leskaj

It was a pleasure to have Mr. Alfonc Gabili as a member of GAO's 2018 International Auditor Fellowship class. Alfonc was engaged and thoughtful throughout the 16 week Program. He applied his diligence for knowledge both in and outside the classroom and consistently posed challenging questions to further his learning. He is a great representative of your country and office.

In addition to intensive classroom training, fellows are required to develop a strategy paper describing an area where their Supreme Audit Institution could introduce change. The objective is to work on a specific topic of interest as agreed upon with the leadership of their respective institutions with the intent of presenting that paper as a proposal for change. Alfonc prepared his project on the topic of Internal Controls. Alfonc's paper is well organized and highlights his thorough research and writing abilities. Enclosed herein is a final copy for your review.

We also provided the fellows access to an online training tool intended for use on their own time to enhance specific skills that each of them determined would be useful to their overall professional development. This was in addition to their in person class requirements. Listed on the second page are the additional training sessions that Alfonc completed by his own initiative. We hope that he will have opportunities to apply his training experiences and that you will share news of his achievements with us.

On behalf of all of us at the U.S. Government Accountability Office who had the pleasure to work with Alfonc, I want to thank you for your continued interest and support of the International Auditor Fellowship Program.

Very respectfully,

Darreisha M. Bates
Program Manager
International Auditor Fellowship Program

Enclosures (2)

GAO's appreciation for Mrs. Alfonc Gabili

The Comptroller General of USA, Mr. Dorado giving the Certificate of
Achievements to Mr. Alfonc Gabili

2018 Group photo of International Auditor Fellowship Program