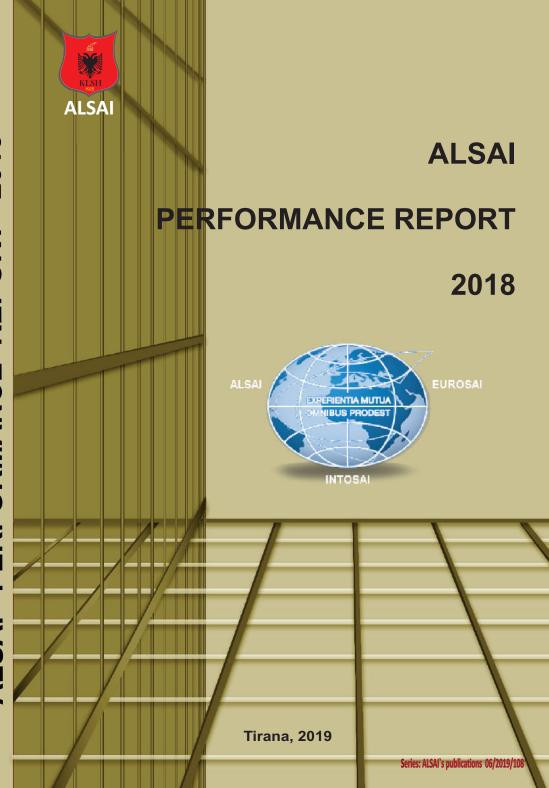
2018 REPORT PERFORMANCE **ALSAI**

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REPUBLIC OF ALBANIA SUPREME AUDIT INSTITUTION

ALSAI PERFORMANCE REPORT 2018

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ALSAI PERFORMANCE REPORT 2018

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MESSAGE

It is widely argued and acknowledged that the role of external public audit institutions is not simply a matter of overseeing the way public funds are used but are considered as standard-setting institutions and assist in implementing reforms to taxpayer's good governance.

This has been the philosophy of institutional functioning and realization of audit activity by the Albania's Supreme Audit Institution (ALSAI) in meeting the requirements of international standards and best practices of EUROSAI and INTOSAI. This not only as an integral part of the public finance management reform, ALSAI has interacted proactively with all stakeholders, as well as with national and international supervisors, for realizing institutional engagement.

Precisely, this philosophy has enabled continuous improvement of performance and increased impact of ALSAI audit activity for a more accountable and transparent governance, for better decision making of the legislature by being a professional, independent source of reliable information, thus bringing added value to the lives of citizens.

The Supreme Audit Institution of Albania (ALSAI) has applied in recent years the performance measurement framework as an instrument that not only provides transparency but reflects the degree of responsibility for identifying aspects of institutional functioning and audit activity that need to be improved. Voluntary evaluation of institutional performance using the SAI International Standards (the ISSAIs) and international best practices in the field constitutes a consolidated philosophy of the functioning of ALSAI in its journey towards modernizing and meeting strategic development objectives. The aggregated indicators by field identify the fact that ALSAI has a performance above the average level and specifically for three out of 5 assessment areas it is 3 (out of 4) and for two assessment areas it is 4 (the scoring level ranges from 0 to 4).

The methodological improvement and consolidation has been at the core of institutional developments, which are reflected in the typology of audit activity during 2018. Quantitative growth and qualitative improvement of financial and performance audits, focus on auditing systems and evaluation of information and

Message -----

data systems in implementation of the respective international standards of supreme audit institutions, constitute the concrete implementation of the ALSAI 2018-2022 Development Strategy for its first year.

For the period 2012-2018, for every ALL spent by ALSAI, the institution has detected and required for reimbursement 100.5 ALL, or 5 times more from the amount of 21.1 ALL that it equested in the 10 year period 2002-2011.

Despite the significant developments of the external public audit institution to strengthen cooperation with the Albanian Parliament, the Government, civil society and the media, the level of implementation of SAI recommendations continues to be a steady challenge not only for the SAI but also for all factors and actors that have the responsibility for ensuring the effective, efficient and with economy use of public money.

Moreover, the challenges for realizing the EU integration process and commitments of the UN's 2030 Sustainable Development Agenda require effective co-operation with all stakeholders with objective the good governance.

In this context, ALSAI has defined well the professional and institutional development objectives and instruments to cope with the growth challenges in all dimensions, based on the positive and non-positive accumulated experiences. The achievements reached in the path of modernization by the Albanian public external audit institution should be considered as public good, which should be further consolidated while maintaining and improving its best practices.

Bujar LESKAJ

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I. ALSAI MISSION, VISION AND OBJECTIVES

The Constitution of the Republic of Albania in its four dedicated articles has clearly expressed the mission and level of independence of the Supreme State Audit Institution (ALSAI), which shape its institutional identity. This mission and institutional functioning are structured and sanctioned in detail in Law No. 154/14 "On the Organization and Functioning of Supreme Audit Institution (ALSAI)", on the basis of which all ALSAI's institutional and methodological regulatory acts have been built.

ALSAI Mission

ALSAI is an independent constitutional institution, built to serve the Albanian citizen, to be an "agent" of the Parliament and other stakeholders by continuously and impartially informing them on the accountability that the Government and other State entities have in the use of Albanian taxpayer's money and by contributing to the improvement of governance through the fight against corruption.

In fulfilling the legal requirements, international audit standards and supreme audit institutions of INTOSAI and EUROSAI as well as regulatory acts, the ALSAI performs financial, compliance, regularity, performance, information technology audits as well as evaluations of the financial management and control systems and the internal audit units of entities in central and local Government, as well as in other public entities.

ALSAI has functioned and will continue to act as a change agent, serving the citizen and good governance, reflecting the values and principles of a modern SAI, a member of the INTOSAI community led by the motto "United in ambition and determination".

¹ INTOSAI XXII-nd Congress motto in Abu d'Habi, "40-Years of Lima declaration 1977-2017" Bujar Leskaj, ALSAI Editions KLSH-16/2017/83

The vision goes beyond the traditional approach focused on assessments and findings. External public auditors carry out their activity not only by acting but by interacting with the recommendations and advices of audited public entities to maximize the value of public money.

ALSAI Vision

ALSAI is an exemplary model institution that promotes increased accountability, transparency, and the effective, efficient and cost-effective use of public wealth, while strengthening public integrity and trust in the institution, to be an added value to society and bring change to the lives of citizens.

The mission and vision guide the way the institution should perform to guarantee the accountability, transparency and integrity of the government and other public sector units; to promote the accountability of Government to Parliament and increase transparency for citizens; by being a model organization that leads by example.

The Supreme State Audit fulfills its mission and realizes its constitutional activity in pursuance of the eight principles: Independence; Professionalism; Cooperation; Accountability; Integrity; Objectivity; Public Interest and Transparency.

2018 is the first year of implementation of ALSAI 2018-2022 Development Strategy, which has defined the short-term and long-term objectives of institution's modernization. In addition, this document has enabled the continuity of institutional developments not only in the strategic but also in the tactical aspects through the drafting of the Action Plan for the implementation of the strategy and continuous monitoring by systematically rendering the degree of its implementation transparent.

Throughout 2018 and during this year, ALSAI aims to be a model for the public audit, a center for studying contemporary audit challenges in the economic, social and political fields, based on the analysis of cause-and-effect factors as well as a an institution that leads by example to bring value and create a positive impact on the lives of citizens.

The ALSAI's ongoing objective is to be an active and professional partner for the strengthening the good governance and public accountability, in order to promote

transparency, efficiency and effectiveness. In this framework, the deepening of the fight against corruption is the focus of its institutional activity.

During 2018, the institutional objectives that have led to the activity of ALSAI are:

- The challenge to orient audit based on error, fraud and corruption risk is addressed through methodology developments and improvements, focusing on auditing sectors of the economy having a higher exposure to these risks.
- Consolidation and increase of the number of performance audits by expanding the topics and gradually increasing the department's professional and numerical capacities.
- Development of financial audits, giving the opinion on the financial statements as a step further towards meeting the objective of increasing the number of financial audits.
- Consolidatation and modernization of the approach versus compliance audits in line with the ISSAI International Standards.
- Increasing the quality and number of IT audits as well as developing IT audit capacities.
- Increasing the use of IT infrastructure and tools during the audit process was one of the objectives that has focused on institutional management throughout 2018, but remains a challenge for 2019 as well.
- Increasing the credibility of the Supreme Audit Institution (ALSAI), assessed by the perception of citizens, is an indicator to show that audits and their reporting are conducted with high integrity and professionalism.

ALSAI Mission	. Vision and Obiectives	

Publications

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II. ALSAI AND ITS AUDITS FOR 2018

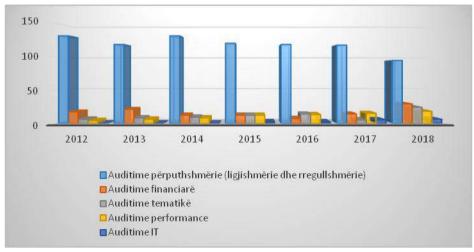
II.1 FACTS AND MAIN STATISTICS OF AUDITS ACTIVITY

The ALSAI, even during 2018, has managed to maintain a challenging target under which it has never fallen in the last 7 years. In this context it should be emphasized the commitment of the entire audit staff to maintain such a work pace for the realization of the institutional objectives.

For the period January-December 2018, the SAI has carried out 171 audits out of 162 planned audits, of which:

- 52 regularity audits;
- 42 compliance audits;
- 29 financial audits;
- 18 performance audits;
- 24 theme audits;
- 6 IT audits.

Graph No.1: Indicator of realization of audits in the timeframe 2012-2018



Source: ALSAI, Statistics Sector

Audits are extended to central institutions and subordinate units to have a satisfactory coverage of the State budget execution entities (including the

ministries and their subordinated agencies, general departments and tax and customs regional branches, as well as joint stock companies with State capital, as a contributor of the budget revenues through dividends, as well as local government units (municipalities) and audit of projects with foreign financing, etc.

Table no.1: Audit by institutions over the years

Audited Institutions	2012	2013	2014	2015	2016	2017	2018
Minister, central institutions, subjects of fiscal revenue collection, state-owned corporations	72	86	82	93	89	86	85
Local government institutions and other units at local level	64	39	52	44	45	42	45
Units and projects with foreign funding	11	10	8	11	10	11	7
Property Management Institutions	11	18	18	10	10	17	16
Institutions audited by performance audits	9	17	35	73	105	110	53
Total	167	170	195	231	259	266	206

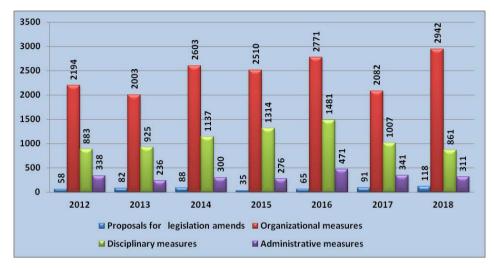
Source: ALSAI

By considering ourselves as servants to citizen and as the main agent of the Parliament to guarantee good governance, we have tried to make recommendations which could also change the managerial culture, which is still at a low level, especially in the terminal segments of administration where the public servant meets the citizen, this reflected in low quality in the service of citizens. In the audit activity conducted during 2018 we addressed:

Table no.2: Recommendations by nature in years

Recommendations by nature	2012	2013	2014	2015	2016	2017	2018
Proposals for legislation amends	58	82	88	35	65	91	118
Organizational measures	2194	2003	2603	2510	2771	2082	2942
Disciplinary measures	883	925	1137	1314	1481	1007	861
Administrative measures	338	236	300	276	471	341	311

Source: ALSAI



Graph no.2. Recommendations by nature in years

Source: ALSAI, Statistics Sector

Treguesit e Dëmit Ekonomik

The audit work has aimed to make the Government more responsible in the management of state funds. The SAI has found that much remains to be done to create a culture of managerial accountability and to guarantee a more efficient financial management and control system.

In general, the level of economic damage and of ineffective expenses or ones having negative effects on the State budget continues to be high during 2018.

In total, the SAI has detected financial irregularities and economic damage at the level of 213.9 billion ALL or approximately 1.7 billion euros:

- Irregularities and financial violations in missing State revenues and incurred expenditures, with economic damage in the total amount of 24.1 billion ALL or 193 million euros¹.
- Violation of financial discipline negatively impacting the performance of the audited entities, totaling ALL 189.8 billion, approximately EUR 1,5 billion from

ALSAI 2019 15

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¹ Exchange 1 EUR= 125 ALL

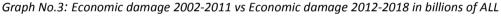
which: ALL **116 billion** in missing revenues, approximately **EUR 923 million** and ALL **73.8 billion** approximately **EUR 587 million**, in the field of expenditures or money spent in a non-efficient and effective way.

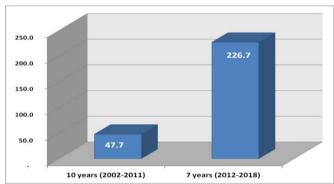
• The identified damage has a negative growing trend, consolidated in recent years and this is apparent in the graphical presentation below.

140.0 125.8 120.0 100.0 80.0 60.0 40.0 25.5 24.1 15.1 13.5 20.0 11.2 7.0 7.3 3.0 1.6 2007 2009 2010 2011 2015 2016 2003 2005 2006 2008

Graph No.3: Economic damage through 2002-2018 in billions of ALL

Source: ALSAI, Statistics Sector





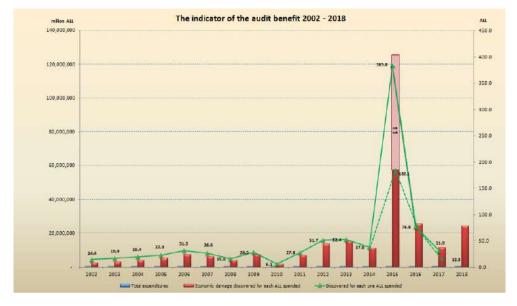
Source: ALSAI, Statistics Sector

Audit usefulness Indicator

The indicator of audit usefulness is the ratio of the amount of funds discovered as economic damage and required for reimbursement by the SAI with the actual budget expenditures of the SAI. It represents one of most significant performance indicators of supreme audit institutions (SAIs).

For 2018, for every ALL spent by the SAI, the institution has detected and required to be reimbursed in the State budget the amount of 61.6 ALL.

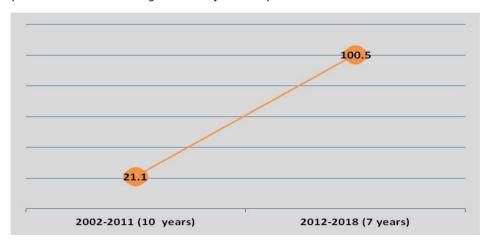
Graph No.5: The usefulness indicator over the years



Source: ALSAI, Statistics Sector

For the period 2012-2018, for every ALL spent by ALSAI, the institution has detected and required for reimbursement 100.5 ALL, or 5 times more from the amount of 21.1 ALL that it equested in the 10 year period 2002-2011.

Graph no.6: Economic damage detected for each spent ALL



Source: ALSAI, Statistics Sector

For all these damages and lack of value added in the use of public funds, the SAI has brought to Prosecution Office the responsible persons in the State administration. SAI's referrals constitute an important indicator of the fight against corruption and abuse with public property. For the year 2018, the SAI has filed to the Prosecution Office 40 criminal reports (referrals) and penal indications, as well as one entire audit file. In the 41 criminal reports and penal indications drafted by the ALSAI, 112 public officials were charged with criminal responsibility, out of which: 33 heads of institutions, 26 other high level officers (excluding the 33 directors), 4 private entities and 49 lower ranked officials.

The main criminal offenses charged to these persons are the "Abuse with duty" provided by Article 248 of the Criminal Code, "Violation of the Equity of Participants in Tenders or Public Auctions" provided by Article 258 of the Criminal Code, but there are also charges for "falsification of documents", provided by Article 186 of the Criminal Code. The SAI has increased the quality of the preparation of the file for criminal charges. The fact is expressed by the number of cases obtained in court. Indicators of criminal reports over the years are presented in the following chart and graphs:

Table no.3: Referrals during 2012-2018

Referrals	2012	2013	2014	2015	2016	2017	2018
Referrals in numbers	40	38	41	51	49	47	41
Persons	125	94	149	159	191	129	122

Source: ALSAI

By analyzing the data over the years, we conclude that the number of referrals in the last 7 years 2012-2018 (307 criminal charges) has almost doubled as compared to the 6-year period 2002 -2011 (168 referrals).

Judicial Trials

During 2018 SAI has engaged in 86 court proceedings.

Penal trials

During 2018, the SAI participated in 22 trials in the courts of the relevant judicial districts (first instance tribunals), with the request of the prosecution body for the dismissal of criminal proceedings initiated as a result of the SAI referrals during 2018), of which 16 of them were subject to judicial review by the respective appeals courts.

Likewise, during the year 2018, by the courts of appeal, **11 court proceedings** developed in previous years (2014-2015-2016-2017) by the courts of the respective district courts.

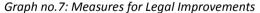
Referring to the decisions of the appeals courts (final decisions) it results that in 8 of them the courts have decided to overturn the request of the prosecutor's office for the dismissal of the criminal proceeding (in favor of SAI) while for other proceedings the request was received of the prosecutor's office for termination of criminal proceedings. In relation to these decisions, the SAI has filed a recourse to the Supreme Court pending their examination at the Supreme Court.

The court proceedings have had a wide geographical distribution, including courts such as Tirana, Durrës, Kavaja, Fier, Vlora, Përmet, Gjirokastra, Saranda, Lezha, Shkodra, Debar, Pogradec, Korça, Mat.

IMPLEMENTATION OF RECOMMENDATIONS

During 2018, the ALSAI has addressed recommendations to audited institutions. The structure of these recommendations has maintained the same typology as in the other years. That is to say, measures for legal improvements, organizational measures, administrative measures and disciplinary measures for the period January - December 2017 are in total **4232**, of which 1937 or 55% of the recommended measures are accepted and 1584 measures are under review by the auditees.

A- 118 "Measures for Legal Improvements", of which 28 measures or 23% are accepted and implemented, while 90 measures are being reviewed by the auditees.

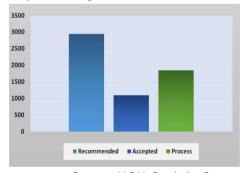




Source: ALSAI, Statistics Sector

B- 2942 "Organizational Measures", of which 1099 measures or 37% are in the process of being implemented and 1843 measures are under review.

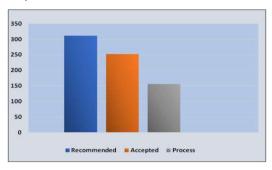
Graph no.8: Organizational Measures



Source: ALSAI, Statistics Sector

- C- 311 "Administrative Measures". of D- 861 "Disciplinary Measures". of which 252 measures or 81% accepted, while 156 measures or 50% are implemented and 59 measures are under review.
 - which 578 measures or 57% were accepted, 202 or 34% were implemented and 429 measures are under review.

Graph no.9: Administrative Measures



Graph no.10: Disciplinary Measures



Source: ALSAI, Statistics Sector

Source: ALSAI, Statistics Sector

In order to increase the level of implementation of recommendations by public institutions, ALSAI has encouraged cooperation with the Ministry of Finance and Economy and other central and independent institutions to implement a common system for recommendations given by the external audit, aiming to increase the level of control over the accountability of the implementation of the recommendations as an instrument to combat the misuse of funds and corruption.

II.2.ALSAI AND MANAGEMENT OF PUBLIC FINANCES

The High State Control (ALSAI), pursuant to the Constitution of the Republic of Albania and Law No. 154/2014 "On High State Control (ALSAI), focused on its work giving the opinion "On the implementation of the State budget of 2017". During the accomplishment of this important mission, ALSAI has identified several key areas that need improvement for good governance and sustainability of public finances, which in the judgment of the external public audit require maximum attention and significant interventions to minimize fiscal risks for the future.

State Budget planning and credibility

Changes through normative acts during the budget year cause a lack of budget credibility and highlight the need for significant improvement in the planning

process. Public investment management procedures present widespread weaknesses in project financing issues that are not part of initial planning and have not been approved by the Council of Ministers and the Parliament, by funding projects that have not received the relevant funding and unlike the list of investments presented with the Middle term Budget Project and the Budget Project of the respective year. Referring to the data recorded in the Government Financial Information System, ALSAI has concluded that, pursuant to Law 130/2016 "On the budget of 2017", investments are projected with internal financing in the value of 5,094.9 million ALL, projects which result closed with the adoption of the Normative Act Nr. 03, dated 06.11.2017 "On Amendments to the 2017 Budget approved by Law 130/2016". This is a fact that indicates a poor and formal budgeting procedure by the line ministries. The SAI has also noted that there are investment projects that have been opened for the first time with the approval of the Normative Act no. 03, dated 06.11.2017 "On Amendments to the 2017 Budget approved by Law 130/2016", but referring to the contract entered into the Government Financial Information System, these investment projects are ongoing contracts from the previous years to the value of 6,830.8 million ALL, mainly from the Regional Development Fund. In some cases, SAI has found that the registered bills have resulted in earlier dates than the ones with the normative act and that the funds have been opened for smaller values than the factual backlog invoices.

From the analysis of the monitoring reports of multi-year contracts, the auditors have found cases of payments for projects which funds have not been opened by the Budget Law for 2017. All cases individually analyzed are confirmed with the database of payments of 2017 with source the Government Financial Information System. These budget lines without approved funds have been legitimized, and are subsequently included in the normative act no. 2 or no. 3. Out of the controls on the projects included in two urveys, the SAI found, 90 similar cases in the amount of about 700 million ALL. Also, from the analysis of the procurement order registered in the Government Financial Information System, 206 procurements were found in the amount of ALL 6.3 billion undertaken after the date 15.10.2017 in violation of Article 51 of the Budget Law, despite that with Article 2 of the Council of Minister's Decision no. 807 dated 16.11.2016 "On the discipline of budget commitments", the projects may only start/continue if they are part of the three-year budget. In the conditions when the Middle-Term State Budget is not registered in the Government Financial Information System, the auditors cannot give assurance whether these procurements are in compliance with the Council of Minister's Decision or in violation of the State Budget basic Law. Referring to the data obtained from the

Public Procurement Agency, the SAI found a total of 51 similar cases with a limit fund without VAT at ALL 2.3 billion, published after October 15, 2017.

Optimistic planning of fiscal revenues and budget deficit

Optimistic revenue planning has allowed greater expenditure within the limits of the deficit set by law. The non-performance of planned revenues, especially tax revenues, has contributed to the increase of the VAT refund liability and the creation of arrears, unreported on the fiscal indicators under the terms of the reported deficit limits of close to 2% of GDP. Revenues from taxes referring to the data from General Tax Department are ALL 131,869 million, or 93% compared to the planned figure. (Gross) Income from VAT represents a realization of 88.5% compared to the planned figure and 97.7% compared to the revised plan through bthe normative act. Low performance in gross terms of tax revenues, under the conditions of increased VAT refund stock had to be accompanied by a cut in expenditures, in order to keep the deficit below 2% of GDP, an action that has not been taken.

From our audits, we have observed that the principle of recording expenditures at the moment of their occurrence does not generally apply. Instead they are recorded at the moment of payment, not reflecting the realistic state of expenditure and budget deficit, according to the consolidated fiscal indicators of the Budget of the State. We found 23,701 cases with a total value of 29.1 billion ALL of invoices submitted by public entities to the Treasury outside the 30 day deadline of their occurrence. Thus, there is no complete information on actual and unpaid expenditures and investments of the State Budget. As reported by the Ministry of Finance and Economy, the budget deficit for 2017 was foreseen at ALL 31,200 million and was realized at ALL 30,919 million or realized at 99.1%. The reported deficit results to be as much as 1.99% of GDP, which in the formal aspect results within the legal limit of 2% of GDP.

We have observed that the Budget deficit level would have been at least 3.54% of GDP, if the Government would have reported in its fiscal indicators as expenditures of the period the arrears created during 2017 and paid in the first seven months of 2018 (ALL 11.5 billion), the increase of VAT refunds liability during 2017 (ALL 7.2 billion) and some foreign-financed expenditures in 2017.

Increase of arrears and irresponsibility of state structures

The arrears continue to be a problem for public finances. A considerable part of the annual budget goes to pay the arrears of past years by not generating real budget growth, but payment for services and benefits that have been realized in previous

budget years. The ALSAI auditors found 6.857 cases of payment of overdue invoices and liabilities amounting to ALL 8.7 billion. Meanwhile, the SAI looked at payments made during the first seven months of 2018 in the chapter of capital expenditures. They show that the payments related to the bills inherited from 2017 are in the amount of All 11.5 billion, indicating that during 2017 the arrears have increased. It should be noted that not all declarations of overdue bills by institutions are accurate and complete. As a result, the state of arrears at the end of 2017 had to be reported at least 19 billion ALL. This figure is higher considering also other accounts and inaccuracies found on dates of invoices and bills.

Contracts concluded through the undertaking of budget commitments are carried out in several cases beyond the deadlines set forth in the Budget Law, causing the creation of arrears. Related contracts are not recorded within 3 days in the Government Financial Information System, but are recorded at the time the funds are released to be made available in the Government Financial Information System. In mplementing Article 17 of the Specific Instruction no. 26 dt. 20/11/2012 "Upon approval by the public unit implementing officer and authorizing officer, within five working days from their signature, the physical documentation as above is presented in the Albanian language (in the case of foreign-language contracts), together with the final official notice for the announcement of the bid winner, to the respective branch treasury". The SAI then analyzed and grouped the dates of the registered contracts with the dates of their entrance in the system (the Government Financial Information System), resulting in a total of 16,795 cases of ALL 62.9 billion, or 72% of all contracts registered during 2017 in violation of the set deadlines. The highest number of violations is found in the local government units: typically the Municipalities of Tirana, Durrës, the Ministry of Health, the Ministry of Interior and the Ministry of Infrastructure and Energy.

The SAI found that the process of contracting public goods and services through the procurement procedures begins without receiving the necessary confirmations regarding the availability of funds at the moment of initiation of procedure. Auditors observed that procurement order registrations in the Government Financial Information System are formal, because in over 80% of cases they are registered after the signing of the contract. So, the procurement order is registered only for the purpose of filling out the requirements that allow the set up of the contract document and respective payment. By comparing the data of the Government Financial Information System with the Public Procurement Agency data, out of 41 cases that the SAI selected for oversight, in 17 of them, the auditors found that procurements are registered in 2017 in the Public Procurement Agency

and in the Government Financial Information System, they are registered in 2018. From the audit of the procurement orders registered during the first 7 months of 2018, the SAI found that the problem of non-registration of all procurements by all institutions and of non-registration within the set deadlines, in order to confirm and freeze the available State budget funds, continues to stay there. According to the general Treasury Department, this procedure is under the Public Procurement Agency at the moment of checking the documentation for the start of procurement procedures as "it is the responsibility of the Public Procurement Agency to not accept procurements without treasury stamp".

The systems for preventing the creation of arrears and for taking commitments without the availability of State budget funds, although in place, are not efficient. Detection and measure taking systems are weak and require significant monitoring and detection power improvement. Taking measures against responsible persons is at minimal levels. In the Government Financial Information System, since April 2016 they have added columns to register the contract in full and according to the payment schedule and the approved Middle-Term Budget Project. This is a necessity for controlling and monitoring not only the actual budget but also for the purpose of planning next year's budget. Currently this control is not performed and information on the contract execution over the years is filled in casually and not on mandatory basis. From the analysis of invoices executed during 2017, the SAI found that 131 invoices in the total value of about ALL 1.4 billion have been liquidated with an expenditure order, at the same time when each invoice should be registered in the system in the relevant period, so that the expenditure is recognized in the period in which it is performed and the liability to pay arises.

From the audit of the data on the commitments, contracts and respective payments, the SAI came accross the phenomenon of registration of contracts on the same day or 1-2 days of difference in time with the registration of the first invoice. The auditors also evidenced the phenomenon of incorrect registrations in the Government Financial Information System of procurement orders and fragmented value contracts, often equal to the value of the bill to be paid, rather than the full procured sum, exceeding the control of the availability of funds. Thus, different public institutions with or without access to the Government Financial Information System, although aware of the legal deadlines for the registration of any investment document: from procurement orders to invoices, consciously they do not apply these deadlines but authorize registration with partial values equal to the invoice and not to the real contracted (procured) value of the good or the service, such as the case of the Municipality of Tirana (two contracts totaling 1.46 billion ALL) and Regional

Development Fund (a contract worth 926 million ALL). Another ascertained phenomenon is the case of partial payments of bills in order to match the available budget funds and carry the remaining obligation in the following year (thus creating an arrear). Despite frequent similar violations by public entities, the SAI finds that no information is reported on any measures taken against the authorizing officers of institutions creating creating financial commitments without budget funds, preventing the submission of bills to the Treasury and fail to comply with the deadlines for the registration of committed contracts within the legal deadline. Article 71, letter (f) and (gj) of Law No. 9936, dated 26.6.2008 "On the Management of the Budgetary System in the Republic of Albania", later amended, sets a fine to the first authorizing officer, in the amount of 1 to 3 monthly wages for late registration of contracts and to 3 to 7 wages for failure to deliver within the deadlines of expense order. Thus, the fines calculated but not set by the Internal Audit unit for any delay in submitting the bill to the Treasuryl are estimated to be at least ALL 7 billion.

Budget risk from court decisions

Domestic court verdicts and those related to verdicts from international arbitration or the European Court of Human Rights decisions, constitute a real risk for funding needs of our State budget, as a result of poor data available and lack of information exchange between relevant State structures. Court decisions on bringing back to work public employees unfairly earlier dismissed, continue to create negative effects on the State budget (over 2 billion ALL each year), as the State budget has to pay back to the dismissed employee the salaries of months and years when he or she was unable to work due to the unfair dismissal. The situation is aggravated, as institutions do not take appropriate measures to accommodate the dissmissed employees that have won the Court trial, despite the vacancies they have, allowing the accumulation of salaries payable to court winners for each job position. The SAI has determined that the final court decisions are not reported and not declared as an expense from audited entities, in violation of Article 61 of Law No. 9936, dated 26.06.2008 "On the Management of the Budgetary System in the Republic of Albania", later amended. This creates the conditions for the accrual of interest payments as a result of the delay in their settlement, the underestimation of the expenditures of the year and the deficit of the budget year, the payment of execution fees as a result of the non-execution of the Court decisions and the breaking of the settlement decisions and selectivity in the selection of payment decisions (disrespecting the FIFO rule). In many institutions, the auditors observed that there is no database of court decisions. This way, the SAI could not report the

effect of the due paymeths as a result of court decisions that have become final. The effect of payments made by the State Budget for 2017 for unfair dismissal of employees through operating expenses accounts is estimated at about ALL 2 billion and for other judicial decisions to about ALL 1 billion.

For court decisions with object privatization issues, the SAI found no information about State obligations, since the audit at the Ministry of Finance and Economy found that there is no database of these decisions and the information was missing. Likewise, the audit on court's decisions from the European Court of Human Rights found that court decisions approved for payment from 2016 resulted in unincorporated accounts of the Ministry of Finance and Economy's liabilities for around 500 million ALL. For court decisions that are not authorized for payment, the SAI is unable to evaluate the effect, as they are not registered in a court case file or in State accounts. The auditors highlight the importance of the timely implementation of court decisions and their introduction into the budget execution process, taking into account the potential effect in the coming years in the form of overdue liabilities and the full handling of accountability with regard to decisionmaking the financial cost of public servants, in line with the ongoing demand for the drafting and adoption of the law "On Material Responsibility of the Public Servant". This is because it has been established that in all subjects that execute court's decisions there is no liability in relation to the obligations deriving from them, contrary to the requirements of the Standard Budget Implementation Guideline, which requires the issuance of responsibilities by the executives of institutions for every case of court's decision.

Lack of regulatory framework for public financial reporting

The SAI, for five consecutive years, has pointed out that the framework for public finance accounting and financial reporting is incomplete already for years, thus affecting the reliability, completeness and transparency of the financial statements. Regarding public accounting standards in the Public Finance Management Strategy 2014-2020, it states that: "The purpose of the standards is to improve the quality of overall financial reporting by public sector institutions, leading to more informed assessments of Government's decisions on allocation of resources, thus increasing transparency and accountability". Although the strategy's timeframe is by 2020, the SAI has concluded that the progress made in drafting the legal basis and in preparing the consolidated financial statements of the State is not sufficient. Therefore, it is very difficult to achieve the objectives in this area, in consideration of the current financial reporting situation. In order to test the progress made as

well as the reorganization of the ministries, the SAI performed a pilot audit, assisted by experts from the Polish SAI(the NIK), on the financial statements of the Ministry of Finance and Economy apparatus. The SAI has identified several material deviations in the financial statements of the Ministry of Finance and Economy which resulted in giving an adverse opinion, as the financial statements did not present the situation and financial performance for 2017. The process of reorganization of ministries has brought about changes with the establishment of the Ministry of Finance Finance and Economy, Ministry of Health and Social Welfare, Ministry of Tourism and Environment, Ministry of Infrastructure and Energy and Ministry of European Affairs and Foreign Affairs. The auditors concluded that the process of consolidation of the financial statements and budget was carried out only by the Ministry of Infrastructure and Energy, which was formed by the union of the former Ministry of Energy and Industry, the former Ministry of Urban Development and The Ministry of Transport and Infrastructure as well as the Ministry of Tourism and the Environment.

Public Debt and its GDP ratio

The concentration of public debt towards foreign borrowing has led to increased exposure to interest rate risk. Cash flow (money liquidity) management is presented with significant weaknesses, based on a methodology that provides limited and unconfigured information through major spending and revenue collection institutions. Coordination between debt and Cash flow (liquidity) structures is weak, focusing only on monitoring payments rather than a proper management of incoming and outgoing flows of money.

The public debt ratio as a percentage of Gross Domestic Product (GDP) is still far from mid-term targets for its minimization, causing long-term implications for debt repayment and service. The public debt stock reported for 2017 is undervalued, based on compliance with legal requirements for its reporting and respect of international financial reporting standards and those related to public debt reporting. The auditors found that by the end of 2017, according to declarations from State budget entities, reported by the Ministry of Finance and Economy, accrued liabilities amounting to All 16 billion and according to the SAI, the value of arrears has resulted in the amount not less than 19 billion ALL. The amount of arrears, as an outdated expense, is not reported in the table of fiscal indicators, which would bring the current year deficit above 2% of GDP. Instead it was reported as an expense of future periods. If these liabilities are taken into account, the reported public debt stock by ALL 1.088 billion would be around ALL 1,104

billion, which would account the public debt for more than 71% of GDP. If we consider the repayment of the VAT refund stock in the value of ALL 11 billion (treated in its own section in this Report), the public debt would give an indicator at the level of 72% of GDP. In the strategy "On Public Financial Management 2014-2020", the target of achieving public debt at the level of 65.5% of GDP was set at the end of 2017. The SAI notes that since the drafting of the strategy the level of public debt has fluctuated around the 70- 74% of GDP.

Lending and budget support to the energy sector and water supply is still one of the problems that threatens the State Budget by forcing transfers as a result of poor performance of state-owned sector companies. ALSAI has observed the creation of new liabilities in these sector, in the amount of ALL 5.391 million from State companies under the sub-loan agreements during 2017, as a result of non-payment of the respective obligations. The amount of liabilities of these State owned companies, beneficiaries of sub-loan programs had at the beginning of the year was ALL 11,352 million, while at the end of the year it jumped at ALL 16,924 million, with an increase of 50% within 2017. The State guarantees during 2017 pose also an increased risk in terms of their management and the aggravated financial situation that the State companies in these sectors mainly face. For 2017, the stock of liabilities related to the State guarantees that the beneficiary entities have towards the State has increased from ALL 5,722 million to ALL 8.552 million, with an annual growth of ALL 2.831 million or 49.5%.

During 2017, the energy sector has benefited from the amnesty of tax liabilities in the amount of ALL 9.6 billion, which has contributed to the maintenance of a stable total government debt ratio. Meanwhile, stripped from the effect of amnesty, the sector's liabilities to the State budget have increased by about All 8.2 billion during the year. By the end of 2017, the total liabilities of this sector were estimated at ALL 29.3 billion. By the end of 2017, water supply obligations to the State weare in the amount of All 6.97 billion, an increase of 14% compared to the previous year. The SAI concludes that the measures taken to resolve the created situation are inadequate and the credit risk of the institutions in these sectors is high. The stock of obligations that the beneficiary entities (especially the energy and water supply companies) have towards the State in respect of sub-loans and guarantees will continue to grow, if it is not matched by appropriate financial reforms in both sectors.

Concessions and public finances

The SAI has found that concessions/PPPs (public-private partnerships) are not integrated into the public investment management process, as there is no clear

strategy for using these instruments to finance the needs for goods and services. In many cases, the PPP process is initiated by the private sector (through unsolicited proposals). Lack of reporting in the budgeting process as well as in the consolidated financial statements creates the conditions for violating the completeness, accuracy and transparency of the financial information regarding these projects. Also, ALSAI has identified a significant lack of existing PPPs' portfolio monitoring and analysis of the possible implications of dynamic changes in macroeconomic factors and the expected impact on fiscal indicators. Referring to current data regarding 11 concession contracts, the auditors have found that factual expenditures (liabilities) from the State budget amount to ALL 6,493 million. While the projections with regard to the necessary budget support, taking into account the projects for which the Ministry of Finance and Economy has granted the necessary budgetary support and which are expected to come into force next year, will result in budget outflows (payments) amounting to ALL 18,115 million in 2021. Therefore, in the planning and implementation of debt indicators, the SAI highlights that it is important to consider these financial costs that these projects carry. Yet the Ministry of Finance and Economy does not report for them in accordance with international standards reporting that require that the liabilities from these contracts should be reported on the public debt stock. From the audit to the State Fund of Compulsary Insurance of Health Care, failure to reflect the recommendations given by ALSAI in previous audits has brought significant implications for the State budget as a consequence of the PPP Check-up Contract, when the number of citizens, beneficiaries of this freeof-charge service continues to decline year-by-year. The auditors estimate that the unjustified cost from the beginning of the contract is at ALL 182 million and the unjustified VAT payments from the beginning of the contract are in the amount of ALL 413.7 million.

Deficits of social security scheme and compulsory health care insurance

Funding from the State budget to balance the social security scheme and the compulsory health insurance scheme is presented at high levels and rises consistently through transfers, as a result of the huge deficit. The SAI estimates the compulsory health insurance scheme to be poorly managed, due to ineffective administration of available funds. The deficit of the pension branch for 2017 resulted in ALL 27,458 million, or around 817 million ALL less than the initial plan of 28,275 million ALL. This indicator increased by 317 million ALL or about 1% more, compared to 2016, where the deficit was ALL 27,141.5 million, while in relation to GDP, this indicator improved from 1.77 percent in 2016 to 1.03 percent in 2017.

The deficit of the countryside pension branch resulted to ALL 11.371.11 million. from ALL 11,593.2 million a year earlier, ie 222 million less, or 1.92% less. Although at nominal values, the financial result of this branch seems somewhat improved, the scheme's deficit is considered high, as it covers only 21.4% of the total number of beneficiaries (villagers receiving pension). By the end of 2017, income from the countryside pension branch covered only 23% of the expenses of this branch, from 22% that covered a year ago. The village scheme, although with a relatively low contribution to income (5%), is noted to have a relatively significant share of the total deficit of 41%. For the year 2017, the deficit of the cities' pension branch is ALL 16,087 million, from ALL 15,548 million that was a year ago. Therefore, this year the deficit has increased for ALL 539 million, or 3% more than in 2016. From the audit to the Compulsory Health Insurance Fund, the SAI has identified deficiencies and irregularities in the decision-making of this institution's management, in human resources management, in the management of drug reimbursement funds, in the monitoring of contracts in the provision of health services, in the implementation of laws and Council of Ministers' decrees related to the functional duties of Fund employees. The auditors have evidenced the weakening of control systems during 2017 in all aspects of the functioning of this institution, which has had negative effects on the State budget in the amount of 3,865 million ALL.

II.3. FINANCIAL AUDIT

Based on the annual audit plan, for the period January - December 2018, ALSAI carried out 29 financial audits, of which 13 are audits where the SAI gave unqualified opinion to the entities of Ministry of Culture, Trauma University Hospital, Albanian Railways holding, Institute of Public Health, High Inspectorate of Declaration and Audit of Assets and Conflicts of Interest, General Directorate of Prisons, Ministry of Environment and Tourism, Constitutional Court, Tirana Administrative Court, Aleksandër Moisiu University of Durrës, Academy of Sciences, Vora Municipality, Shkodra district Council and Tirana district Council. ALSAI gave a qualified opinion for the entities of Social Insurance Institute, Rinas Customs Branch, Vlora Customs Branch, Fan S.Noli University of Korça, Lushnja Municipality, Fier Municipality, Naval Port of Vlora, Ministry of Infrastructure and Energy, Shijak Municipality, General Directorate of Local Taxes and Tariffs in the Municipality of Tirana, Municipality of Selenica, Water Supply and Sanitation Service of Saranda and Water Supply and Sanitation Service of Tirana. In the Ministry of Finance and Economy, the audit team has reached the conclusion of an Adverse Opinion.

Type of opinion	Entities
Unqualified opinion	Ministry of Culture, Trauma University Hospital, Albanian Railways holding, Institute of Public Health, High Inspectorate of Declaration and Audit of Assets and Conflicts of Interest, General Directorate of Prisons, Ministry of Environment and Tourism, Constitutional Court, Tirana Administrative Court, Aleksandër Moisiu University of Durrës, Academy of Sciences, Vora Municipality, Shkodra district Council and Tirana district Council.
Qualified opinion	Social Insurance Institute, Rinas Customs Branch, Vlora Customs Branch, Fan S.Noli University of Korça, Lushnja Municipality, Fier Municipality, Naval Port of Vlora, Ministry of Infrastructure and Energy, Shijak Municipality, General Directorate of Local Taxes and Tariffs in the Municipality of Tirana, Municipality of Selenica, Water Supply and Sanitation Service of Saranda and Water Supply and Sanitation Service of Tirana.
Adverse opinion	Ministry of Finance and Economy.

Below we are only stating the adverse opinion given in the audit of the apparatus of the Ministry of Finance and Economy.

Audit at the Ministry of Finance and Economy

We have audited the financial statements of the Ministry of Finance and Economy apparatus, which include the statement of financial position, statement of financial performance, statement of movement of principal funds, as well as the annexes to the financial statements that contain a presentation of accounting methods or other explanatory material.

In our opinion, the financial statements do not give a true and fair view of the financial position of the Ministry of Finance and Economy at 31.12.2017 and its financial performance, referred to the Law "On Accounting and Financial Statements" and the Instruction of the Ministry of Finance Finance "On the procedures for preparation and closure of financial statements for central

institutions, local government units, their subordination units and units for implementation of projects and agreements with foreign donors".

The basis for the adverse opinion on financial reporting

Referring to Council of Ministers' Decree no. 503 dated 13.09.2017 "On defining the areas of responsibility of the Ministry of Finance and Economy", the restructured unit should include from 01.12.2017 some of the programs of the former Ministry of Economic Development, Tourism, Trade and Entrepreneurship, the former Ministry of Social Welfare and the former Ministry of Urban Development, including control of assets, liabilities, as well as associated income and expenses with these specific programs. The non-reflection of the absorption of part of the activity of the institutions which passed under responsibility of the Ministry of Finance and Economy caused the financial statements of the Ministry of Finance and Economy apparatus to be incomplete and underestimated, with widespread and material deviations and abnormalities. The effects of the failure to include them in the financial statements rely partially on the assets, liabilities and income and are fully related to the expenditures and investments of the period:

Investments in the process realized in 2017 by the above-mentioned former ministries according to the absorbed programs, not included in the financial statements of the Ministry of Finance and Economy apparatus and resulting from the cash movement in the treasury are in the amount of 710 million ALL, of which 74 million ALL for investments in intangible assets and 637 million ALL for investments in tangible fixed assets.

The SAI found also operational expenses not included in the performance statement, in the amount of 303 million ALL, out of which 260 million ALL of the former Ministry of Economic Development, Tourism, Trade operating expenses in the absorbed programs and 42 million ALL of the operating expenses of the former Ministry of Social Welfare for the part of the software's absorbed programs.

The audit identified the problem of accounting for cash-based expenditures, in the conditions when legal requirements require accounting on an accrual basis. At the same time, the underlying deficiencies in the internal control system have led to unregistered obligations for court decisions, investment bills and operating expenditure bills, which, taking into account the level of materiality and the wide scale of their spread, make the financial statements incorrect. From the audit of selected samples, the auditors revealed received and unregistered invoices in the region of ALL 701 million.

During 2017, the account of the Ministry of Finance and Economy, "The Sale of Sustainable Trustee Assets", accounted for 407 million ALL from the sale of state property. The audit found that for sold assets that are not owned by the Ministry of Finance and Economy apparatus, these assets were not accounted for in the group of assets held for sale, denaturing the financial transaction and thereby creating anomalies in the financial statements. Because of the inaccuracy in the accounting evidence, the Ministry of Finance and Economy financial statements do not fairly reflect the result (profit or loss) from the sale of these assets subject to privatization procedures, as defined by the financial reporting requirements.

The audit found erroneous classifications at the value of ALL 275 million. Thus: from the Ministry of Finance and Economy apparatus, a payment of ALL 155 million in favor of the beneficiary Black Sea Trade and Development Bank was made with the description "Payment for Black Sea Bank for increase of the shares of the Republic of Albania". This payment was reported in account 605 "Current Transfers abroad", while referring to the nature of the transaction it should have been classified into the account of long-term financial assets in the form of equity participation. The effect of erroneous accounting over the years of this transaction in the amount of 700 million ALL has resulted in financial long-term assets not reflected in the financial statement.

In the income generated this year, the apparatus has also registered and accounted for the account 778/100 "Revenues from previous year", in the amount of ALL 20.5 million, which is not the value of the income, but a "loan" given by the Ministry of Finance for EU IPA funds in June 2016, which was due to get cleared in December of this year. The performance statement reported as a transfer versus third parties the amount of ALL 84.5 million, a payment in favor of the National Fund for IPA funds for short-term funding of the project "Construction of the sewerage system in Vlora, Phase II". This transfer is a loan given on the condition to have it cleared (returned) within a specified period of time. Its reporting is not made as a right to cash back the loan but as an expense of the period in the form of a transfer.

The performance statement reported as an expense in the form of transfers outside the system "For the payment of international arbitration for the defense of the Republic of Albania in the arbitration process ICSID CAZE NO.ARB/17/6", amounting to 125,000 Euro as a prepaid administrative cost of arbitration, converted to Albanian ALL in the amount of ALL 14 million. Prepayment accounts are part of the statement of financial position and do not pertain to the financial result of the period, as they are costs that have not yet occurred and will be matured at the end of the process (which marks the receipt of the service).

Incorrect calculation of the value of court expenses. The SAI found erroneous calculation of delay interests for court decisions in the amount of ALL 25.8 million ALL (execution of a court decision related to privatization).

Reorganization of Ministries

During 2017, the Government initiated the process of reorganizing several ministries and transferring some budget programs between public institutions. The process of reorganization brought about changes with the creation of the Ministry of Finance and Economy, the Ministry of Health and Social Welfare, the Ministry of Tourism and Environment, the Ministry of Infrastructure and Energy and the Ministry of European Affairs and Foreign Affairs. The ALSAI, based on the problems identified in this process at the Ministry of Finance and Economy and in order to evaluate, identify and address the problems in time by the reorganized institutions, undertook thematic audits in the Ministry of Health and Social Welfare, Ministry of Infrastructure and Energy, Ministry of Tourism and the Environment and the Albanian Development Fund.

From the thematic audit "On reflection on the accounting and financial statements of the activity of the budget programs that, in implementing the respective Council of Ministers' decisions passed under the responsibility of the Ministry of Health and Social Welfare", the SAI found that the financial statements of the Ministry of Health and Social Welfare did not reflect the activity of the former Ministry of Social Welfare and Youth apparatus, which in 2017, pursuant to the Council of Ministers' Decision no. 508, dated 13.09.2017 and the Normative Act no. 03, dated 06.11.2017 "On some amendments and additions to law no. 130/2016, "On the Budget of 2017", passed to the State responsibility of the Ministry of Health and Social Welfare, which laid the ground for the SAI to give an adverse opinion. Referring to the Government Financial Information System data and the financial statements submitted by the former Ministry of Social Protection and Youth for 2016, the assets of the former Ministry of Social Protection and Youth apparatus at the close of its activity are ALL 1,589,463,000, an amount which is not reflected in the consolidated financial statements of the Ministry of Health and Social Welfare.

The thematic audit "On reflection on the accounting and financial statements of the activity of the budget programs that, in implementing the respective Council of Ministers' decisions passed under the responsibility of the Ministry of Infrastructure and Energy" found that in the financial statements of the Ministry of Infrastructure and Energy, the activities of the former Ministry of Urban Development, the former Ministry of Energy and Industry and the former Ministry of Transport and

Infrastructure were reflected in activities that during 2017, pursuant to the Council of Ministers' Decision no. 504, dated 13.09.2017, passed to the State responsibility of the Ministry of Infrastructure and Energy. The auditors observed that in the financial statements of the Ministry of Infrastructure and Energy for 2017 there was no addition of assets transferred from the former Ministry of Environment at the amount of ALL 2,141 million for two projects that, referred to the Normative Act no. 02, dated 06.11.2017, passed to the State responsibility of the Ministry of Infrastructure and Energy.

The thematic audit " On reflection on the accounting and financial statements of the activity of the budget programs that, in implementing the respective Council of Ministers' decisions passed under the responsibility of the Ministry of Tourism and Environment" concluded that the financial statements of the Ministry of Tourism and Environment reflected only partially the activity of the former Ministry of Economic Development, Trade and Entrepreneurship, which during 2017, pursuant to the Council of Ministers' Decision no. 509, dated 13.09.2017, passed to the State responsibility of the Ministry of Tourism and the Environment. The audit found that in the financial statements of the Ministry of Tourism and Environment, for 2017, the assets decrease in the amount of ALL 2,141 million was reflected for the two investment projects with internal funding, referring to the Normative Act no. 03, dated 06.11.2017, which passed in the administration of the Ministry of Infrastructure and Energy. Yet the documentation for the free of charge transfer of these assets is not in accordance with the procedures set out in Instruction no. 30, dated 27.12.2011 "On the management of assets in public sector entities".

The thematic audit "On reflection on the accounting and financial statements of the activity of the budget programs that, in implementing the respective Council of Ministers' decisions passed under the responsibility of the Albanian Development Fund" shoqed that the Fund absorbed a program of former Ministry of Urban Development which was accompanied by transferring its monitoring functions. The transferred Program "Local and Regional Infrastructure" is executed by the local government units and reporting on the assets created by this program is realized by these units (municipalities). In this way, the change of the monitoring unit of the program was not reflected in the financial statements of the Fund.

From the financial audits carried out for 2018 in the local government units (municipalities), the SAI gave qualified opinion for 5 entities, namely: Municipality of Shijak, Lushnja, Fier, Selenica and the General Directorate of Local Taxes and Tariffs of Tirana Municipality. Due to the importance of Tirana Municipality, we

have highlighted and are presenting below the findings from the financial audit at the General Directorate of Local Taxes and Tariffs of Tirana Municipality, also due to the fact that the problematic issues we found there are replicated to a certain extent at the financial audits in the other municipalities as well.

General Directorate of Local Taxes and Tariffs, Municipality of Tirana

The ALSAI opinion from the audit of the activity of the General Directorate of Local Taxes and Tariffs of the Municipality of Tirana for the year from January 1, 2017 to December 31, 2017 is that, "regarding the degree of implementation by the Drectorate of the standards on financial reporting, they generally give a true and fair view of the financial position and of the financial performance and cash flows for the Directorate on 31.12.2017, excluding some material but not widespread anomalies that are the basis for providing a qualified opinion²".

The SAI observed irregularities in the administration and realization of revenues, thus:

The audit concluded that the fines imposed by the Municipal Police and the Consumer Protection Agency were left out of accounting, amounting to ALL 526,246,000, of which ALL 281,754 in 2016 and ALL 244 million in 2017, which is accompanied by improper planning and reporting of annual revenues collected. The auditors found that infrastructure impact tax was not monitored and collected from informal constructions in the amount of ALL 300 million. An incomplete assessment of the agricultural land tax is noticed, not charging the surface of agricultural land in the area of 12 288 ha, accompanied by a lack of income in the value of ALL 64,511,000.

There is no continuous and efficient management of tax debt. In the financial statements of 2017, the auditors have acertained the existence of a high number of tax liabilities (debt) in the amount of ALL 7,740 million, also after the effects of fiscal amnesty. It must be emphasized that the compliance of the amnesty's application for the deletion/cancellation of liabilities has not been the focus of this audit. The effect of the third stage of fiscal amnesty in the amount of ALL 80 million was not presented in the financial statements.

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²: The auditor should express a qualified opinion:

^{1.} When the auditor has received sufficient and appropriate audit evidence and concludes that the anomalies or inconsistencies of cases, individually or jointly, are material, but not widespread, in the annual accounts or transactions in question; or

^{2.} when the auditor is unable to obtain sufficient and adequate audit evidence to base the outlook, and the potential effects on the annual accounts or transactions of this impossibility are material but not widespread

In the "Different Creditors" account, unmatched receipts for the amount of ALL 16 million were accounted for. Thus, backlog liabilities from previous year's budget management have been classified as expenses for future periods by denaturing the respective balance sheet item of the "Suppliers and related accounts".

II.4. REGULATORY (COMPLIANCE) AUDITS

II.4.1 Audits conducted in Central State Institutions

Based on the annual audit plan, for the period January - December 2018, the SAI has performed 42 compliance audits, out of which 11 are audits giving unqualified opinions to the entities of the National Fund Directorate, Institute of Public Health, Konispol Municipality etc. In the entities of State Advocacy, National Agency of Natural Resources, Albcontrol, Ministry of Interior, Municipality of Vlora, etc., the SAI gave a qualified opinion, whereas in the Ministry of Finance and Economy (Treasury General Directorate and General Directorate of Harmonization of the Public Financial Internal Control), the General Tax Department, Compulsory Health Care Insurance Fund, etc., the audit team has reached the conclusion of an adverse opinion.

Below we are presenting the audits where we gave an adverse opinion:

Audit at the Ministry of Finance and Economy

During 2018, the SAI has audited the compliance of the Ministry of Finance and Economy's activity with applicable laws and regulations, including procurement procedures and annual budget expenditures/investments, as well as other legal and regulatory framework for the use of financial resources by this institution.

The ALSAI has given an adverse opinion on compliance for this entity, since the activity carried out by the Ministry of Finance and Economy apparatus for budget and procurement implementation during 2017 has not been fully in line with the legal framework in power, with the laws on public procurement procedures and respective additional regulations.

The Ministry of Finance and Economy managers have undertaken budgetary commitments without having available budgetary funds and in violation of the deadlines set out in the Budget Law with respect to the project of capital investment with internal financing "Network Infrastructure of the Ministry of Finance and Economy and Treasury Branches" at the value of ALL 74 million and the

project of capital investment with internal financing "Technical Assistance for Public Finance Management and Debt" in the amount of ALL 100 million.

The proceeds from privatization in the amount of ALL 407 million for 2017 are used in the amount of ALL 90 million or 22% for settlement of court decisions, while legal provisions address their use for reducing public debt and making investments. The SAI found that the amount of ALL 145 million, used with the budget of 2017, has repaid unrecorded judicial invoices/decisions as expenditures of previous years, which account for 40% of the executed annual budget of operating funds in the account no. 602.

The SAI has ascertained that for three professional schools in the construction process (additional assets as a result of the absorption of the program by former Ministry of Social Protection and Youth), the invoices were not accounted for and registered within the fiscal year for ALL 90 million. The auditors found also unrecorded expenditures that were not accounted for and not paid in time, by creating this way arrears in the amount of ALL 4 million (operating expenses invoice). There have been cases of group payments of bills (up to 5 bills with 1 order of expense) of the supplier by manipulating the internal control system by placing as an invoice date in the Government Financial Information System, the date of the last invoice of the supplier in the amount of ALL 3 million.

The SAI concluded that the funds for projects with foreign financing are presented with a misstatement in the reporting to the State budget effect (error noted since in the planning phase up to reporting) in the amount of **ALL 106 million**, reporting them as investment the funds used for training and consultancy. Expenditures on tourism support projects such as transport, diet, accomodation or cunsultancy are planned and reported as investments in tourism, a misstatement of **ALL 7.9 million**. Projects foreseen to be realized with the budget funds of internal capital investments in 2018, were realized with funds of the operating budget of 2017, an observed deviation of **ALL 13 million**.

The investments in the form of equity participation in 2017, in the amount of **ALL 156 million** are stated as an expense of the accounting period by not recording the value invested by the Albanian State in shares of international institutions as a shareholder without significant influence. Lending to the National Fund for IPA funds is not reported as a loan to third parties but as a transfer to third parties in the performance statement in the amount of **ALL 84.5 million**. Revenues from the Ministry of Finance and Economy are overstated by the casshing made for a loan granted to the National Fund (structure responsible for administering IPA funds) amounting to **ALL 20.6 million**.

The Ministry of Finance and Economy has carried out incorrect calculations and overpaid interest for delays in court decisions in the amount of **ALL 25.8 million** (execution of a court decision related to privatization). Also prepayments for the development of court proceedings of the Albanian State are reported as operating expenses, by missclassifying their reporting in the amount of **ALL 14 million**.

Audit at the General Tax Department

From the audit on financial compliance and regularity exercised at the General Tax Department (GTD), as to the extent to which the rules, laws and regulations, policies, established codes or terms and conditions on which the activity is performed are applicable (compliance audit criteria), for 2017, the audit team has dientified deficiencies and irregularities in the implementation of the tax revenue plan, the functioning of the GTD main departments, break of Value Added Tax (VAT) refund order and deadlines, in the tax audit function from regional tax departments, in filling job vacancies, in enforcing court decisions on return of personnel unfairly fired from job, in delegation of competencies, in amended regulatory acts, as well as in implementing laws and Council of Ministers' decisions related to the functional duties of GDT employees.

Revenues from taxes referring to the GTD data were realized at 131,869 million ALL or 93% compared to the final plan. Income from Value Added Tax (VAT) (gross) represents a realization of 88.5% compared to the final plan and 97.7% compared to the initial plan. From the audit in the GDT, problems were identified in the assessment of inconsistent situations in the final statement of Profit Tax (2017) for the entities that have transacted during the year. Only for a company that is in the top list of debtors, the auditors found a hidden debt and at the same time a missed income from the Profit Tax for 2017 in the amount of 5.72 billion ALL (some 46 million euro).

The SAI evidenced shortcomings in the supervision of the tax debt in the Regional Directorates, the information available at the taxpayer level, the measures taken, the lack of inspections in the regional directorates with the main weight. The value of the tax debt reported by the GDT by the end of 2017 amounts to 95.5 billion ALL (some 782 million euro). It is noted that the reported debt declined by ALL 51.6 billion compared to the previous year, due to the effects of the Fiscal Amnisty Law no. 33/2017 in the amount of All 49.8 billion, termination of excise tax debt with the justification of the "transferred" debt to the GTD at ALL 12.3 billion, and the increase of the tax debt during the year 2017 by about ALL 10.5 billion. The increase in tax debt as well as the process the GTD followed to collect the debt indicate the

shortcomings in respecting the right procedures, by not fulfilling in a timely and efficient manner all the steps and mechanisms defined in the tax legislation to ensure debt collection.

The fiscal amnesty process has resulted in administrative problems, as a result of which the debt registers (accounts) at the end of 2017 did not include ALL 12.3 billion of liabilities. It is noted that during the execution of the fiscal amnesty, the excise duties on 49 taxpayers in the amount of ALL 12.3 billion were removed from the debt registers of the General Tax Department, out of which only the company "ARMO"'s debt amounted to ALL 10.7 billion (this includes obligations, penalties and interest payments), without the process of transferring it to the GTD, and making this debt worth to remain outside State registers and thus, jeopardizing its legitimate interests.

The auditors have noticed the failure to implement court decisions on return of unfairly fired employees in their job places, with significant financial implication for the state budget, vacant job places over a long period of time, mainly in important sectors, a two standard treatment of special recruitment criteria for GTD, lack of exercise of controls from the central unit to other units of the tax investigation directorate, disproportionate division of labor on the issues dealt with by the internal audit and control inspectors, problems related to the definition of technical specifications in procurement procedures, high number of tax inspections not carried out of regional directorates, control procedures carried out off time and often accompanied by procedural violations, lack of an approved VAT refund register, disrespect of deadlines and order of VAT refund, as well as creation of "financial pockets" in relation to approved but not yet liquidated reimbursements, are all issues that present the need for one a more cautious approach by the GDT especially in the VAT refund scheme.

During 2017, a total of ALL 13,774 million (more than 112 million euro) was reimbursed for VAT refunds. From the data analysis, the SAI has concluded that there have remained without liquidation until 31.12.2017, approved VAT refund applications at the value of ALL 11,422 million (stock, or some 93 million euro)), which constitutes arrears for the State budget. Although this amount has met the legal conditions for reimbursement and is certified by the tax administration, it does not appear to be recorded in the GDT accounts as a liability. This value represents the rights of the beneficiary entities and the obligations of the GDT towards them, but is not accounted as a de facto "liability" for GDT on 31.12.2017. It unjustifiably stands suspended on this date, altering the financial situation of the GTD, but also of the taxpayer at the same time.

According to the electronic data of the GDT generated from the computer system Cats and processed by the audit team, the SAI found in 586 cases out of 901 dwelt requests that the refund deadlines were exceeded, for a reimbursement value of ALL 11.171 million. This value represents 65% of the refund claims or about 50% of the total reimbursement value for 2017. The time for reimbursement goes up to 405 days. If we are referring to the liquidations (refund payments) carried out during 2017, it results that in almost all cases of payments of ALL 13,774 million, there is a break in the reimbursement order not only from the legal deadlines, but also from the date of the refund approval, after the fulfillment of all procedural requirements of the tax administration.

In the SAI's view, the process of treatment by the tax administration of cases of VAT reimbursement for concession contracts in the energy field (hydro power stations) present a high risk. The auditors have found that the tax administration certifies and pays VAT refund for works that exceed the values contracted with the Albanian State and which are not approved by the competent authorities under the contractual obligations and also under the respective legislation. For one of large taxpayers, the GDT has recognized the VAT liabilty for the total investment, although it is not yet completed and has already exceeded the projected cost of investment by two times! This extra cost is not to be covered by an additional agreement with the Albanian State, (it was realized after the fact and beyond the audit period). In our judgment as external auditors, it constitutes a dangerous precedent, as in the concrete case, but also in similar cases where the value of the concession investments is certified before the Albanian State through its representatives approves these additional investment values in advance through a Council of Ministers' Decision. For this reason, the value of VAT which is presented under conditions of lack of legality goes to 50% of the total value of the VAT credited to this taxpayer, therefore calculated at the amount of 2,054 million ALL, or 18.8 million euro).

From the liquidation (payments) conducted through the bank, the GTD has paid 242 fired employees, who unjustly were removed from their jobs in previous years and who have obtained court decisions to return to work, in the amount of ALL 198 million (or 1.6 million euro), as well as payments for execution of court decisions in the amount of 9 million ALL. So, the sum of 208,474,864 ALL has unduly burdened the state budget. The GTD, in December 2017 had 185 vacancies in its structure. The management did not act to fill the structure with employees who have obtained the court decisions to return in their job positions. On the contrary, it hired new employees.

From the audit, we found that the GTD had no methodology based on legal and administrative acts for distributing the annual plan and for its changes to the regional directorates. The auditors noticed shortcomings in the concrete actions for the harmonization of legal acts with Council of Ministers' decreees, in the publication in the official bulletin of regulatory acts and in the effective, economic and efficient use of public funds.

In our judgment as external auditors, the found irregularities and deficiencies, which are material and prevalent in some of the key sectors of this administration, clearly indicate that the GDT does not guarantee compliance with laws and with Council of Ministers' decreees that regulate the activity of the institution as a whole. As a conclusion, based on the professional judgment of the independent State auditor, from the audit of financial compliance and regularity conducted in the entity General Tax Department, we consider that the found deviations from the legal and regulatory framework in force (criteria) are material and widespread, therefore we give *an adverse opinion of compliance*.

Audit at the Compulsory Health Insurance Fund

From the compliance audit conducted in the Compulsary Health Insurance Fund's General Directorate, as far as the degree of enforceability of the rules, laws, and regulations, policies, codes established or the terms and conditions on which the activity is performed (compliance audit criteria), the audit team found deficiencies and irregularities identified in the decision-making of the management of this institution, in human resource management, in the administration of funds for reimbursement of medicines, in the monitoring of contracts in the provision of health services, but also in the implementation of laws and with Council of Ministers' decreees related to the functional duties of the employees of the Fund.

The auditors have evidenced the weakening of control systems during 2017, in all aspects of the functioning of this institution. The most risky area at the discretion of the external auditor continues to be the reimbursement of drugs, an expense that occupies a considerable level of the budget of this institution. The SAI has observed that the lack of clear and good rules laid down in budget planning, non-compliance with the refund costs by beneficiary categories of reimbursable drugs, inadequate analysis in cases of overcrowding and failure to carry out inspections by the technical directorates has led to a galloping increase in this spending from the Fund. In this regard, we failed to create reasonable doubt that the expenditure was realized in full compliance with the regulatory framework.

We noted the lack of a methodology based on legal and administrative acts for the compilation of the list of reimbursable drugs. Control activities are almost non-existent, both in terms of controlling the reimbursable medicaments scheme and the primary care service. There is no cooperation of the Fund's structures with tax authorities and other law enforcement agencies for the prevention of fiscal evasion and illegal and abusive activities in the implementation of the compulsory health care scheme.

Irregularities are also noted in recruitment procedures and in respect of legal and contractual provisions for dismissal of employees from work, documentation and archiving of internal evidences, drafting and implementation of contracts with contracted private health service providers, as well as in the effective, economic and efficient use of public funds.

The value of irregularities with negative effects for the state budget ascertained by the auditing of the activity of this entity for 2017 is estimated at ALL 3,865 million (or 31.6 million euro).

In our judgment as external auditors, as a result of the identified irregularities and deficiencies, which are material, the Compulsary Health Insurance Fund does not guarantee compliance with the laws and with Council of Ministers' decreees governing the activity of the institution. As a conclusion, the evidenced deviations from the legal and regulatory framework in force (criteria) evidenced have justified the giving of *an adverse opinion of compliance* from the SAI.

Compliance and regularity audits at central Institutions

From the audits conducted during 2018, we have observed the following violations and irregularities in budget planning and implementation, internal control, revenues and procurement procedures in some of the most important institutions.

1. From the audit in **the Ministry of Industry and Energy**, we have identified problems in terms of financial compliance and regularity with the legal and regulatory framework in force. According to the auditors, the main problematic areas:

Regarding the incomes, the auditors observed the need for initiating a process of revaluation and analysis of cash accounts amounting to 487 million ALL, in terms of seniority and real possibilities for their collection, with the aim of proposing concrete measures, even administrative if judged necessary;

Concerning public procurement procedures and contract enforcement, we found several cases of lack of technical specifications or terms of reference; cases where the summary report on the correctness and quality of contract implementation was

missing; differences between the electronic bidding form in contrast with what stated in the writing; there is a lack of Procurement Unit, in the conditions when a considerable number and type of procedures have been carried out, leading to some findings on shortcomings and violations of the process itself.

Regarding the strengthening of internal controls, the audit team identified:

- the need to detect and analyze the potential risks for achieving the objectives and the definition of how this risk could be avoided or minimized.
- the need to review the organizational structure and staffing with the necessary personnel in order to meet the unit objectives and minimize the opracional risks.
 the need to supplement with internal regulations/orders, in order to guarantee the security of IT systems.
- the need for an adequate IT back-up system, coupled with a disaster recovery plan; as well as
- the need to strengthen controls on asset management by forming asset valuation commissions, in order to ensure fair and accurate information on public property.

The audit noted lack of rules to strengthen the internal controls regarding the reconciliation and reporting of outstanding liabilities for the budget year when they are created and liquidated.

2. From the audit in **the State Attorney (Advocate) Office**, the auditors identified shortcomings in terms of compliance with the applicable legal and regulatory framework in the fllowing areas:

Regarding the drafting, programming and implementation of the budget, the SAI found that the project and the estimated cost for the reconstruction of the building where the State Attorney was transferred was 27 million ALL, while it resulted that this fund was opened by Ministry of Finance and Economy as a fund for investments with the object "Reconstruction of the State Advocacy Office" at the amount of ALL 47 million or 20 million ALL more than the required final estimated cost, which constitutes freeze of public funds and failure to realize investments in other sectors of the economy.

Regarding the choice of lawyers and lawyers' studios competition procedures, two cases were found where during these proceedings, the State Advocate has acted in violation of the principle of equality by not setting the criterion "the place of activity of activity should be the same as that of the headquarters of the entity to which the representation is performed", carrying risks of mismanagement of State

funds. The auditors found that the criteria for the selection of winning companies to represent the interests of the Albanian State are of general character, leaving considerable room for subjectivism in the selection. Selection of foreign legal studios for the protection of the Albanian State interests in international arbitration on issues that do not have a particular technical character, contrary to law no. 10198, dated 10.12.2009 "On State Attorney" and the Council of Ministers' Decision no. 392, dated 08.04.2009 "On the adoption of the regulation "On State Attorney's relations with State institutions and public entities, the role of State Attorney in trial, as well as special procedural norms" has resulted in artificial increase of budget expenditures in the amount of 3.74 million euro.

Regarding the incomes, the SAI observed that the conclusion of contracts with two foreign legal studios at the value of 2,340,000 euro, contrary to law no. 8438, dated 28.12.1998 "On Income Tax", did not foresee the payment of income tax at the source at the amount of 15% of the realized income, therefore some 351,000 Euro, resulting in unfair advantage and tax evasion for budget revenues.

The relevant State institutions have not taken concrete steps to collect the bid warranty in the amount of 85 million euro in the procedures for the failed privatization of State company "Albpetrol" holding, causing missing incomes in the State budget.

The SAI observed that the State Attorney has lost some state court cases at the national level with Albanian courts, in the disadvantage of the Albanian State, caused by shortcomings and weaknesses of the decisions and legal and administrative acts of the public administration institutions, which have led to the aggravation of the budget expenditures, in the amount of 69 million ALL.

The level of non-effective use of funds at ALL 788 million with

3. From the audit to **the Ministry of Defense**, the SAI identified problems in terms of compliance with the applicable legal and regulatory framework, as in the following areas:

Concerning budget planning and implementation, the auditors found formal budgeting processes that violated the realization of Ministry' objectives, namely for 13 out of 20 helicopters requiring additional works did not have budget for them since 2014, causing an unfavorable state of their military and civilian readiness for use.

The ministry currently has vehicles with different typologies in a larger number than the needed funds for their maintenance, failing to maintain them.

The audit detected during the budget planning, the entity did not take into consideration the emergency of the funds for the completion of the Hangar for Maintenance of Helicopters, so the facility, for which 67 million ALL have been spent so far is not ready yet. Not only the facility has not been completed but it is also damaged because of atmospheric conditions. All this has affected the physical conditions of the helicopters planned to be accommodated there, which are currently being deployed outside.

Failure to fill in information in the budget monitoring reports, in regard to budget changes from the original plan to the final plan, at the article of expenditure level, as well as non-argumentation in cases of non-realization of investments, has made the measures foreseen to achieve the objectives not realistic but purely formal.

Regarding the procurement procedures, the audit team found that in the military procurement, especially in those classified "secret" that are not conducted in compliance with public procurement rules (ie not through the Public Procurement Agency's electronic system, but with the "envelopes in hand" type of procedure, the competition effect is obviously negative. This is above all in gaining full value tenders, with savings of funds in these cases to be almost zero. To highlight the negative effects on the state budget that have come as a consequence of the foregoing, we analyzed the differences between the values for concrete items of goods, services and works accomplished through procedures under Law No. 9643, dated 20.11.2006 "On Public Procurement" and those realized through military and secret procedures. The costs under military procurement procedures, classified as "secret" were at least 10-20% higher or 720 million ALL more. In the light of these problems, ALSAI has promptly requested the adoption of a series of measures for legal improvements because it is precisely the legal basis that allows the implementation of procedures without competition, thus leading to significant adverse effects to the damage of the State budget.

Regarding financial management and control, the SAI found that the Ministry did not draft a strategic plan periodically to reflect the institutional strategic objectives, priorities and action plans, which are in line with the sectoral strategy. This way the objectives of the programs, the activities and projects that need to be realized are not reviewed.

The level of uses of the missing revenue amounted

4. The audit in the Ministry of Agriculture and Rural **Development** has identified a number of problems to ALL 70 million | in terms of compliance with the applicable legal and regulatory framework, as in the following areas:

Regarding the budget planning and implementation, we found that the monitoring reports lacked identification and treatment of arrears both recently inherited and newly created liabilities. The budget data do not fully comply with the treasury reporting data, due to the unjust inclusion in situations, of expenditures incurred based on out-of-budget revenues.

In relation to incomes, among other issues, the Ministry failed to cash the annual rent from various debtors, what generated a deficit of 69 million ALL.

Regarding the need to strengthen internal controls, the auditors found that in terms of land leasing management, there was a lack of a concrete land development strategy; the drafting and consequently the publication of a sectoral and agricultural development plan according to the agricultural characteristics of the area, thus undermining the transparency of the process for agricultural land development. Periodic monitoring missions were lacking and in cases where the entity developed "on the site" controls, it did not take concrete measures.

The audit observed cases where monitoring of supply contracts and payment documentation for the supplier were not done transparently and in accordance with the principles that dictate sound financial management. The auditors found cases of documenting payments, not with transparency and in opposition to the principles of sound financial management.

With respect to procurement procedures, ALSAI found cases of two standards treatment by the Bid Verification Commissions, shortcomings in the "terms of reference" and cases where the requirements for qualification during the programming processes and the implementation of procurement procedures did not provide the necessary competition to achieve desirable results in the efficient management of public funds.

The level of uses of the missing revenue amounted to ALL 80 million

5. From the audit in the Ministry of Culture, the SAI has identified problems in terms of compliance with the legal and regulatory framework in force as in the following areas:

Regarding budget planning and implementation, the SAI found that the **ALSAI 2019** 47

requirements for redistribution of funds were not in all cases accompanied by an analysis to identify the reason, expected results, related risks, possible reduction and consequences; the frequent redistribution of budget items during the year has had a negative impact on the realization of the budget plan and the projects themselves; the concentration of liquidation of expenditures at the end of the budget year, coupled with occasional changes to the cash plan, had a negative impact on the performance of budget implementation

Regarding the strengthening of internal controls in their drafting and implementation phases, the SAI found the need for the approval of tariffs for the contribution of temporary engagement in artistic projects; elimination of problems related to the regulation of the composition, powers and functioning of the Institute of Cultural Monuments, adopted by acts in conflict of interest conditions, which risk to lead to ever-weaker monitoring of the processes related to the restoration of cultural heritage objects and the implementation of controls as dictated by the legal and regulatory basis in force in order to prohibit any kind of constructional intervention in areas of cultural heritage.

In relation to procurement procedures, the auditors found that the establishment of special qualification criteria to prove the previous experience in most cases was not referred to the percentage value set by the legislator; unjust involvement of some worksheets in the estimates; wrong legal references with financial effects in the State budget; Ineffective use of funds at the value of 80 million ALL, as a result of unfair qualification of the economic operator. The SAI found that the Ministry of Culture, in response to an unsolicited bid by a private entity for renting an object near the antique city of Butrint, in order to put it into use for commercial activity, has examined and approved the project "On the establishment and operation of the multifunctional service center in the Butrint antique city". The location of this object is in the "A" area of Butrint National Park, where the first degree of protection is applied. The legal basis for renting this facility is the Instruction of the Minister of Culture no. 5110, dated 13.10.2015 "On the lease and management of cultural monuments for networking purposes". However, this instruction has no legal power, because its issuance by the Minister of Culture was done without the authorization of Law no. 9048, dated 7.4.2003, "On Cultural Heritage", with the purpose of regulating and completing the lease and renting procedure and the way of administering cultural monuments.

The level of missing revenues reached ALL 9.8 billion, the tax evasion ALL 40 million and economic damage ALL 179 million

6. From the audit in **the National Agency of Natural Resources**, the SAI has identified problems in terms of compliance with the legal and regulatory framework in force as in the following areas:

Regarding the strengthening of controls over the hydrocarbon(petroleum production) operations, the auditors found that there was a need to accurately and exhaustively determine the costs of hydrocarbons (petroleum production) in order that the contracting (licensed) companies should not include as expenditures for hydrocarbon operations any kind of service, although without ever having a connection or that does not serve the petroleum production operations. They found also that the lack of a unified tariff for minerals undermines internal controls at the stage of their design, by creating conditions to favor specific companies through differential payment of the mining rent. On the other side, the lack of information needed to be part of the monitoring report, in order to compare the exploitation volumes declared by each company with the result derived from the physical measurements, has violated the effectiveness of the controls as well as the documentation of the basic processes for verification of the accuracy of the statements of the mining companies on the performed volume of work; the revenues generated from the sale and the mining rent declared and paid in the State budget; lack of periodic and real-time information with the Tax and Customs Directorate to prevent and combat illegal activities and tax evasion in the mineral field. The National Agency of Natural Resources have not conducted controls, in order to verify the real situation in all protected areas to identify and block the activity of companies that conduct illegal or unlicensed operation, or that have declared as "closed" their activity.

With regard to revenues, the SAI found missing revenues in the State budget, amounting to ALL 9.8 billion (or around 80 million euro), due to the lack of monitoring and supervision during the implementation of the license for the hydrocarbon(petroleum production) agreements; as well as tax evasion for budget revenues amounting to 40 million ALL, as a result of not declaring and calculating the rent according to the tariff defined in the law "On National Taxes".

During the exploitation of mineral resources by companies licensed by the Ministry of Energy and Industry and the National Agency of Natural Resources, due to the lack of monitoring and supervision of these companies during the exploitation of mineral resources, for the years 2016, 2017 and 2018, the audit team found numerous violations, which are reflected in excess cost and with unpaid revenues in

the State budget in the amount of 339 million ALL and with economic damage to the State budget in the amount of 178 million ALL.

The auditor noted the lack of estimation of the cost of production according to the structure and expenditure items as an important indicator not only for the balance of revenues and expenditures but also for the successful and effective guarantee of financial profitability for continuity of work on mineral utilization in future periods in the community's interest and State budget revenues, as well as regeneration of the environment around the exploitation area as an important environmental condition set out in the mineral usage license.

The level of missing revenues reached ALL 20 billion and economic damage ALL 39 million

7. The audit in **the Ministry of Internal Affairs** identified problems in terms of compliance with the applicable legal and regulatory framework, as in the following areas:

Regarding budget planning and implementation, the SAI found irregularities related to the process of planning and execution of funds for the prevention and coping with civil emergencies, such as:

- lack of a dedicated register to register all claims of local government units for the compensation of damaged families in their area;
- lack of monitoring and control over the way the fund was allocated, as well as lack of information on financial amounts distributed to families affected by natural disasters;
- unjust planning that has led to delays of over 2 years in the execution of aid;
- lack of certifying documentation in building price analyzes considered during planning, for those items that are not included in the respective construction manuals approved by the respective Council of Ministers' Decision;
- during budget implementation, there are no traces of the necessary estimates for cases where the market value of housing is lower than the value of the apartment calculated on the basis of the cost of housing construction according to the National Enterprise of Housing, in order to take into account the value of the free market of the respective district/city;
- evaluation files were not accompanied by funds allocated by the Ministry of Finance and the assessments made were not accompanied by explanatory documents.

The audit found also that for the accomplishment of the air firefighting service, financial commitments were made in the amount of about 101 million ALL for which there were no available funds planned in the budget of the Ministry, or promised by the Council of Ministers to be funded.

Regarding the public procurement procedures, the auditors found that the Ministry selected the companies for the air firefighting service against the fires that had occurred on the territory of the country in the period August to September 2017 without procurement procedures (the contract value of 41 million ALL belongs to the budget of 2016, while the value of 27 million ALL to 2017 budget). For all cases of infrastructure construction, the respective directorate at the Ministry did not carry out verification and inspection of the performance of the works and their completion.

During the implementation of the works for "Restoration of the building of the Ministry", the audit observed works which were ordered but not carried out and which were paid, causing the State budget an economic damage of about 1,1 million ALL, as well as the use without effectiveness and economy of budget funds in the amount of 20 million ALL.

With regard to incomes, the SAI evidenced a lack of income in the State budget amounting to 38 million ALL, as a result of the avoidance of income tax at the source, for the service performed pursuant to the contract for the maintenance and development of the National Civil Status Register.

With regard to financial management and control, the auditor noted that the Ministry of Interior has not drafted a strategic plan to reflect the strategic objectives, priorities and action plans that are in line with the sectoral strategy. The above has caused that the objectives of the programs, activities and projects of the Ministry were not reviewed and did not have a clear definition.

In some sectors, there was a lack of communication and exchange of information between the Ministry's audit units; the Ministry did not organize training to increase professional skills of employees in order to recognize and exchange experiences on best practices in different fields, although referring to the list of risks identified as priorities for the institution, staff training is ranked among the first factors.

8. The audit in **the General Directorate of Material Reserves** identified problems in terms of compliance with the applicable legal and regulatory framework, as in the following areas:

With regard to revenues, the SAI found that auctions developed with object "sales of vehicles for circulation", after each failure, the procedures have resumed and re-

displayed again with the same value until the deterioration of their physical condition and the classification of the auction as "sale of vehicles for scrap", by not respecting and proceeding with the 20% reduction of their value, as the Council of Ministers' Decision no. 1719, dated 17.12.2008 "On the Approval of Public Auction Rules", later amended, has provided. The above has led to the denaturing of assets and their incorrect classification as scrap and consequently their sale below the real value, resulting in missing incomes in the State Budget.

It also appeared that, through the way in which the General Directorate of Material Reserves calculated the initial value of the auctions of cars sold for scrap, the State budget suffered a minimum loss of about 100 million ALL, due to scrap sale of about 5,257 different vehicles (car and trucks) with a total weight of 4,732 tons (4,732 tons x 10% x 220 ALL/kg). In determining the initial value of the auction for scrap sale of these vehicles, the General Directorate of Material Reserves has set the gross weight of the vehicles according to the manual of each type of vehicle, but without analyzing and then separately dividing the weight of colored and non-ferrous metals, by selling these parts for non-ferrous metal (iron) which has the lowest price of all metals.

The auditors found also cases of auctions with the object "Sale of vehicles for circulation", the value of which was made in reference to an erroneous legal basis, unduly reducing the value by less than 50%, and bringing as a consequence, missing incomes for the State budget in the region of 12 million ALL.

We found 4 auction cases, with object sale of scrap, of cigarettes and other goods, in which only one bidder participated. The first step to proposed the increase in the auctioned value at a minimum of 2% of bid value was not respected. As a result of non-compliance with this requirement, the missing revenues in the State budget amounted to 873,363 ALL.

Regarding the strengthening of internal controls, during the auction process, the SAI found that the situation continues to be chaotic, since the State Police does not have accompanying documents for the blocked vehicles for criminal or administrative reasons. These tools, since they stay for a relatively long time in the blocking points of the local police directorates, go out of circulation to degradation as scrap metal. On the part of the General Directorate of Material Reserves, these vehicles are taken at any time and in any form, with incomplete documentation, in some cases even without relevant documents, and in some cases without framing the documentation of the physical condition of the assets, both from the giving and the receiving party, in violation of the applicable laws and bylaws and administrative acts, thus creating an opportunity for abuses and frauds on both sides (specifically the alienation of 94 motor vehicles from "vehicles of circulation" to "scrap vehicles" has brought as a

result missing revenues for the State budget amounting to ALL 22 million).

In addition, 19 vehicles (3 cars and 16 motorcycles) were found missing, which do not appear to have been documented in the Regional Directorate of Material Reserves of Tirana, what indicates the lack of coordination and reconciliation between the actions in the movement and documentation of the vehicles that come from the State Police in Regional Directorate of State Material Reserves of Tirana, a deficiency that is in violation of law no.10296, dated 07.08.2010 "On financial management and control", resulting in vehicles that are not sold, but stay for long and are damaged and then sold as scrap, causing missing revenues for the State budget at 600,000 ALL, while 16 motorcycles do not result to have arrived from the State Police or to have been taken over by the Regional Directorate of State Material Reserves of Tirana, generating in this way abuses and frauds on both sides in the amount of 1,000,000 ALL.

Audits in the customs system

During 2018, ALSAI carried out audits at the General Customs Department and 6 customs regional directorates. From the audits at the customs administration at the center and in the branches, the SAI has observed entity's acts and omissions in violation of the requirements of the customs legislation, as well as of other laws and bylaws on the basis of which the Department exercises its activity, which have brought missing incomes to the State budget in the amount of 2,285 million ALL (or 18.7 million euro), respectively: in the General Directorate of Customs the amount of 105 million ALL, at the Tirana Customs Branch in the amount of 996 million ALL, at the Fier Customs Branch in the amount of 504.2 million ALL, at the Durrës Customs Department in the amount of 385.9 million ALL, at the Customs Branch Vlora in the amount of 82.7 million ALL, at the Customs Office of Rinas Airport in the amount of 4.4 million ALL and at the Kapshtica Customs Branch in the amount of ALL 206.7 million.

During the audits, we find the main problems in the customs system as follows:

- In the field of customs valuation, tariff classification, treatment of preferential origin and non-calculation of TAM (plastic packaging tax), the findings amount to 1,612 million ALL, of which only for the article "Meat and edible animal internal organs", are in the value of 492 million ALL, or 30.5% of the total.
- Deficiencies in the system of supervision of the procedures followed in implementation of the Excise Law in the Republic of Albania (energetic products) in the amount of 315.5 million ALL.

- Deficiencies in the procedures of overseeing the economic customs regimes as a result of non-compliance with the terms and amounts of authorization related to the activity of economic operators of active and passive processing with a negative financial effect (missing income) of 248 million ALL.
- Failure to comply with laws and bylaws in the administrative decision-making of the competent customs authorities in the amount of 69 million ALL.

The auditors also observed high levels of customs debt and generation of new debt. The value of the customs debt reported by the General Customs Department at the end of 2017 amounts to ALL 23.95 billion. It is noted that the reported debt has decreased by 841 million ALL, compared to the previous year, due to the effects of the Fiscal Amnesty Law no. 33/2017 in the amount of 1.83 billion ALL, and increase of customs debt over the year by about 1 billion ALL. Therefore, the SAI has concluded that the debt, as a result of the administration and supervision by the customs authorities, stripped of the effects of fiscal amnesty, has increased by 4% compared to the beginning of the year. The measures taken to collect the customs debt have been few and ineffective, as well as lack of cooperation with other institutions.

The level of missing revenues reaches

9. In the audit at the Trauma State Hospital, the auditors identified problems in the financial compliance ALL 29 million | and regularity with the laws and bylaws governing the

operation of this institution, in the following areas:

Regarding the internal controls, the SAI noticed lack of drafting and carrying out of controls. From the verification of the equipments that were delivered from hospital pharmacy to the surgery room with the respective exit permits signed by the pharmacist and by the recipient of the product - the nurse in chief of the surgey division, the medical appliance code entered into the hospital pharmacy and for which the private supplier is paid by the hospital does not correspond to the appliance code set in the body of the patient; the lack of monitoring processes in order to increase the efficiency of the provided service, since the number of patients hospitalized daily is bigger than the beds capacity by the pavilions (the number of hospital beds per day is 236) and significantly bigger than the number of patients that receive nutrition and are documented for this service, with respective templates signed by nurse in chief and the chief doctor of the pavillion. Based on the registry of beds service, the auditors found that a considerable number of patients were not treated with nutrition service (which in State hospitals is provided free of charge as a right of the patient) and for which no control was carried out.

Regarding the procurement procedures, the auditors observed that during 2016 and 2017, the entity carried out 31 procurement procedures for purchase of medicaments and medical appliances, with an overall limit fund amounting to 211,984,364 ALL without VAT (value added tax). Based on the law on public tenders and its bylaws, these tenders should have been performed by the Ministry of Health instead.

The Trauma hospital carried out procurement procedures of type "Auction by negotiation without priorly announcing the bid" with limit value of 37,236,153 ALL for 2016 and 79,470,250 ALL for 2017, where Procurement Units have drafted the report addressed to the director of the Trauma Hospital, without justifying the extreme need for medical devices and medicines to choose this type of auction. The auditors consider that negligence or delays in initiating normal procurement procedures should not be treated as reasons that justify the choice of "Auction by negotiation without priorly announcing the bid", which practically eliminates competition.

The SAI detected that for the year 2016, the entity has carried out 30 unplanned procurement procedures and which are not accounted in the register. The Procurement Unit for 2016 did not send to the Public Procurement Agency the records of the 4 month procurement report for the second, third and fourth quarters of the year. The Procurement Unit did not reflect the values of the procured fund limit and source of funds for the tenders procedures for 2016.

With regard to asset management, the entity for 2017 has disposed of assets in the amount of 49,854,683 ALL, for which there is no documentation related to the procedure performed by the disposal commission that confirms these assets out of use, such as as the evaluation and allocation of medical materials to be disposed of according to their destination, division of these materials in devices for auction or materials to be buryed, the means of transport that has carried out their transport, as well as the location of their burial, burning, etc., coupled with the respective photos of burial. This way, the entity did not document the disposal procedure to qualify the medical devices out of us and dispose of them in a legal manner, for medial equipment and materials at the value of 49 million ALL.

Regarding the incomes, the auditors found that as a result of the undue occupation and exploitation by a private entity of public facilities within the Trauma Hospital building with a total area of 1,200 square meters, the State budget missed revenues at the amount of 10.8 million ALL, as the private entity did not pay the rent.

This private entity operates also in an area of 222.3 m² and 45 m² and has build premises on public land with its own funding, without prior written approval from the

Trauma Hospital and without obtaining construction permits from responsible authorities. The private entity uses these premises without contract and without paying the Trauma Hospital the rent for the occupied land, resulting in missing income for the State budget at 2.4 million ALL.

In the audits carried out for 2018, the SAI looked at 984 procurement procedures in 15 entities with an overall limit fund amounting to 858 million ALL. It audited in full tenders at the value of ALL 726 million, or 85% of the total procured fund. The auditors found that in 247 tenders the entity concluded contracts with the winning bid differentiating from the estimated value with 30 million ALL. The SAI found violations in 130 procurement procedures with a value of 747 million ALL. A result that shows that funds were spent not in full compliance with legal requirements. These violations were perpetruated mainly:

- At the stage of preparation of the tender documents, with 154 violations or 63% of the total, identified according to the type of procedure;
- In the phase of the procurement procedures with 72 violations or 29% of the total of violations;
- At the stage of contract execution and handover of the works, as well as file archiving, with 20 violations or 8% of the total.

II.4.2 Audits conducted in Local Government Institutions

municipalities amounts to ALL 10.491

In accordance with the annual audit plan for 2018, the SAI The tax debt at 31 carried on audits for 36 entities of local government, namely in 32 municipalities, 3 regional councils and at the General Tax Directorate of the Municipality of Tirana.

From the carried out audits, the SAI identified problems related to the lack of effective internal control systems coupled with poor financial discipline, aspects which subsequently reflect a management problem in the way local government units manage their available budget but also in the way they administer their local incomes. This problematic situation in many local government units brings a potential risk to financial insecurity by endangering the provision of services to citizens.

In assessing the problems as a risk to the budgets and the activity of the local government units, the auditors have grouped the problematic issues, which have a nearly uniform distribution in the auditees. ALSAI has provided the relevant recommendations for improving the situation in the future.

Mismanagement of rights and high levels of tax debt

The audit data indicate that the level of tax debt is high and the work of local tax administrators to lower it is inexistent. Of the 36 audited entities, the SAI has found in 31 of them a considerable tax debt level amounting in total 10,491 million ALL or more than 85 million euro. This level has increased year-on-year, reflecting a high level of missing revenues in the budgets of municipalities.

Regardless of the existence of legal acts for the amnesty of local taxes and tariffs, the level of tax debt appears to be increasing, indicating that fiscal amnesties have not provided the required results. Thus, at the General Tax Directorate of the Municipality of Tirana, the tax debt is in the amount of 7,770 million ALL (or around 64 million euro), in Lushnja Municipality 461 million ALL, in Kamza Municipality 335 million ALL, in the municipality Elbasan 245 million ALL, in the Municipality of Vlora 245 million ALL, Selenica 260 million ALL, Lezha Municipality 154 million ALL, Korça Municipality 188 million ALL, Fier Municipality 143 million ALL, etc. The lack of proper assessment of this problem could lead to either the risk of a "bankruptcy" of these administrations or the opening of these entities towards local borrowing.

The SAI has noted that in most of the municipalities, the managers have not built in a computerized system in local taxes, in order to ensure efficient revenue management and provide sufficient operational security for a fair treatment of entities subject to local taxes and tariffs. A secure system also provides an effective fiscal control system, ensuring accurate planning and collection of local taxes and tariffs, and increasing the quality of services to citizens.

The stock of arrears is high

The stock of outstanding obligations on 31.12.2017 for 31 municipalities audited presented a debt (unpaid bills and court decisions) in the amounted to ALL 3,589 million

ALSAI has found in its audits at municipalities during 2018 that in many of them a considerable debt has been accumulated due to unpaid bills over the years for the purpose of carrying out works or services without first providing the necessary funds for performing them. Municipal balances show a lot of liabilities created before the year 2012, but there is no

analysis of the funds needed to liquidate them and how to proceed without paralyzing and creating financial difficulties, given the present fragile financial situation of municipalities. The audits carried out at 31 audited municipalities show that the until 31.12.2017, the debt accumulated as result of unpaid bills and court decisions to execute at the amount of ALL 3,589 million. Seven municipalities make

up for 60% of this debt, namely Kamza Municipality with 505 million ALL, Lezha Municipality in the value of 460 million ALL, Pogradec Municipality in the value of 405 million ALL, Vlora Municipality at 369 million ALL, Municipality of Lushnja at 203 million ALL, Mirdita Municipality and Kuçova each in the amount of 147 million ALL.

Weak management of tangible fixed assets

The auditors have observed lack of proper knowledge and perception of the requirements of the law on financial management and control in managers of municipalities, especially referring to the management of available assets, which indicates that the attention of the Miinistry of Finance and Economy versus municipalities' financial management is not adequate, although these units present a high operational risk. The municipality managers do not know quite well the risks associated with asset management and even less the risk management strategy referred to them (excluding formal reporting made in the conditions of preparation of self-assessment forms). The value of tangible fixed assets generally is not accurate, especially when referring to data after administrative reform and consolidation of assets from former units (communes and small towns) absorbed by larger municipalities during the reform. On the other hand, although the majority of properties, pastures and forests have been transferred to the new local government units (the larger municipalities), the inventories and registrations at the Offices of Tangible Assets Registration in the mortgage system have not yet been carried out, with the justification of lack of relevant maps. Inventory is a formal and unregulated process, transferring assets and disposing of assets do not always follow the provisions of Law no. 10296/2010, "On financial management and control", later amended.

Detected irregularities and economic damage

Level of financial irregularities and economic damages in the field of investments amounted to ALL 15,342 million

From the audits conducted during 2018, the SAI has concluded that the level of irregularities found in the administration of local government activity and economic damage amount to ALL 15,342 million (125 million euro), out of which 719 million ALL(5.8)

million euro) is economic damage. Out of the total of the irregularities found of 14,077 million ALL, 11,030 million ALL are from missing incomes, of which the value of 7,700 million ALL pertains to the increase of debt in the General Tax Directorate of Tirana Municipality, as a result of not collection of tax revenues and 2,992 million ALL are the irregularities in expenditures occurred in Kamza, Korça, Konispol, Shijak, Has, Belsh and Rrogozhina municipalities.

In 36 audited entities of local government, the SAI has recommended in 33 of them to fully pay back the economic damage amounting to 719 million ALL. The auditors pointed out that 68% of the economic damage or 490 million ALL came from municipalities' failure to properly implement procurement procedures and construction works contracts. The SAI has found that although for the last 8 years the development of public procurement procedures is carried out electronically (online), there are still violations in tender procedures which, in addition to the lack of professional capacities (due to insufficient training of the staff involved in the development of public procurement procedures), the economic damage came from violations of legal requirements by procurement units of municipalities in the drafting of standard tender documents, from the members of the Bid Evaluation Committees in the selection of bid winning operators, in contradiction with the requirements of law no. 9643, dated 20.11.2006 "On Public Procurement", later amended, and the supporting regulatory framework. The same situation is also noted for procurement procedures for small purchases.

Table no.4:Irregularities, violations and negative effects according the audited units on 000/ALL

No.	Audited unit	Unpaid bills	Tax debt	Irregularities in procurement with public funds
1	Kamza Municipality	504,748	335,035	479,577
2	Rrogozhina Municipality	54,596	101,445	195,400
3	Përrenjas Municipality	11,681		63,504
4	Vlora Municipality	369,943	244,945	30,250
5	Belsh Municipality	12,780	75,048	286,080
6	Kuçova Municipality	147,775	50,946	4,695
7	Lezha Municipality	460,000	154,404	21,776
8	Lezha Municipality, former commune		18,963	1,666
9	Lushnja Municipality	203,308	460,870	3,212
10	Fier Municipality	152,107	143,035	5,742
11	Mallakastra Municipality	10,540		6,686
12	Konispol Municipality	93,395	35,460	338,000
13	Këlcyra Municipality	1,185	37,803	9,780
14	Korça Municipality	96,156	188,143	519,238
15	Dibra Municipality	160,840	23,178	168,882
16	Kolonja Municipality	131,367	31,911	
17	Pustec Municipality	6,191	3,623	703
18	Poliçan Municipality	18,307	17,923	26,317
19	Vau –Deja Municipality	140,083	24,155	64,135
20	Maliq Municipality	17,317	41,207	
21	Has Municipality	45,000	24,204	234,453

	SUM	3,589,373	10,491,193	3,200,872
34	Berat District Council			4,772
33	Devoll Municipality	14,572		
32	Elbasan Municipality	176,106	245,000	
31	Selenica Municipality	64,315	260,000	
30	Pogradec Municipality	405,424		1,577
29	General Tax Directorate, Tirana		7,700,000	
28	Shijak Municipality	1,700	20,698	303,000
27	Vora Municipality	12,303	124,000	
26	Mirdita Municipality	142,476		290,108
25	Përmet Municipality	11,158	14,879	
24	Memaliaj Municipality	24,510		
23	Gjirokastra Municipality	6	40,900	16,319
22	Malësia Madhe Municipality	99,484	73,418	125,000

Source: ALSAL

On the procurement of goods, services and investments

PPA for violations of procurement procedures, followed by ALSAI are set with fine decisions for 210 persons in the amount of 31 million ALL

From the audits during 2018, the auditors found that for the period of audit from 2016 to 30.09.2018, the local government have developed 1,257 procurement procedures in the amount of 26,815 million ALL. Out of 1,257 procurement procedures, 575 procedures or 37% of the total are of the type of

"Open market" procedures, while 761 procedures or 50% of the total of tender are caused because of the "Request for Proposal" approach, that means that the tender was made due to unsolicited request from private entities. The SAI has audited 720 of them, in the amount of 21,075 million ALL or 47% of the total number of tenders. They make up for 79% of the total contracted value for goods, services and investments in the local government units.

In 720 audited procurement procedures were found 300 violations with an economic damage amounted to ALL 490

Out of 720 audited procurement procedures, the auditors found 33 entities of local government with financial violations in 300 procurement procedures, worth a total value of 490 million ALL. This value consists of violation of procurement procedures in

the unfair qualification/disqualification of economic operators, etc., in the amount of 273 million ALL, as well as the non-implementation of the rules in the field of construction, testing and delivery of construction works at 217 million ALL. In detail in the implementation of the public procurement procedures, the violations comprise the Municipality of Dibra in 16 procedures with economic damage of 52

million ALL; Belsh Municipality in 20 procedures with a damage of 1.5 million ALL; Konispol Municipality in 14 procedures with a damage of 25 million ALL; the Municipality of Kolonja in 7 procedures with a damage of 25 million ALL; Fier Municipality in 6 procedures with a damage of 27 million ALL; Këlcyra Municipality in 12 procedures in the value of 37 million ALL and Korça Municipality in 2 former municipalities in 15 procedures with a damage of 21 million ALL. In the area of implementation of construction works, the violations mainly related to unpaid work. The auditors found financial violations in the value of 216 million ALL, out of which the municipalities: Belsh in the value of 67 million ALL; Diber with a value of 20 million ALL; Mirdita in the value of 8.7 million ALL; Rrogozhina amounting to 8 million ALL; Vau i Deja in the value of 6.7 million ALL, etc.

For the found violations, pursuant to article 13 of Law 9643/2006 "On Public Procurement", later amended, the SAI has recommended to the Public Procurement Agency their evaluation. Later on, the Public Procurement Agency has imposed fines to 21 municipalities for 210 of their employees in the amount of 31 million ALL, among which the municipalities: Belsh with 18 persons fined in the value of 3 million ALL, Mallakastra with 18 persons in the value of 2 million ALL, Dibra with 15 persons in the value 3 million ALL, Kuçova for 22 persons in the value 1.9 million ALL, etc.

On Financial Management and Internal Control

In the audits carried out during 2018, the auditors have detected deviations in the functioning of the units that monitor the deployment of control systems and ensure that institutions recognize and implement requirements for a sound financial management and a functional control. The units responsible in the municipalities for financial management and control have failed to establish adequate communication with municipality management to lead, from a methodological viewpoint the difficult but challenging, process of financial management and control as outlined in Law no. 10296, dated 08.07.2010, "On financial management and control", later amended by Law 110/2015 of 15.10.2015.

From the audits conducted the implementation of the above-mentioned laws in municipalities, the SAI has identified problems and shortcomings regarding the understanding and respect of financial management and control requirements. Municipalities have adopted an incomplete regulatory framework, following their structural changes occurred during the administrative reform. They lack of a risk management strategy, lack the documenting of Strategy Management Group meetings, as well as the drafting of audit trails. They lack staff trained enough to

implement the financial management and control rules. Among municipality managers there is a low level of awareness of the need to build and strengthen internal control systems. This situation requires increased attention in terms of not only implementation but mainly understanding of control systems.

There is no risk strategy at all or identification of its need, as under Article 21 of Law no. 10296 of 08.07.2010 "On financial management and control", later amended, in the municipalities of Rrogozhina, Belsh, Vlora, Këlcyra, Konispol and in the regional council of Berat region. There is no documented risk register and no annual reassessment of it, or risk measurement of the activity of the unit, as in the case of Rrogozhina, Belsh, Vlora, Këlcyra, Konispol, Berat regional council, etc. No Strategic Management Group (GMS) has been established and no meetings have been conducted regarding the deficiencies that concern the municipalities in financial management and control, as in the case of the municipalities of Përrenjas, Rrogozhina, Konispol, Këlcyra and Belsh.

No summarized Report on the quality of internal control system has ever been drafted to be officially submitted to the Ministry of Finance and Economy. The municipalities have not set up an effective disclosure (risk declaration) system has not been established, including levels and deadlines for disclosure, types of risk declaration submitted to management, frequency of such reports (weekly, monthly reports, etc.) in order to evaluate and oversee the efficiency and effectiveness of activities of each sector in the municipality; forms of statements in cases of errors, irregularities, abuse, fraud or misappropriation, contrary to the requirements of Article 23 of Law no. 10296, dated 08.07.2010 "On financial management and control", later amended, as in the municipalities of Korça, Rrogozhina, Belsh, Vlora, Këlcyra and Konispol, as well as in Berat regional council, etc.

In the internal regulations of the municipalities (after the adoption of administrative and territorial reform) have not reflected the structural and legal changes that have taken place. There are no adjustments based on organizational structures and functional duties for each directorate, sector and employee within the municipality. The auditors observed such a situation in the municipalities of Vlora, Has, Lezha, Korça, Belsh, Kamza, Konispol, etc.

The SAI found that a system of specific rules and procedures for the storage, protection and disposal of public assets, based on the financial management and control manual, has not yet been adopted in municipalities. No rules have been set for the administration and maintenance of fixed assets according to requirements

of the Minister of Finance Order no. 30, dated 27.12.2011 "On the management of assets in public sector entities", later amended, in the municipalities of Kamza, Rrogozhina, Belsh, Lezha, Lushnja, etc. There are no written rules regarding the monitoring of fixed assets, especially for leased assets in the municipalities of Rrogozhina, Konispol, Vlora, Këlcyra, etc.

Pursuant to Article 18 of Law no. 10296, dated 8.7.2010 "On the Financial Management and Control", the SAI noticed that no summarized Report on the quality of the internal control system has been drafted. According to legislation, this report is officially submitted to the Ministry of Finance and Economy, which was not the case with the municipalities of Përrenjas, Rrogozhina, Vlora and Këlcyra.

The auditors have observed the diminishing role of responsible internal audit structures in the fight against legal violations and corruption, despite the fact that the institution needs it so much, based on the environment and the Albanian context. ALSAI has ascertained that there are municipalities which have not established an internal audit unit, or others that have established it, but has not staffed it with qualified employees, as it is the case of Belsh, Këlcyra, Konispol, Poliçan, Pustec, Përmet and Rrogozhina municipalities. The failure of internal audit units to function as an independent structure led to the failure of its mission to support the management of the municipalities to achieve the objectives, by not providing objective assurance and advice to increase value and promote changes that improve the activity of management and increase accountability.

Internal audit structures did not carry out audits in priority risk areas such as public procurement, leasing contracts, assets, water supply providers (where under the jurisdiction of municipalities), subordinate State enterprises, etc. The internal audit findings and recommendations are largely of organizational nature, and not pertaining to management level, the measures for economic damage reimbursement are very low and disciplinary measures are almost absent.

II.4.3 Audits conducted in companies with state as major shareholder

During 2018, ALSAI carried out 17 audits in public companies and entities, where it detected irregularities and economic damage at the amount of 6,707 million ALL. From the summary of the findings and their reflection in data and tables, the major economic damage is detected in the followeing areas of operation of these shareholding companies:

Economic damage in the amount of 4,295 million ALL. Financial irregularities in the amount of 906 million ALL

1. In the field of energy. In the field of electric power, the economic damage is in the value of ALL 1,685 million and the financial irregularities amount to 111 million ALL. This negative effect is

mainly due to the actions or omissions of the Energy Regulatory Entity, creating a confusing situation in the electrici power production/purchase/ sale market.

From the audit of Albpetrol holding company, in the hydrocarbon (petroleum production) agreements and in the execution of the auction contracts on the purchase and sale of crude oil, the SAI detected an economic damage of **ALL 4,295 million** or 35 million euro and financial irregularities amounting to **906 million ALL**, or 7.4 million euro. For hydrocarbon deals (the agreements for the petroleum production on concessionary basis), the auditors have ascertained that for the costs recognized as deductible for the effect of calculating the factor "R" (the ratio between the revenues from the sale of extracted petroleum and the productive expenditures), there has been a change in the determination of the percentages of crude oil production shares between the Albpetrol holding (the State company) and the concessionary economic operators (the private companies possessing the licence to extract Albanian petroleum). Such a change occurred when the agreements were concluded in 2004. Therefore, the SAI has recommended that **the most accurate assessment of the financial effect should be be made by the Ministry of Infrastructure and Energy**³.

From the contracts stipulated for the purchase of crude oil, the auditors have ascertained that the contractor was subtracted as deductible expense the storage tariff, the tariff of the moving stock, the tariff for the hit during the transport in the ship and the operator's tariff for the discharge of the petroleum in the port. In fact, the crude oil withdrawn by the economic operator, winner of the auction was transported for processing in the domestic market while the calculation of the formula on which the above costs were deducted and influenced the "R" factor, was carried out as if this petroleum was sold in the foreign market. The SAI detected as well an economic damage in the allocation of lease assets and in the execution of contracts, amounting to 4,207 million ALL. The auditors found that the economic operators who had rented the surface owned by Albpetrol holding used much larger surface than the one defined in the related lease contracts and that the Albpetrol monitoring work on these contracts has been minimal.

³ The financial effect from the change in the petroleum production agreements is not part of the evidence of financial declarations of 2018

Economic damage in the amount of 84 million ALL. Financial irregularities in the amount of 191 million ALL

2. In the field of public health. From the audit of five Regional Hospitals (one of these audits was audit based on a special issue), the SAI detected an economic damage amounting to ALL 84

million and financial irregularities in the region of 191 million ALL. The auditors identified the following main problematic issues in the administration of public entities of the sector:

- a. Shortcomings and irregularities in the implementation of procurement procedures for the provision of medicines, their taking in custody and use as needed. The auditors evidenced that there is lack of measures for an adequate storage of drugs, causing a large part of them to become out of use (expired) or to dispose of them after stocking them in vain for several years. This situation reflects low programming and management levels of the need for medicines in the audited entities.
- b. Deficiencies and irregularities in the calculation of the limit fund for purchase of goods/services; in the evaluation and announcement of the winning economic operator (company) in the delivery of goods/services not in compliance with the technical specifications.
- c. Ineffective use of medical devices.

Table no. 5: Economic damage and financial irregularities evidenced in regional hospitals on 000/ ALL

No.	Entity	Financial irregularities	Economic damage	Illegals in procurement
1	Gjirokastra Regional Hospital	32,722	14,103	9,415
2	University Hospital "Shefqet Ndroqi" Tirana	65,819	18,929	72,809
3	Fier Regional Hospital	36,322	4,601	36,738
4	Shkodra Regional Hospital	56,038	20,561	16,036
5	Durrës Regional Hospital	0	25,829	25,829
	Total	190,901	84,022	160,828

Source: ALSAI

Economic damage in the amount of 100 million ALL. Financial irregularities in the amount of 172 million ALL

3. In the field of infrastructure. From the audits of the Water Supply and Sewerage State Companies, the SAI has evidenced an economic damage amounting to 100 million ALL and

financial irregularities amounting to 172 million ALL. The auditors found that the

general control management systems in water supply and sewerage companies are weak and there is a lack of knowledge on the requirements of law no. 10296, dated 8.7.2010 "On Financial Management and Control", later amended. The SAI detected the following common deficiencies in these companies:

- a) The failure to complete the reorganization according to the new administrative-territorial division, in accordance with Law 115/2014 "On the administrative-territorial division of the units of local government in the Republic of Albania". Capital transfers and assets registration have not been carried out within the defined deadline. The water supply and sewerage enterprises should also acquire the assets of former communes or former small municipalities, thus serving a larger area, including the previously served population of the former municipalities or even the non-served population, the so-called "white" areas, a process that has not yet been completed.
- b) Drafting of annual business plans and medium term plans are unargued and unsupported in an accurate analysis of the needs for goods/services and investments and the possibility of their realization. This fact is certified by performance indicators. The enteprises have not realized the needed investments and have not generated the planned incomes.
- c) The SAI has found in the audited Water Supply and Sewerage Enterprises have not taken over the investments made by the German Government via KfW Bank, in the form of credit for improving the "Municipal Infrastructure". They have not registered in their accounts the amount of the loan. Each water utility has a sub-loan agreement with the Ministry of Finance and Economy, where it is sanctioned that the recipient (water supply and sewerage enterprise) is responsible for repaying the loan and paying back its interest rates as well. As these enterprises use the investment carried over with the funds from the German Government, there are no clear rules on how are the maintenance and depreciation costs of this investment estimated and how much they are. In many cases payment of interests on the loan is made by MFE as a loan guarantor, and consequently the obligation of Water Supply and Sewerage Enterprises to the Ministry of Finance and Economy is considerable, taking into account also the penalty for non-repayment of the interests.
- d) The economic damage ascertained by the audit of these companies is related to the procurement practices, the calculation of the contract value (limit fund), the definition of technical specifications, the evaluation and the classification of bids, the execution of contracts, etc.

Table no. 6: Economic damage and financial irregularities evidenced in Water Supply and Sewerage enteprises

on 000/ALL

No.	Entity	Financial irregularities	Economic damage	Illegals in procurement
1	Korça Water Supply and Sewerage	115,855	11,068	10,932
2	Vlora Water Supply and Sewerage	19,320	8,703	22,019
3	Tirana Water Supply and Sewerage	19,320	79,493	8,583
4	Saranda Water Supply and Sewerage	15,933	712	179
	Total	172,130	99,976	41,713

Source: ALSAI

Economic damage in the amount of 259 million ALL. Financial irregularities in the amount of 30 million ALL

- **4.** From the audit conducted in the Civil Aviation Authority (CAA), the economic damage was estimated at 259 million ALL. It resulted from:
- the development of procurement procedures in violation of the legal framework at the amount of ALL 57 million;
- failure to pay the CAA's obligation to the State Budget for the realized but unused income, at the value of 28 million ALL, which represents the value of the profit that has not been paid into the State Budget until 31.12.2017 at the amount of 211 million ALL;
- overcoming the average number of employees approved in various CAA"s Steering Committee decisions, which resulted in additional payment for Kukes Airport employees in the amount of ALL 5 million;
- as well as the payment of bonuses for the annual leave at the value of 14 million ALL, even though the employees of the institution have been granted the annual leave, contrary to Law no. 10233, dated 11.2.2010 "On Civil Aviation" and Law no. 10405, dated 24.03.2011 "On the competences for determining wages and bonuses".
- the negative financial effects at 30 million ALL are due to judicial penalties resulting from illegal termination of employment contract;
- increase of employees' salaries without receiving the approval of the Minister;
- remuneration fees incurred in violation of Law no. 10233, dated 11.2.2010 "On Civil Aviation" and Law no. 10405, dated 24.03.2011 "On the competences for the determination of salaries and awards", because the AAC is obliged to return the realized and unused revenues to the State Budget.

Economic damage in the amount of 203 million ALL. Financial irregularities in the amount of 89.6 million ALL

5. From the audit at the **Durrës Port Authority**, the SAI has found violations of laws and bylaws with economic damage amounting to **203 million ALL**, as well as negative effects observed in the

administration of public funds at **89.6 million ALL**. According to the areas, the violations were ascertained:

- a) In the field of public procurement, in the amount of 193 million ALL, caused as a result of deficient procurement procedures and implementation of procurement contracts for goods, equipment, civil works and services. According to the nature of the violations, they were found in the opening and review of the bids, as well as in their evaluation, in the conclusion of the contracts and their implementation.
- b) *In operating costs*, the auditors found an economic damage of 10 million ALL caused by expenses for participation in various trainings abroad, operational staff training, sponsorships, expenditures without complete documentation to justify the fuel, participation in various conferences outside the State of former directors of the institution, participation in fairs abroad, payment of the moderators of projects carried out abroad, expenses for mobile devices, purchase of books and chancellery, small value purchases, etc. The negative effects observed in the administration of public funds have been the result of the private company EMS-APO's unloading, storage and disposal of windmills instead of the Port of Durres doing this service, a missing income in the region of ALL 4 million, as well as the termination of employment contracts without reasonable cause, amounting to 14 million ALL. A significant amount of irregularities is observed in the implementation of entrance and exit from port fees, at the value of ALL 23 million.

II.4.4 Audits conducted in investment projects from foreign capital

Economic damage in the amount of 62.5 million ALL. Financial irregularities in the amount of 454 million ALL

During the year 2018, the ALSAI carried out 5 audits of inv estment projects from foreign capital. Its auditors detected irregularities and economic losses of **62.5 million ALL** and negative

effects of 454 million ALL, caused mainly by the following deficiencies:

1. Project management entities have failed to coordinate and harmonize their activity to carry out disbursements under the provisions set out in the Financial Agreements, where postponement of deadlines has led to additions to consultancy and oversight contracts, causing negative financial effects to the projects. The Project Implementation Units have not made a yearly planning for the allocation of the approved funds (loans/credits), leading to the delay of disbursement for several years in all audited projects.

- 2. Project Implementation Units have not carried out continuous monitoring and oversight of consultancy service works contracts, resulting in paid but unrealized works, increased work volumes and overdue and unjustified delays in the realization of specific components and of the project as a whole.
- 3. Projects Implementation Units have shown irregularities in the implementation of contract termination deadlines (mainly for construction works) and have not required the imposing of penalties for contractors who did not fulfill the obligation to perform the contract within defined deadlines.

Table no.7: Economic damage and financial irregularities evidenced in projects implementation

on 000/ALL

No.	Entity	Financial irregularities	Economic damage	Illegals in procurement
1	Albanian Power Corporation, Project: Dams safety	404,822	53,644	36,030
2	Project: Development of Alps and Coastal Areas	37,770	3,475	41,245
3	Albanian Development Fund, Project: Social Investment Fund IV	11,804	5,399	10,453
	Total	454,397	62,518	87,728

Source: ALSAI

II.4.5 Audits conducted in the Legalization of Informal Buildings Agency (ALUIZNI) and in the Intangible Assets Registration Offices (ZVRPP)

From audit in the stuctures of Agency of Legalization of the Informal Buildings

ALSAI has paid special importance to the process of legalization of informal buildings, identifying a considerable number of shortcomings in this process, such as:

- a) failure to comply with legal deadlines for the qualification procedures,
- b) lack of documentation that reflects the period of illegal construction,
- c) legalization of facilities without respecting the distances from the coast, national and urban roads,
- d) obtaining a legalization permit without first paying infrastructure impact tax,
- e) legalization of facilities near high voltage lines and columns, drainage channels and protection strips,
- f) change of cadastral voice without prior confirmation from the competent authority,

- g) legalization of facilities in archaeological areas and protected environmental areas,
- h) legalization of facilities on the ground with the status of the public territory,

as well as to the manner of obtaining the service provided to the citizens by the regional directorates of ALUIZNI, in order to increase transparency for the public and strengthen the culture of a responsible public administration.

During 2018, ALSAI has audited 4 Regional Directorates of ALUIZNI and have completed and published the audit reports for 2 of these regional directorates, namely ALUIZNI of Durrës, Dibra, Fier, Lushnjë, Kukës, Kamëz-Vora and ALUIZNI Tirana 4. The auditors has detected an economic damage in the value of **173 million ALL** and missing revenues in the amount of **245 million ALL**, due to non-payment of the infrastructure impact tax, failure to observe the construction base (by tripling its surface), and by using urfaces of land that have not been parceled and are not subject to the legalization process.

- 1. From the audits, the SAI has found that in the Regional Directorates of ALUIZNI in the Districts of Durrës, Dibra, Fier, Lushnja, Kukës and in the directorate of Kamëz-Vore are sketched to be excluded from the legalization process 1,464 objects, constructed contrary to law. For these buildings there are no legal procedures for exclusion from the legalization process, as they are built in archaeological areas, historical sites, close to museums, roads, school yards, irrigation and drainage channels, public lands, tourist areas, rivers, lakes, railway lines, high voltage lines, etc., actions contrary to Article 38 "Issue of legalization permit" and Article 39 and Law no. 9482, dated 03.04.2006, later amended.
- 2. The auditors have observed the granting of legalization permit without first paying the infrastructure impact tax. In the qualification of informal buildings, the ALUIZN regional structures have submitted the lists to the municipalities, accompanied with only the document for calculating the value of the infrastructure impact tax, without receiving confirmation of the payment of the infrastructure impact fee, by a decision of qualification. This has created a lack of revenue in the State budget in significant amounts, namely in the regional directorates of ALUIZNI in Durrës, Dibra, Fier, Lushnja, Kukës and regional directorate of Kamëz-Vora, at the amount of 606 million ALL. The ALSAI points out that in connection with this finding, it has reiterated the proposal for legal change.
- **3**. The documentation of field verification of the illegal building/illegal addition in the legal building is made in contravention of the manual "Drafting and submission of graphical materials (gen-plan and planimetry) of the object being legalized", approved

by the ALUIZNI's General Director's Order no. 846, dated 11.10.2012 "On Approval of the Handbook of Designing and Presenting Graphic Materials (Gen-Plan and Planimetry) of the Building to be Legalized", later amended. Boundaries of illegal building parcels are reflected, but without determining the distance of the facility base from the boundaries of the parcel. The field plan reflects the size of the informal building, but does not reflect the construction in relation to the constraints and the construction situation around it, the distance from the object to the property boundary, the distances from the extreme points of the property and the objects.

- **4.** The Regional Directorates of ALUIZNI did not respect the 60 day deadline for deciding on the qualification or squalification of the legalization practice from the date on which the record of the field finding was held, actions contrary to the Council of Minister's Decision no. 280, dated 1.4.2015 "On the determination of criteria, procedures and documentation applicable to qualifyi unauthorized constructions (buildings) and side additions and/or additions in altitude in legal constructions".
- **5.** During the audit, ALSAI has ascertained that some buildings legalizations are carried out without respecting the distances from the river and sea shores, where according to the available documentation in the file, such as the gen-plan and/or the digital map show that the buildings are at a distance from the bank of the river less than 100 meters, actions in violation of Law no. 111/2012 "On Integrated Water Resources Management" and the Council of Minister's Decision no. 280, dated 01.04.2015 "On the determination of criteria, procedures and documentation applicable to qualifyi unauthorized constructions (buildings) and side additions and/or additions in altitude in legal constructions", later amended. These deficient legalizations pertain to the Regional Directorate of ALUIZNI of Kamëz-Vora for 33 casesand the Regional Directorate of ALUIZNI-Dibra for 19 cases.
- **6.** The auditors have ascertained that some legalizations of buildings near the drainage channels and their protective belt have been carried out, without prior confirmation by the water authority for respecting the distances, actions contrary to the Law no. 111/2012 "On Integrated Water Resources Management" and the Council of Minister's Decision no. 280, dated 01.04.2015 "On the determination of criteria, procedures and documentation applicable to qualifyi unauthorized constructions (buildings) and side additions and/or additions in altitude in legal constructions", later amended. Specifically in the Regional Directorate of ALUIZNI Durrës for 3 cases, ALUIZNI Regional Directorate, Fier for 2 cases and the ALUIZNI Regional Directorate of Lushnja for 10 cases.

- 7. The ALUIZNI Regional Directorates have legalized the objects without respecting the distances from the national and urban roads, where according to the documentation that is in the file, such as the genre, digital maps presented, the objects are located at a distance smaller than allows the law, from the national road edge less than the legal definitions. These actions are in violation of Law No. 9482, dated 03.04.2006 "On the Legalization, Urbanization and Integration of Illegal Constructions", later amended, Article 39 "Exclusion from Legalization" and respective by-laws. These wrong legalizations pertain to the Regional Directorate of ALUIZNI of Durrës for 4 cases, Regional Directorate of ALUIZNI of Kamëz-Vora for 23 cases, Regional Directorate of ALUIZNI of Fier for 8 cases, Regional Directorate of ALUIZNI of Lushnja for 3 cases + 7 cases near the railroad and to the Regional Directorate of ALUIZNI of Dibra for 11 cases.
- **8.** According to the ownership documentation issued by the regional tangible assets registration offices, the auditors have ascertained that in some cases the occupied construction land (of the illegal building) is registered in the type of asset such as "Arable land, orchard, forest". These are informal areas not approved by the Territorial Regulation Council of the Republic of Albania during the legalization procedures of informal buildings. The entity has wrongly changed the cadastral voice from "Arable land, orchard, forest" into "Land for construction". These wrong legalizations pertain of the Regional Directorate of ALUIZNI of Durrës for 4 cases with 4,233 m² and the Regional Directorate of ALUIZNI of Dibra for 4 cases with 7,615 m². Thus legalization has been wrongly carried out in "Other Territories" areas, in violation of Articles 10, 11, 14, of the Law no. 9482, dated 03.04.2006 "On the Legalization, Urbanization and Integration of Illegal Constructions", later amended.
- **9.** The legalized buildings are currently with the status of public territory(land). These wrong legalizations pertain to the Regional Directorate of ALUIZNI Tirana no. 2 for 1 case, Regional Directorate of ALUIZNI of Korça for 2 cases and the Regional Directorate of ALUIZNI of Dibar for 1 case. The above actions are in violation of Law no. 9482, dated 03.04.2016 "On Legalization, Urbanization and Integration of Illegal Constructions", Articles 27 and 41. The above Regional Directorates of ALUIZNI did not keep records on the free state owned properties left out of the legalization process, due to the lack of parcelization for the geographical position that they have. In addition, they have not taken any measures to notify and cooperate with the local and competent institutions such as Municipalities, to make available the list of vacant public sites, their confirmation of state ownership, or their evaluation as lands used by citizens, without being taxed or for returning to public recreational purposes, such as gardens and playground for children, etc. These actions are in

violation of the Order of the General Director of ALUIZNI no. 30, dated 15.01.16 "On the manner of drafting and presenting the technical documentation (gen-plan, planimetry)", later amended, as well as in contradiction with letters"f"and "g" of article 3 and point 1 of article 17 of the law no. 9482, dated 03.04.2006 "On the Legalization, Urbanization and Integration of Illegal Constructions", later amended. They provide for the non-legalization of such occupied areas, pursuant to Articles 19 and 20 of Law no. 9482, dated 03.04.2006 and the Council of Minister's Decision no. 1620 dated 26.11.2008. These wrong legalizations pertain to the Regional Directorate of ALUIZNI of Durrës in 37 cases with 21,361 m² of land (in total), which tariff values, according to the value of the land at a market price referring to the cadastral zones are calculated in the total amount of 17 million ALL, to the Regional Directorate of ALUIZNI of Kamza for 23 cases, Regional Directorate of ALUIZNI of Fier in 32 cases with 3, 937.9 m² of land (in total), which tariff values, according to the value of the land at a market price referring to the cadastral zones are calculated in the total amount of 38 million ALL.

- 10. The SAI has found that the Regional Directorate of ALUIZNI have performed legalizations of the objects, within the area of environmental protection, namely the Regional Directorate of ALUIZNI of Dibër for 11 cases, actions contrary to the Law no. 111/2012 "On Integrated Water Resources Management" and the Council of Minister's Decision no. 280, dated 01.04.2015 "On the determination of criteria, procedures and documentation applicable to qualify unauthorized constructions (buildings) and side additions and/or additions in altitude in legal constructions", later amended.
- 11. The auditors have ascertained also that the Regional Directorate of ALUIZNI have legalized buildings constructed on public land for premises registered in the Tangible Assets Registration Offices as public property and later demolished (demolition of State facilities and legalization over them of private buildings without indemnification of their value, calculated at the price of the National Housing Authority). Thes actions are contrary to the Law no. 111/2012 "On Integrated Water Resources Management" and the Council of Minister's Decision no. 280, dated 01.04.2015 "On the determination of criteria, procedures and documentation applicable to qualifyi unauthorized constructions (buildings) and side additions and/or additions in altitude in legal constructions", later amended. These wrong legalizations pertain to the Regional Directorate of ALUIZNI of Dibra in 6 cases, causing the state an economic damage of 23 million ALL.
- **12.** The Regional Directorates of ALUIZNI have legalized buildings without liquidation of construction parcels, actions in contrary with the Council of Minister's

Decision no. 954, dated 25.11.2015 "On the determination of criteria, procedures and form of legalization permit", later amended and the Council of Minister's Decision no. 1095, dated 28.12.2015 "On the definition of working coordination rules between ALUIZNI and the Intangible Assets Registration Offices, and on the procedures or limitations that apply for the purposes of registering legalized assets". For these informal facilities equipped with a legalization permit, the process of legalization has not been completed and the Council of Minister's Decisions have not been issued to liquidate the obligation of construction plots, extending the process of legalization out of time. These are actions contrary to articles 17 (point 5) and 27 the law no. 9482, dated. 03.04.2006, later amended; with point 8 of the Council of Minister's Decision no. 280, dated 01.04.2015 and ALUIZNI General Director's Order no. 37 dated 19.01.2016 on "The Matrix of Procedures and Timeframes for Administrative Review for Legalization", points 6 and 7, creating delays in the liquidation of construction parcel fees and so providing for missing revenues in the State budget for the compensation fund. These actions pertain to the Regional Directorate of ALUIZNI of Kamza for 2,594 cases in the amount of ALL 1,556 million, to the Regional Directorate of ALUIZNI of Fier in 243 cases in an amount of 82 million ALL, to the Regional Directorate of ALUIZNI of Lushnja in 96 cases in an amount of 8 million ALL, to the Regional Directorate of ALUIZNI of Diber in 491 cases in an amount of 261 million ALL and to the Regional Directorate of ALUIZNI of Kukës in 523 cases in an amount of 84 million ALL.

The audit of Intangible Assets Registration Offices

The Supreme Audit Institution of Albania (ALSAI) has paid special importance to the process of property registration, to illegal transactions carried out from the State offices charged with registering intangible properties, to the alienation of public properties, falsification of property documentation for the purpose of unduly benefiting property titles in tourist and coastal areas, as well as to the manner in which the intangible assets registration offices provide the service to citizens, in order to increase public transparency and strengthen the culture of accountability in public administration.

During 2018, the SAI carried out 8 audits in the the intangible assets registration offices of Malësi e Madhe, Tirana, Saranda, Shkodra, Elbasan, Fier, Pogradec and Kavaje, where the auditors have ascertained an economic damage amounting to ALL 236 million (or 1.9 million euro) and missing revenues in the amount of ALL 188 million (or 1.5 million euro), due to the non-payment of financial liabilities deriving from property gains and unpaid leases.

The SAI underlines that, in addition to the economic damage brought to the State budget, the respective State authorities should pay attention to the social, environmental, legal and human consequences incurred as a result of years of illegal ownership titles provided by the employees and managers of the intangible assets registration offices. These damages, together with the bills from court decisions make up for the main source of the huge unsustainable bills that the Albanian Government has to pay now and in the following as a result of the decisions of the Human Rights Court in Strasbourg.

The audits in the intangible assets registration offices have detected the following shortcomings and problematic issues:

- 1. The intangible assets registration offices have been admitting to register building permits given on State land, with deficiencies in the form and contents of the file documentation, not refusing to return the incomplete documentation, not requesting to the Municipalities to settle the land relationship with consequent liabilities from the sale of the land as well as the value of the lease from use and occupation by not having the ownership title, for which the intangible assets registration offices have not imposed any property burden on construction assets, at least in the respective rental value, causing considerable economic damage to the budget of Municipalities.
- 2. The SAI found that the intangible assets registration offices have registered assets with changes of cadastral items, without the relevant documentation ie without requesting documents for assessment or competence by the Directorate of Land Administration of the Region, an action beyond the powers of the Office and contrary to Law no. 8752/2001 "On the establishment of structures for the protection and administration of agricultural land", later amended by Law no. 10 257/2010 "On some amendments and additions to Law no. 8752/2001". These actions have caused unlawful depreciation of the value of the assets from going down in the cadastral item category. This irregularity was noted in 20 cases in the audits of the Offices for 2018.
- **3.** The intangible assets registration offices have wrongly registered in unlawful ownership agricultural properties in the Intangible Property Cards, opened by the local government units and received and taken over by the Offices, for which the relevant Intangible Property Cards are not opened and identified according to the areas defined in acts of taking land in ownership , contrary to Law no.7501/1991 "On Land" and to the law no. 9948/2008 "On the review of the legal validity of the creation of property titles on agricultural land". These are actions which have led to

the generation of unlawful joint ownerships, the impediment to the registration of assets from the impossibility of issuing property certificates to claiming citizens, by heavily violating their rights of ownership, by unnecessarily bringing the problem to the courts instead of the administrative solution through the Offices and the the Directorate of Land Administration of the Regions; ie loss of time and additional expenses for citizens without legal cause, increasing practices in the process, paving the path for illegal corruptive actions on assets in the Intangible Property Cards, and the impossibility to confirm the legal status of the assets required for verification and rating of the property titles.

- **4**. In the registration of "residential buildings" type real estate by construction firms, the intangible assets registration offices have not calculated the documentation for collecting and paying the obligation for the registration of common spaces and the R-11 service in the residential houses. This action is contrary to the requirements of Law no. 10112/2009 "On the administration of common ownership in residential buildings" and Law no. 33/2012 "On the registration of intangible property", Article 50, "Registration of common premises in buildings". This action generated the avoidance of the ownership transfer tax by the construction companies, while the apartments sold to citizens include in the price the value of these common premises, as well as the restriction of actions on their assets from the citizens due to the imposition of restrictions on them.
- **5.** The intangible assets registration offices have not accurately evidenced the overlapping assets. The auditors found lack of identification, reporting, establishment of a database, reflection on relevant maps, and follow-up of the legal procedures of assets resulting from overlapping, lack of notification of interested parties, orientation towards judicial resolution, often stimulating the unrealistic advantage through unlawful opposition and creating the first censorship delay. These actions from the Offices have generated double profits of illegal property titles from overlapping, stimulating unrealistic advantage, not following the procedures of legal treatment for overlapping, unequal treatment and favoring of one party, violating the impartiality of the Offices, failure to implement the 1 month deadline of the Code of Administrative Procedures, as well as not issuing an administrative order for refusal of registration of overlapping parts, creating this large social problems between the parties.
- **6.** The intangible assets registration offices have not made the balance of the acts of taking land in ownership with the Book of Parcels and the lists of households, by not separating and registering as "State land" the surface of land above the norm, contrary to the Law no. 7501, dated 19.7.1991 "On Land", the Law no. 7843/1994

"On the Registration of Intangible Assets", to the Article 25 of Law no. 33/2012, to the Decree of President no. 5747/1978, as well as to the Regulation no. 184, dated 08.04.1999, later amended with Regulation no. 7/2000 "On the work of the Intangible Assets Registration Office". These actions have generated the unjust taking over of State property by individuals without ownership title, the carrying out of transactions and State land alienation, by bringing missing income and economic damage to the State budget. The SAI has detected this situation in 50 cases for the eight audited intangible assets registration offices for 2018.

- 7. The Offices have produced mismanagement of cadastral zones and inaccurate reflection of the state of agricultural lands in the Intangible Property Cards. The auditors observed cases of unmanaged cadastral areas which were not included in the Initial Registration System, resulting in the lack of identification of assets, inaccurate definitions of legal status of the assets in the Intangible Property Cards and the restriction of the rates of their registration, contrary to Law No. 7501/1991 "On Land", to the Law No.33/2012 "On Intangible Asset Registration" and to the relevant instructions for initial asset registration. In order to reach to a solution for this situation, the SAI has recommended to the regional intangible assets registration offices and to the Central Intangible Assets Registration Office in Tirana to carry out the management of cadastral zones, to define in the Intangible Property Cards the legal status of assets divided by law, to withdraw from the local government units archives and administer the misssing documentation of the acts for the taking of land ownership and the Lists of Parcels 001 (first print: the initial asset registration system), as well as to take measures for defining funds for managing and introducing the unmanaged cadastral zones in the initial asset registration system, as a key condition for speeding up the registration of agricultural lands. Another problem is the registration of agricultural land assets and the carrying out of transactions, by not complying with the legal requirements according to the acts of taking the land in ownership, which do not fulfill the elements of the form and content of an Administrative Act, to serve as title of ownership, as provided by law. The SAI found this situation in 20 cases for the eight audited intangible assets registration offices for 2018.
- **8.** The intangible assets registration offices have registered some intangible assets of type "land" in State owned land, by not complying with legal requirements, alienated by sales contract from the local government unit (municipalities), which has no legal competence or power to sell the land with the State as owner. This has been noted in **45 cases** for the eight intangible assets registration offices audited for 2018, most of which belong to the intangible assets registration office of Saranda.

9. Registration of intangible properties on the basis of a legalization permit, by not applying the legal requirements, after the alienation of the property "building" registered as "State property", by deleting the ownership of the State and transferring it to the possessors of the legalization permits, in absence of legal documentation that serves as Property Title. The SAI ascertained this situation in 55 cases, in the audits performed in the Intangible Assets Registration Offices of Shkodër and of Malësi e Madhe. The auditors observed failure to respect the procedures regarding the enforcement of the decisions of the Property Titles Evaluation Local Commission and the Administrative Court, which have ordered the return of these properties to the "State property" status, by not taking the appropriate measures to secure and register as "State property" the areas defined during and after the end of the review process. As a result, these properties are left with the ownership of the illegal holders.

10. In the registration of State and public assets, the intangible assets registration offices have shown indifference. They have not registered state properties and have wrongly reacted, with consequences the appropriation and seizure of State assets from illegal owners without property titles, or showing lack of efficiency in their service. Thus, only during the audit of the Intangible Assets Registration Office of Shkodra, the auditors have ascertained that the Office did not reply to the asset registration requests from the Municipality of Shkodra. It did not register 106 properties of type "Land" and "Building", belonging to 47 properties of the Municipality of Shkodra with function schools, cinemas, public health unit (ambulances, etc.), buildings with cultural, commercial, artistic and economic functions, located in 6 cadastral zones of the city. The Intangible Assets Registration Office of Shkodra has accepted from the Project Management Unit the opening of inaccurate the Intangible Property Cards with lack of asset identification; without marking in the Intangible Property Cards the name of the representative of the State institution and without naming of the public object by function. All these wrong actions are in violation of Law no.7843/1994 and the Law no.33/2012 "On registration of intangible assets" in violation and exceeding of deadlines over a period of 5 years, contrary to the deadlines set by by Articles 6.12 and 21 of Regulation no. 184/1999 "On the Work in the Intangible Assets Registration Offices" and to the Decision of the Council of Ministers no. 421/2010 "On the approval of the final (partial) list of public and State properties transferred to ownership or use of Shkodra Municipality and Shkodra Region".

The SAI has found that the intangible assets registration offices have illegally regsitered assets by not complying with the legal requirements, by alienating "State"

propertes such as streets, sidewalks, etc., for which there was lack of accuracy when they were put into the indicative maps of the offices, as well as there was no accurate assessment of the legal technical documentation. The auditors have detected this situation in 30 cases, during the audits in the eight intangible assets registration offices for 2018.

11. Registration of intangible properties obtained through local government (municipalities) Decisions (the cases where no ownership acts are possessed), by not applying legal requirements, as there is a lack of documentation, avoiding the procedures defined in Council of Ministers' Decision no. 608/2012, later amended. The SAI has observed such a situation in 15 cases, in the audits carried out in the Intangible Assets Registration Offices of Saranda and Shkodra.

Audit at the Assets Treatment Agency in Tirana

The SAI has found that the Agency has taken decisions for financial compensation of former oweners of land, in the absence of the decisions of the former Commission of Restitution and Compensation of Propetries to former Owners, as well as in absence of the required legal documentation. The Agency has made financial compensations not according to the cadastral item that the property had at the time of expropriation. It has changed the status of the property type from "arable land", "shrubs", "land without fruit" to land able to construct on it", changing the value of compensation to the detriment of the State, as a result of non-implementation of the regular legal assessment procedure of compensation decisions, by causing a negative financial effects on the Compensation Fund for former owners in the amount of 736 million ALL (or 6 million euro). The Agency has physically compensated the land more, with a total area of 145,735m² (14.57 hectares) of land. It has reassessed the final administrative decisions (from courts) in violation of the Decision No. 1/2017 of the Constitutional Court and of the Venice Commission Decision no. 861/2016, CDL-AD (2016) 023. Out of 130 audited files, the SAI has found that in 2 cases, the Agency has made financial compensation decisions in the value of 94 million ALL and physical compensation with surface 45,227.5 m² in the absence of the decisions from the Property Restitution and Compensation Commission of the Former Owners (the decision from this Commission is the only legal document based on which the Agency can make a financial compensation decision). Therefore, the SAI considers the value of ALL 94 million as a negative financial effect to the Compensation Fund for the former owners. These actions are in violation of Law No.133/2015 "On the Treatment of Property and the Completion of the Property Compensation Process" and of the

Council of Ministers' Decision no. 223/"On the Determination of Rules and Procedures for evaluation and distribution of the financial and physical fund for property compensation".

In 19 cases, the auditors found that the Agency made estimates of compensation of expropriated owners in the total amount of 633,815,604 ALL on the basis of financial assessment of the final decisions made for the cadastral item "Land", and not according to the cadastral item that the property had at the time of expropriation. The Assets Treatment Agency did not financially assess the known property for compensation based on the cadastral item that the property had at the time of expropriation, avoiding the regular legal procedure for identifying the type of property at the time of expropriation (the land might have been agricultural land, forest, pasture, etc.). These actions were carried out in violation of Law No.133/2015 "On the Treatment of Property and the Completion of the Property Compensation Process" and point 3, letter "a" and "d" of the Council of Ministers' Decision no. 223/2016 "On the definition of rules and procedures for the evaluation and allocation of financial and physical funds for property compensation".

Out of the 19 cases above, in 2 of these cases, the SAI found that, as a result of the non-implementation of the regular legal procedure of financial evaluation of the compensation decisions, the expropriated owners were physically compensated more with the total area of 45,735.6m² (14.57ha), in violation of the Law No.133/2015 "On the Treatment of Property and the Completion of the Property Compensation Process", as amended, and of the Council of Ministers' Decision no. 223/.2016 "On the Determining of Rules and procedures for the evaluation and allocation of financial and physical funds for property compensation", as amended.

In 6 cases, the Assets Treatment Agency has reassessed the final administrative decisions that have set the financial compensation, by increasing the value of compensation due to the highest price of the plot per m² in one case at the amount of 7,428,000 ALL, and lowering the compensation value, at the disadvantage of owners in other cases, as a result of the lower property price in some cadastral zones. This action contradicts the Decision No. 1/2017 of the Constitutional Court, citing "the Constitutional Court, regarding the provisions which provide that final judicial or administrative decisions, which provide for the granting of a certain amount of compensation, assesses that they raise the issue of "legitimate expectations" but by law they will not be subject to reassessment". It goes against also to the Venice Commission's decision no.861/2016, CDL-AD (2016) 023, which states "court judgments or administrative decisions which provide for the granting

of a certain amount of compensation ... shall not be subject to revaluation under Law no. 133/2015 ".

Audit at the Regional Environment Departments

The SAI has found that the regional environment departments have not complied with the criteria for granting environmental permits of type "c". Such a wrong action was ascertained in the Regional Environment Department of Berat for 121 cases versus 270 audited licenses, in the Regional Environment Department of Korça for 160 cases versus 392 audited cases, contrary to Law no. 10431, dated 09.06.2011 "On the Protection of the Environment"; Law no. 10448 "On Environmental Permits", later amended and to the Council of Ministers' Decision no. 419, dated 25.06.2014 "On the Approval of the Special Application for the Examination of Type A, B and C of Environment Permits, for the Transfer of Permits from one entity to anotherr, the Conditions for Environmental Permit Permit as well as Detailed Rules for their consideration by the competent authorities until the issue of these permits by the National Centre of Licenses".

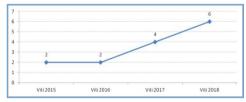
The auditors have observed inadequate working capacity in the assessment of environmental impact studies, in the implementation of procedures (with delegation from the National Environment Agency) to provide (prior or final) environmental impact opinions to companies applying for the Types "A" and "B" of environmental permit (for the exercise of hydropower stations activity, mining, stone extraction, etc.) with consequences of misuse and damage of assets, in forest-pasture, aquatic resources, biodiversity and ecosystems of Albanian nature, surfaces and terrains, failure to follow established obligations for the return to the previous state or compensation of areas for reasons of non-coordination of central bodies such as the National Agency of Environment, the National Agency of Natural Resources, the respective Ministries among them and the local government unit (municipalities) that have the lands in their jurisdiction or ownership, contrary to the environmental legal package, whose non-compliance is causing environmental pollution damages to the quality of life and misuse of assets, in violation of the Law no. 10431, dated 09.06.2011 "On the Protection of the Environment"; Law no. 10448 "On Environmental Permits", later amended. The SAI highlights the wrong actions in giving an opinion on Environment Impact Evaluation and granting of Environmental Permits "A" and "B" from the Regional Environment Department of Korça for 145 cases out of which 36 cases for hydro power stations, versus 324 audited cases and the Regional Environment Department of Berat with 88 cases out of which 12 hydro power stations, versus 207 audited cases.

II.5. INFORMATION TECHNOLOGY AUDITS

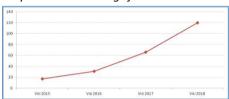
The information technology audits for 2018 have been developed in line with the objectives of the ALSAI development strategy, based on the achievements and look at the prospect ve of this audit.

Based on the 2018 Audit Plan, the IT Audit Directorate developed 6 audits of information technology systems, further deepening the trend of increasing the number of audits and related findings, as follows:

Graph no.11:Performance of IT Audits



Graph no. 12: Findings from IT audits



Source: ALSAI

IT Audit results for 2018

1. National Agency of Information Society

E-Albania Portal carries investment problems in IT systems without strategy and no clear interaction objective

ALSAI, evaluating the National Agency of Information Technology as a Public institution in the field of information and communication technology, providing services focused on the state administration, citizens and businesses, selected,

after a risk analysis, the performance of IT systems of "e-Albania" portal.

At the conclusion of the audit, the SAI found that the e-Albania governmental portal, despite the efforts and achievements of the National Agency of Information Technology for the establishment of a governmental inter-operability platform that interconnects the systems of institutions and the provision of public services from the offices and physical counters of the public institutions electronically, carries on the problematic issues of investment in the IT systems of institutions that do not have a strategy. The National Agency of Information Technology has not taken enough regulatory and organizational measures to manage change. In ALSAI auditors' judgment, the management of critical elements in information systems is

insufficient and investments in information systems have not definitely solved the business continuity and have not provided disaster recovery.

Changing IT structure has weakened the role of IT Governance in collecting requests, analyzing needs, delivering solutions and participating in decision making

2. Public Procurement Agency (PPA)

The SAI, by assessing the importance of the Public Procurement Agency in the public procurement process and taking into account the fact that an IT audit was conducted in this institution, using CAAT techniques, while analysing the database, after a

risk analysis, choosed to audit the performance of information technology systems.

At the conclusion of the audit, the auditors found that the Public Procurement Agency has taken regulatory and organizational measures to guarantee the availability of information systems, the measures taken to increase the transparency and effectiveness of the procurement procedures have proved successful by curbing the use of the procurement procedure "negotiate without prior announcement of the contract notice" during 2018, compared to 2017 indicators.

The SAI observed that the changes in IT structures in the the Public Procurement Agency (and not only) carry the risk of weakening IT governance by reducing their role in meeting requirements, analyzing needs, providing solutions and participating in decision-making.

The achieved results are compromised by the lack of the Information Technology Strategy, bearing the risk of wrongly addressing the resources needed to support the activity of the Public Procurement Agency.

Security of information is compromised by non-approval in the entity's structure of the job position of the Security Officer.

The SAI finds that the Public Procurement Agency does not have the capacity to provide technical assistance for various problems that may be encountered by the contracting authorities as well as to guarantee the availability of the procurement system that is operational 24 hours in 7 days of the week.

The auditors have observed that the Public Procurement Agency does not identify and manage the risks. The entity's portal does not use a connection security (HTTPS- HyperText Transfer Protocol Secure), by bearing the risk of loss of privacy, change of information that is loaded or provided through this portal.

The Public Procurement Agency (PPA) has allowed the Contracting Authorities through an administrator account to open additional accounts according to the needs of the institution to access the PPA system. The audit found that the opening of these users remains almost unmonitored, as the PPA itself does not carry out monitoring related to this action, thereby increasing the risk of unauthorized users entering the system, resulting in loss of data confidentiality or misuse of data.

With the changes in structures, the important part of IT Governance is affected in the Public Procurement Agency. The role of IT structure should not and cannot be replaced with other structures, as the TI structure plays an important role in collecting claims, analyzing needs, providing solutions and participating in decision-making on IT problems.

General Directorate of Civil
Status has not taken
sufficient regulatory and
organizational measures to
ensure the services,
confidentiality, integrity
and data availability of
information systems

3. Ministry of Internal Affairs, General Directorate of Civil Status

The ALSAI, by evaluating the role of the Ministry of Internal Affairs (General Directorate of Civil Status) as the administrator of personal data of Albanian citizens, foreign nationals and stateless persons who are temporarily or permanently resident in the Republic of Albania, whose data are registered and

maintained in the National Register of Civil Status and which certify the birth, existence, individuality, connections or relationships between the citizens, constitute elements of the Civil Status, after a risk analysis, choosed to audit the performance of Information Technology Systems focused on the National Registry of Civil Status.

The General Directorate of Civil Status is the institution responsible for the complete personal data of Albanian citizens, foreign nationals and stateless persons who are temporarily or permanently resident in the Republic of Albania. The data are registered and kept in the National Registry of Civil Status.

At the conclusion of the audit, the SAI found that the General Directorate of Civil Status did not take sufficient regulatory and organizational measures to guarantee the services, confidentiality, integrity and readiness of the data in the information systems that it possesses. The lack of a Strategy related to Information Technology systems and the resources needed to set up, develop and maintain them has weakened the opportunities of the General Directorate of Civil Status to achieve its goals. Lack of regulations and continuous application control exercises have led to

mismanagement of critical security elements and increased the risk of unauthorized access to the data.

The National Registry of Civil Status is without maintenance, endangering the continuity of the work of this institution to provide online service to citizens.

The auditors looked at the continuity of the digitization of registers and acts and observed that it is not done in continuity and the transcription from the registers to the archive program is carried out whenever there is a request (case by case).

The SAI found that the General Directorate of Civil Status does not have any agreement with the relevant public institution/entity for access to personal data, contrary to the Instruction issued by the Ministry of Interior with the Commissioner for the Protection of Personal Data.

The audit observed that the General Directorate of Civil Status did not build a disaster recovery strategy and did not have written plans that determine the continuity of work processes. The lack of the Information Technology Strategy has led to a lack of clear coverage of the General Directorate of Civil Status objectives regarding IT infrastructure and the necessary resources for its development and maintenance.

The General Directorate of Civil Status does not have documentation/implementation of information security policies.

4. Public Administration Departament

The Department of Public
Administration should
continue to intensify efforts by
using the tools and
competences that the law
provides for extending the
HRMIS system to all central
and local government entities,
as well as to independent
institutions

The ALSAI, in assessing and highly evaluating the role of the Department of Public Administration as the public institution responsible for:

- the management and implementation of the civil service in all central administration institutions;
- drafting and implementation of policies in the field of salaries and building of public administration institutions, as well as;
- the design and implementation of general training policies and programs applicable to the public administration as a whole;
- investments made for the implementation of an information technology management of human resource files and not only of public administration employees, called HRMIS (human resource management information systems).

At the conclusion of the audit, the ALSAI found that the Department of Public Administration has developed information technology systems in order to meet the objectives of the institution by utilizing the resources made available and by absorbing significant investments from foreign donors for the development and maintenance of IT infrastructure. However, investment in information systems has not solved the problems of information security, of ensuring the continuity of the institution's activity and did not provide Disaster Recovery.

Despite the efforts made, the Department of Public Administration should continue to intensify efforts by using the tools and competences that the law provides for extending the HRMIS system to all central and local government entities, as well as to independent institutions.

The auditors observed that the degree of increased interaction of the HRMIS system with other systems remains a challenge for all institutions envisaged to operate with this system.

The increasing degree of interaction of the Business National Center system with other systems remains a challenge for all institutions envisaged to operate this

5. Business National Center

The ALSAI, in assessing the special importance of the Business National Center as the sole institution responsible for business registration and licensing/authorization in Albania and the

role of Information Technology Systems in performing this entity's mission, after developing a risk analysis choosed to audit the performance of the Technology Systems at the Business National Center.

At the conclusion of the audit, the ALSAI found that the Business National Center has taken regulatory and organizational measures to guarantee the services and functionalities for the availability of information systems to serve the business, yet there are also shortcomings that do not result of material relevance, especially regarding to:

- overlapping of legal acts, leading to the generation of primary data for the same purpose by the two institutions, the Business National Center and the General Tax Department, contrary to the law "On State Database", by negatively affecting the easing of business procedures;
- lack of communication with the General Tax Department system and its local directorates for real-time data exchanges, which make up for the main reason for a

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high volume of data processing, concentrated in the headquarters of both institutions;

- both the Business National Center and the General Tax Department have agreed that the NVE codes (Nace) be electronically sent by the General Tax Department to the Business National Center, wrongly updated in case of verification and ascertainment by the Tax Administration, at a time when these data in the Trade Register are reflected as primary data pertaining to the establishment and the activity of commercial entities with NVE codes (NACE), as referred to by the Council of Ministers' Decree no. 863, dated 21.10.2015 "On the establishment of the national database of the National Registration Center and the commercial register".

Investment in Information
Systems has hot definitely
resolved Information
Security problems,
Business Continuity
Assurance, and has not
provided Disaster
Recovery

6. Local Taxes in the municipality of Elbasan

The ALSAI, in evaluating the role of information technology in fulfilling the mission of the Municipality of Elbasan, after a risk analysis of data and IT documentation made available by the Municipality of Elbasan, decided to conduct an audit of entity's Information Technology Systems.

At the end of the audit, the SAI found that the Municipality of Elbasan has developed Information Technology Systems in order to meet the objectives of the institution by utilizing the resources available and also by absorbing significant investments from foreign donors for the development and maintenance of IT infrastructure. The investments in information systems have not solved the problems of information security, business continuity assurance and disaster recovery. The development of services and infrastructure should be based on the best practices and recommendations of the National Agency of Information Technology.

The achieved results are compromised by the lack of the Information Technology Strategy, bearing the risk of mismanagement of the resources needed to support the activity of the Municipality of Elbasan.

The security of the network infrastructure in the Municipality of Elbasan is compromised as a result of the lack of Infrastructure.

The Municipality of Elbasan does not have the needed infrastructure to provide the developed applications, as the physical environment compromises the security of the applications. The Municipality of Elbasan has no special testing environment prior to the transition to changes in the Live system for applications, whose lack compromises system security, data and continuity of service delivery.

Objectives of IT Audit Department for 2019

The main objective of the IT Audit Department is *to further develop the IT audit capacities* used for financial reporting in the public sector and audit processes in general. The challenges related to IT audit and the introduction of increased electronic governance (e-government) projects raise the need for further development, extension and deepening of this type of audit. The rapid proliferation of computer technology and the use of "Big Data" in the audit require investment in visualizing and analyzing tools, in capable and well-trained IT auditors, possessing the right knowledge to give assurance if appropriate controls and processes are established and function effectively to manage the risk and vulnerability of IT systems.

In function of the main objective, the Department should further deepen its work in the folloring directions:

First, the acquisition and use in the audit of CAAT, IDEA, COBIT techniques, as well as deepening knowledge in the field of information technology.

Second, consolidating the use of IT Audit elements in compliance, financial and performance audits. IT audit elements will continue to extend to other audit departments, continuing the twinning project's internship practice for consolidating a first IT support line in each department and its support from IT Department.

Third, the provision of IT auditors with internationally recognized certification certificates, taking into account the resources required under financial commitments.

II.6 PERFORMANCE AUDITS

On performance audits for 2018

2018 was the first year of implementation of the ALSAI 2018-2022 institutional strategy. This strategy sets out a number of objectives in a number of directions for the Performance Audit Department and specifically:

1. *In terms of audit work*:

- Focus on macroeconomic issues, in addition to microeconomic ones, in the selection of audit themes and issues;
- Continue focusing on process auditing rather than institution auditing;
- Reclassification of audit areas by considering other criteria, such as: government priorities, sectoral weight in the budget, e-government, etc.

- Classification and monetization of findings, conclusions and recommendations according to 3Es (effectiveness, efficiency and economy), and not merely: organizational and legal ones, as is the ALSAI's tradition in compliance and financial audits;
- Maintain and promote the profiling and specialization of auditors by creating a core team of professionals to serve as locomotive to manage change and increase the weight of performance reports within and outside the institution.
- Adding quality assurance filters within the department, enhancing communication between colleagues and setting up groups that certify each other's work.
- Generating up to 25-30% of the audits of ALSAI in the last year of the 2018-2022 Development Strategy, with an average annual increase of 4 performance audits per year. This increase should be "financed" either by adding new department auditors (new recruits or turnover from other audit departments to performance department) or by creating a joint performance audit and other audits larger unit, that has two or three departments, which perform "clean" performance and "mixed" audits, where performance audit elements dominate. At present, the SAI carries out a number of legality (compliance) audits, whereby performance elements are largely dealt with.

2. In terms of human resource management:

- Recruitment, cultivation, monitoring and promotion only in accordance with the knowledge of auditors and professional contribution to audit work;
- Training and testing according to a calendar and curricula planned in annual terms, specialized in accordance with the experience and auditing area, harmonized with other trainings at home and abroad;
- Financial motivation according to a performance-based plan;
- Changing auditors' approach from reactive to proactive.
- Exploiting domestic and foreign expertise for the benefit of auditing and not vice versa.

3. In terms of communication:

- Follow-up to Parliament of each performance audit report, requesting also to be heard at special sessions on critical issues.

- Increasing weight of reporting of performance audits in the two reports that ALSAI conveys annually as integral documents to the Parliament (Factual State Budget Implementation Report and SAI's Institutional Performance Report).
- Increasing active participation in conferences, workshops and meetings abroad, presenting and promoting audit work;
- Periodically organizing of meetings with journalists, academia and civil society to increase impact and receive feedback.
- Maintaining and increasin the presence in the print media, aiming at the transition to visual media.
- Increasing the number of followers on social media, targeting the young generation, to raise awareness of the young about the problems of the country and invite them into participating in problem solving.
- Encouraging and supporting institutional performance-related publications.

To accomplish the above objectives in the first year of the strategy, the Performance Audit Department prepared, conducted and published 18 performance audit reports, which affect a wide range of macro and micro-economic problems, with social sensitivity and important for lawmakers and executives.

A brief summary of each performance audit, focusing on the audit message, is provided as follows:

1. Performance of the Crosscutting Anti-corruption Strategy 2015-2020

Poor planning is expressed in the formulation of non-SMART sub-objectives, non-consultation or fictitious consultation of stakeholders in the drafting of these documents, as well as the adoption of this Strategy by-law (DCM), while it also sets out tasks for the relevant institutions. independent of the executive

(realized in the first 6 months of 2018 and covering the period 2015-2017)

The fight against corruption continues to be one of the major challenges and one of the major crosscutting priorities for Albania, as well as one of the five policies that our country is advised to follow with priority in the country's European Union integration process. The drafting of the Crosscutting Anticorruption Strategy 2015-2020, adopted by the Council of Ministers' Decree no. 247, dated 20 March 2015, as well as the respective Action Plan which refers to the period 2015-2017 serve to the

accomplishment of this objetive.

According to Transparency International, Albania ranked 91th out of 176 countries in the Corruption Perception Index, a place above Bosnia and Herzegovina, better than Macedonia (107th place), but worse than Kosovo (85), Serbia (77), Greece (59), Montenegro (64) and others. Looking at the dynamics of 2012-2016, Albania has made progress in perceiving the level of corruption, showing a downward trend since it had 31 points in 2013 and rose to 39 points in 2016, down a point in 2017 with a score of 38 points⁴.

Audit message: "The Crosscutting Anti-corruption Strategy 2015-2020 and its Action Plan have been created to be in line with one of the EU's 5 recommendations and their final outcome should significantly reduce corruption in the country, by involving all stakeholders. Regardless of this goal, the Crosscutting Anticorruption Strategy 2015-2020 and the Action Plan that details it suffer the poor planning of their objectives, specifically the objective A11, audited by the ALSAI. This poor planning is expressed in the formulation of non-SMART sub-objectives, nonconsultation or fictitious consultation of stakeholders in the drafting of these documents, the lack of a methodology that translates strategic operational objectives, the lack of coherence between the Action Plan and the Strategy and the adoption of this Strategy by a Council of Ministers' Decision instead of a law, while it also assigns tasks to institutions independent from the Government.

In terms of implementation, the National Anti-Corruption Coordinator (Ministry of State for Local Issues for the period March 2015-September 2017 and the Ministry of Justice for the period September-June 2018) with a key role in the design, implementation and monitoring of the Crosscutting Anticorruption Strategy 2015-2020 and the Action Plan has not mastered any link to his/her duties and responsibilities, resulting in an unmanaged, unmonitored, and therefore unreported strategy for achievements and failures. In the following, the SAI appreciates the efforts of the Ministry of Justice in the fight against corruption through the activity of the Task Force during the second and third quarters of 2018.

Prefectures, as one of the main parties in the implementation of the Strategy, are inactive both in deadlines and reporting quality and they result in not having implemented the foreseen final products.

 $^{^4}$ Evaluation in points is from 1-100, where the higher the number of points the lower corruption is

On the other hand, although civil society has been provided funds from the State budget regarding the anti-corruption issue and specifically this Strategy, its role is almost inexistant. It turns out not to be involved in the drafting process of the Crosscutting Anti-corruption Strategy 2015-2020 and to combat this phenomenon and therefore has not contributed with added value to this Strategy.

By considering that the Anti-corruption Strategy 2015-2020 and its Action Plan have failed until now in implementing their A.11 objective and in order to ensure the implementation of such a vital initiative for the country in the future, by eliminating the risk of the transfer of the Crosscutting Anticorruption Strategy from one institution to another, the SAI recommends the establishment of a National Anticorruption Agency. This agency is suggested to be under the dependence of the Prime Minister and responsible for the re-investigation, redeployment and further monitoring of the Anti-corruption Strategy 2015-2020 and its Action Plan, initially by ensuring the Parliament's agreement on these strategic documents in the form of a special law. In addition, the inclusion of non-governmental institutions in this Strategy, the synergies of anti-corruption efforts by the government and constitutional institutions, civil society, foreign donors and other public actors, the Parliament may include in the adopted Law on this Strategy an annex on reports and the role of these actors in the Anti-Corruption Strategy and specifically with the National Anti-corruption Agency. Relations and the role of non-governmental actors are suggested to focus on reconciling individual actors' strategies with the Government's Anti-corruption Strategy.

2. Poverty in Albania and the role of the state in mitigating it

There is no Government approved value (figure) in Albania for the minimum subsistence level and the poverty line

(realized in the first six months 2018 and covering the period 2012-2017)

The fight against poverty, as one of country's most sensed socio-economic problems, is supported by specific State budget programs

whose purpose is to fairly identify the poor and to ease their situation by providing adequate support, increasing the transparency of the targeted process and developping spaces for social reintegration of these individuals. In the National Strategy for Social Protection 2015-2020, the main instrument for poverty alleviation is the Economic Aid Scheme. Improving the indicators for the assessment of poor and extremely poor households is one of the main objectives of creating and adapting the Economic Aid Scheme over the years.

In this audit, the SAI addressed the effectiveness of this social care program as one of the strategic goals of the Government and the practical efficiency of this process in contributing to the real support of poor households compared to their consumption basket and macroeconomic indicators, the transparency of its administration and the dynamics of the program for social reintegration of beneficiaries.

Audit message: There is no government-approved value(figure) in Albania for the minimum subsistence level and poverty line, on which social studies and social care policies should be based.

The current Economic Aid Scheme, as an instrument of the Ministry of Health and Social Protection and its dependent social assistance institutions is not effective in alleviating poverty, referring to the number of families going out of the scheme due to employment and improvement of their socio-economic conditions. The inadequate support provided by the Economic Aid Scheme makes individuals ensure income by alternative means, which stimulates economic crime and not only it.

The lack of communication and reporting between the National Employment Service and the State Social Service makes the figures reported on the employment of unemployed jobseekers benefiting from economic aid to be incompatible and this negatively impacts the accuracy of statistical data needed to measure the strategic objective.

The inefficiency of the electronic system is related to the application of the unified scaling (through points) formula, which is not evaluated on the basis of coherent conditions of the families in need.

Government support to the Economic Aid Program would be effective if the contribution would be assessed in parallel with the overall level of prices, of consumer basket products and with dynamic studies on the reintegration of individuals into society.

It is worth pointing out that in this audit, as in the other conducted in the Ministry of Health and Social Protection, the institution's officials are reluctant to cooperate, delaying or do not providing the required information on the issues on which they are responsible. Although ALSAI has repeatedly demanded disciplinary action against these officials of the entity, the institution has taken no corrective action against them.

3. Hospital waste management

Hospital waste management suffers not only the lack of effectiveness of policy implementation but also the updating of the policies related to hospital waste (realized in the first 6 months 2018 and covering the period 2015-2017)

Hospital waste contains potentially harmful microorganisms that can infect hospital patients, healthcare workers and the general public. Other potential infectious hazards may include the

proliferation of chemical substances that are resistant to the environment by burning them; poisoning from pollution released by pharmaceutical products, in particular, antibiotics and special drugs; poisoning and pollution through wastewater; poisoning and pollution from toxic elements or compounds, such as mercury or dioxin released into the air during the treatment or disposal process. In developing countries, additional risks are also caused by feeding livestock with garbage at waste landfills, as well as by manual classification of hazardous waste from healthcare centers⁵. A concrete example of this definition is also Albania. In recent years and more specifically in 2017, we all witnessed a major scandal that came to light thanks to the media and civil society regarding the illegal dumping in legally approved areas of large amounts of hospital waste. This is also one of the main reasons why the SAI took the initiative to conduct a performance audit on hospital waste management in some of the main public hospitals in Albania.

Audit message: Hospital waste management suffers not only the lack of effectiveness of policy implementation but also the updating of the policies related to hospital waste. The Ministry of Tourism and Environment and the Ministry of Health and Social Protection do not have the necessary capacities to update and accompany with sufficient Council of Ministers' Decisions the entire legal framework regarding hospital waste management. Although there are a number of bylaws, they are based on already abolished laws, which results in impossibility to implement them.

The three State hospitals part of this audit, and especially the Regional Hospital of Kukës and Fier, have deficiencies in respecting the legal and regulatory framework to meet the required standards of hospital waste management. Differentiation, storage and treatment of hospital waste is not carried out in accordance with legal requirements and good practices. Significant deficiencies are also observed in the reporting and documentation of hospital waste, coupled with the indifference of the

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 $^{^5}$ Indicative Reportevaluating the hospital waste management in five cities in the country, REC Albania, 2014, page 11.

Ministry of Health and Social Protection, the Ministry of Tourism and Environment and the State Environmental Inspectorate of Forests and Waters.

Not all private entities licensed by the Ministry of Tourism and Environment for the treatment/disposal of hospital waste have been part of the strict inspections and controls that should be carried out by the relevant inspectorates (and in particular the State Environmental Inspectorate of Forests and Waters. The Ministry of Tourism and Environment, the National Agency of Environment and the State Environmental Inspectorate of Forests and Waters have no information on where the ash ends after the hospital waste incineration process, which is still considered a hazardous waste.

4. State Archives performance

The archive network displays significant problems in the technical infrastructure and physical security of document storage

(realized in the first 6 months 2018 and covering the period 2015-2017)

The archives of a State is an invaluable treasure, it is the memory of a nation. Our country has suffered numerous fractures in historical memory, especially during the dictatorship period. By not knowing it, we

risk repeating the previous mistakes.

The context in which this audit is embedded is that of an archive network with acute problems in the technical infrastructure and the physical security of document storage, which is done on site storage outside the archival standard. Personnel taking care of them, as well as archives or secretarial archives of institutions, is greatly reduced and with an annual budget that is found to be low to guarantee the preservation, processing, use and enrichment of historical, cultural and administrative heritage. The meetings and observations of the audit team in the Vlora and Shkodra Local Archives confirmed the difficult physical storage conditions of the documentation. In some storage rooms humidity seriously affects the physical condition of the files, while the standards derived from the archive law and the technical-professional and methodological standards of the archival service are not respected, the logistics is truncated as well as the staf⁶.

Of course, the determination and the good will of the responsible persons both at the central and local level of State archives to preserve our collective memory of

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⁶ Some of the computers were personal to the archivists themselves, the printers in some cases not working. The entity did not have even a sanitary and physical security officer of the buildings for day and night.

the generatiosn is not lacking. They have faced the irretrievable damage and disappearances of files during 1944-1991, an extremely reduced budget, and the systemic decisions of various governments to forget (precisely that) the nation's memory by not investing. However, the year 2018 brought them to a crossroads, that of essential reforms both in the structure and in the re-conceptualization of the regulatory framework of the archives and of their construction.

Audit message: The archive network displays significant problems in the technical infrastructure and the physical security of document storage. The State Local Archives represent an heavily amortized system due to the lack of investment and ineffective management culture of the General Directorate of Archives.

The "territorial reform" of local archives and licensing of private archives have been approved not in accordance with the Law on Archives and carry major risks that undermine efficiency and economy in terms of storage, processing and documentary property service. Consequently, the Order for the Restructuring of Local Archives should be abolished, while the Council of Ministers' Decision for licensing private archives should be amended.

The Ministry of Justice System Archives, although it respects technical-professional standards, does not have sufficient storage capacities. The Archives of the Ministry of Interior do not meet the minimum requirements of archives standards, requiring immediate intervention.

5. Performance of the State Technical and Industrial Inspectorate

The ALSAI finds that there is moderate progress in guaranteeing the quality of fuels for the period 01.06.2015-31.12.2017, which could be higher if the Ministry of Infrastructure and Energy would be sufficiently effective in this area

(realized in the first 6 months 2018 and covering the period 2015-2017)

Anyone in Albania who has a car has asked the question: Do we use for our cars, fuel at the right quality and in line with the price we pay for this product?

Every day, around 536,000 road vehicles travel around Albania, where 80% of them use petroleum

(diesel) to circulate. The petroleum market infrastructure (hidro-carbures and fuels plants, oil-tanks and gas stations) infrastructure is presented throughout the country. It has plants with considerable capacity for storing fuel, which are owned by different companies that are licensed to carry out petrroleum wholesale trading activity. These companies manage and operate a significant number of retail and

gas stations. The supply of petroleum and gas by-products is realized by imports and processing of domestic production. The ratio of domestic production is low, about 12.5%, due to the lack of home processing the entire quantity of crude oil produced in Albania. In the public sector of oil and gas production and trade, there is only one State owned company, Albpetrol holding. It is responsible for the activity of research, production and trading of petroleum and operates mainly on the basis of hydro-carbure (petroleum production and export licencing) agreements with foreign companies for the production of petroleum and the development of existing country's resources. The company ARMO holding, in which 85% of its shares are privatized, has been responsible for the refineries (Ballsh and Fier petroleum refineres) and its wholesaling and retailing of fuel (based on domestic resources). ARMO has changed owner and is already in the ownership of private domestic and foreign companies.

Referring to the gas small containers (cylinders) used for heating or cooking, the proper legal and institutional regulation that will ensure the safety of gas cylinders, as defined in the relevant EU directives such as 2000/9 / EC, remains a cute problem and represents are some of the short-term challenges of the Ministry of Energy and Industry. Albania, being a petrolem producer, has 4 refineries, which have the lowest capacity in the region. Their obsolete technology negatively affects the fuel market with direct consequences in the economic and social life of Albanian citizens.

Audit message: The ALSAI finds that there is moderate progress in guaranteeing the quality of fuels for the period 01.06.2015-31.12.2017, which could be higher if the Ministry of Energy and Infrastructure would be sufficiently effective in this area as well as the State Technical and Industrial Inspectorate would have no shortcomings in completing the logistics needed to carry out the planned activities.

6. Functioning of municipalities within the administrative-territorial reform

The Administrative-Territorial Reform did not meet the objectives: the new legislation is not fully implemented, the process of absorbing new functions, employees, assets and enhancing the quality of services has not been successfully achieved (realized in the first 6 months 2018 and covering the period 2015-2017)

The territorial reform in Albania, since its inception, has been accompanied by numerous debates and was approved without taking into account the citizens' opinion, due to the lack of a country's referendum. Along the implementation process, many problems have been identified. A Council of Europe mission in 2016 to evaluate the achieved

progress⁷, has pointed out that local government reform in Albania has advanced unevenly, by creating confusion over division of powers and accusations for favoritism. The mission headed by the Dutch rapporteur, Jos Wienen, Vice-Chairman of the Council of Europe's Monitoring Committee, said: "Despite efforts to provide support to new representatives elected through the Territorial Reform Implementation Agency, implementing the process at the local level seems to be slow and sometimes unfavorable. Confusion about the division of powers and financial resources still seems to be widespread among the new elected local Government representatives, threatening the proper and timely implementation of the administrative-territorial reform". The report is also critical when it comes to financial resources allocated to support this reform. Despite the government allocating 3.2% of GDP in 2016 to local government, the highest level ever reached, this is still considered insufficient. "Due to delegation of new competencies and the new administrative-territorial structure, the 2016 budget does not correspond to a net increase in local authority revenues", stressed the report. The delegation also highlighted the opposition's accusations of unilaterally awarding grants to finance specific projects at the local level. "The transparency of the granting process is a matter of concern because the Regional Development Fund is managed by the central government and so it is suspected of political favors" the report said.

Audit message: The Administrative-Territorial Reform did not meet the objectives: the new legislation is not fully implemented, the process of absorbing new functions, employees, assets and enhancing the quality of services has not been successfully achieved. In most municipalities, there is a low level of effectiveness in collecting their own revenues and using the available funds.

Despite the fact that the Administrative-Territorial Reform was indispensable, it did not fully reflect the principles of the European Charter of Local Autonomy. Consequently, there is a discrepancy between the reform objectives and the fiscal and budgetary policies of the central government that have violated local autonomy, thus undermining the strengthening of decentralization and autonomy of municipalities. The central budget allocates about 1% of GDP to the local government units (the municipalities), which is the lowest regional level, without assisting municipalities in the full exercise of competences and in increasing the level of services to citizens. Between municipalities there is a financial inequality in the country. Some central government interventions in the local government units

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⁷ <u>https://rm.coe.int/168071939a</u> Information Note on the Council of Europe's Fact-finding Mission to Albania (24 to 26 February 2016)

have been identified to have a negative impact on municipal budgets and the stability of their financial autonomy.

7. Performance of responsible institutions for Medical Emergency

(realized with the contribution of an USAID project, in the first six months 2018 and covering the period 2015-2017)

The Ministry of Health and Social Protection in the role of the policy-making institution and the National Emergency Medical Center are the two key institutions that need to ensure that emergency service is offered effectively at all levels for the benefit of citizens.

Regardless of legal obligations and responsibilities, there are still repeated shortcomings in the emergency service, which clearly show a lack of leadership, coordination, cooperation and transparency among responsible State institutions.

Patients continue to report that the service offered is not timely and at the required quality.

Audit message: The activity of the institutions responsible for the organization and functioning of medical emergency service in our country, for the audited period has been lacking effectiveness in some of its key aspects.

Even after 4 years from the entry into force of the Law on Medical Emergency, the Ministry of Health and Social Protection has not adopted the standards for physical infrastructure, drugs, medical equipment, and the human resources necessary for providing this service to our citizens. The failure of the Ministry of Health and Social Protection shows a lack of institutional accountability to improve the medical emergency situation in Albania, especially against the tepid activity in terms of adopting medical emergency protocols, as well as the revision and approximation of our country's legislation to that of the European one. The Ministry of Health and Social Protection has been totally ineffective in the few initiatives it has taken in this area, during the audited period.

From the moment of creation, the National Emergency Medical Center, despite the efforts, has not acted effectively in order to identify key priorities with regard to the planning, direction, participation and coordination of all existing assets in a unified state system, by providing only partial co-ordination for the city of Tirana. The National Emergency Medical Center has not performed a nationwide emergency service quality review and has not exercised internal control throughout the medical emergency service, penalizing the development of this service, as well as its activity

in this regard. This institution has not been able to build an official communication channel with the Ministry of Health and Social Protection, in order to track all the problems encountered in extending the service nationwide and its progress. The alleged negligence clearly indicates that this institution has not generated the impact defined by the Law on the Improvement of Medical Emergency Service.

The Ministry of Health and Social Protection and the National Emergency Medical Center should initially act to supplement with bylaws the Law no. 147/2014, "On the Emergency Medical Service", with the purpose of its implementation at country level, to the exclusive benefit of citizens.

8. Electronic prescription and signature

The Ministry of Health and Social Protection in cooperation with the State Fund for the **Compulsary Insurance of Medical Care should actively** engage in the extension, application and consolidation of the e-prescription and e-signing throughout the health system for reimbursable medicines as they are far from the strategic objectives of electronic health development and contractual obligations, surpassing the deadlines for its implementation (realized in the first 6 months 2018 and covering the period 2015-2017)

Our country has begun to computerize health services at all levels of its delivery: primary, secondary and tertiary ones. Electronic healthcare is a system that includes the electronic prescription by increasing the number of e-health digital programs and services. The purpose of the electronic recipe and signature is to make health services as transparent as possible and to provide better control in terms of disbursement of reimbursable drugs for specific categories, defined in the legislation in force. The reason for this investment was that for many

years, the health system in Albania has suffered from lack of transparency in the provision of medical drugs to the patient. The realization of the e-recipe and e-signature is a priority of State health care policies, providing significant benefits to the state budget regarding the transparency and budget efficiency of reimbursement of medicines. Prior to 2015, all recipes were written manually. As a result there were identified many problems regarding the transparency and administration of a budget of 10.400 million ALL (or more than 85 million euro), representing 26% of the total budget of the State Fund for the Compulsary Insurance of Medical Care.

The electronic recipe allows healthcare providers to generate and transmit the prescription electronically to drugstores and pharmacies that have a contract with the State Fund for the Compulsary Insurance of Medical Care.

Audit Message: The Ministry of Health and Social Protection in cooperation with the State Fund for the Compulsary Insurance of Medical Care should actively engage in the extension, application and consolidation of the e-prescription and e-signing throughout the health system for reimbursable medicines as they are far from the strategic objectives of electronic health development and contractual obligations, surpassing the deadlines for its implementation.

The Ministry of Health and Social Protection, as a representative of the State's interests and in the role of the contract enforcement agency, has held a passive role, bearing all the burden of implementation to the State Fund for the Compulsary Insurance of Medical Care, which in itself has been sporadic and unclear in its actions for the fulfillment of this contractual obligation.

The Ministry of Health and Social Protection and the State Fund for the Compulsary Insurance of Medical Care are not clear about the deadline for applying this very important technological innovation in the public health sector.

The lack of coordination between the two institutions, as well as the lack of a well-defined plan on their part, has contributed to the failure to respect the time frame for its application in the health system.

Despite an increase in implementation rates in early 2018, mainly in the primary health care system, electronic prescriptions are still far from applying to healthcare services for reimbursable drugs. The lack of electronic signatures for pharmacies remains a weak link in this project, removing it from the strategic objectives of paperless processing.

The Ministry of Health and Social Protection and the State Fund for the Compulsary Insurance of Medical Care should actively engage in the extension and early application of the electronic prescription to the hospital service and mainly to the Universitary Hospital Center of Tirana.

The Ministry of Health and Social Protection and the State Fund for the Compulsary Insurance of Medical Care, in cooperation with the National Agency of Information Technology should digitize all the links in this process, enabling the electronic prescription project to be able to interact with other e-health programs.

The Ministry of Health and Social Protection and the State Fund for the Compulsary Insurance of Medical Care should initiate the launch of the electronic card project by making the electronic prescription system more effective.

9. Management of marine protected areas

There are entities that mainly exercise their administrative functions in and around the marine park work independently, without coordination between them. There is a lack of information sharing, thus affecting the level of efficiency of the marine park areas management process

(realized in the first 6 months 2018 and covering the period 2015-2017)

The National Maritime Park is recognized as the best and most impressive area of the Albanian coast for the development of marine activities such as diving, fishing activities, tourism development, and the diversity of relatively high biological diversity, rare species and a flora and fauna very developed. It is considered an important

ecosystem as a result of climate, geological and geomorphological composition, as well as numerous biodiversity sources where we can mention underwater landscapes with rocks and underwater caves, meadows of Posidonia Oceanica, coral algae, water bird species, etc. Marine waters of this area have been registered as marine habitats of national and international interest that are listed in international conventions and the Red List of Albania as species to be protected. This area is also known for its historical and archaeological values. Sound marine protected areas management will bring conservation of biodiversity, conservation and protection of marine species and habitats, preservation of cultural heritage and landscape, socio-economic benefits such as sustainable fishing, controlled tourism activities or opportunities for research and scientific research. Nowadays, this treasure of nature is threatened with the loss of values due to poor implementation of the law and to illegal activities. Among the biggest threats to the preservation of values, we can classify illegal fishing and aquaculture, gathering rocky mussels, anchoring in unauthorized areas, urbanization, the development of illegal tourism (non-registered bars and restaurants), pollution, invasive species, etc.

Audit message: The authorities that mainly exercise their administrative functions in and around the marine park work on their own, without coordination between them, and there is a lack of information sharing, thus affecting the level of efficiency of the park management process. It is also found that there is a lack of cooperation mostly by inspectors who, given that the law provides punitive powers against offenders, are considered as the most "authoritarian" link seeking the assistance and cooperation of the local government units, but not vice versa, mainly in exchange of information. It is a fact that since 2010, our country, although with considerable potential, has remained with only a marine protected area, so it is not

paid proper attention to this category. So far, the marine protected areas management plan has been realized with the help of projects and with the dedication of very small staff who often undertake private initiatives in function of meeting their conservation and conservation purpose (it should be noted that with only one staff of about 17 rangers, of which 4 are funded by the project, this administration should manage all protected areas of Vlora-Saranda region). Because of the limited powers and resources that this administration has, it fails to carry out effective monitoring and control of the area under jurisdiction.

10. Drinking water quality for consumers

(realized in the first 9 months 2018 and covering the period 2015-2018)

Today the challenge in improving the quality of drinking water lies in its sustainable

Water features shape every aspect of life, so the National Water Supply and Sewerage Agency, the Public Health Institute, the Water Supply and Sewerage Associations, line ministries and local governments should increase cooperation among themselves with specialists in the field

and inclusive management in decision-making, providing equal benefits in accordance with EU environmental and water policy principles. The most efficient drinking water management lies in increasing transparency, trust and avoidance of abuses, because in many cases the performance is measured only by figures, while we forget that the way we manage it reflects the social approach for future generations.

The SAI has undertaken this performance audit and giving opinions on the improvement, modernization

of the drinking water management system, in providing the highest quality with the lowest cost and consequently appropriate tariffs.

Audit message: Water features shape every aspect of life, so the National Water Supply and Sewerage Agency, Institute of Public Health, Water Supply and Sewerage Associations, Line Ministries, Local Government to increase co-operation amongst them with specialists in the field, legislative institutions and interest groups, to create a better approach and trust among stakeholders, through a good dynamic management process in providing the most qualitative drinking water because the quantity and quality of water available to consumers are important factors that determine their living standards.

11. Capacity building in the Albanian public administration, in line with United Nations Sustainable Development Goals of the UN Agenda 2030

ASPA's micro environment is unregulated. The institution functioned without an approved regulation and no defined functional duties (realized in the second 6-month 2018 and covering the period 2015-2017)

The quality of public services provided to citizens is directly influenced by the quality of public administration staff. According to a study conducted by the European Commission, part of which was our

country, there is a correlation between the quality of services in public administration and the level of trust in it; ease of doing business and social welfare of the country. Consequently, the development of public administration staff has a direct impact on products or services provided by public and indirect institutions in the country's economic and social development. Government policies are passed on to citizens through public administration, so the shortcomings in the skill or quality of the latter would negatively affect public involvement in the joint government, the denunciation of corrupt or violence phenomena, thus not resulting in value added to the citizens.

According to Eurobarometer 89, published in June 2018, the quality of public services in our country is rated "bad" by a considerable number of citizens (about 50%). From estimates made by National Institute of Statistics, it is noticed that the quality of services is increasing until May 2017 to undergo a decrease in November 2017. More than the values in percentages, the unsustainable trend in the quality of services remains a problem, thus showing that despite the measures taken by the government, the quality of services has not seen a steady growth based on citizens' assessment.

Audit Message: The micro environment of the Public Administration Agency is unregulated. The institution has functioned without an approved regulation and without a set of functional structure. In this way, it is difficult to identify the responsible unit in the institution to analyze the need for training, the origin of an effective, efficient and economic training process. On the other hand, the the Public Administration Agency's macro environment does not contribute to increasing sustainable public administration capacities, a mission that converges to UN 2030 Agenda's sustainable development objectives. The Agency has an increasingly reduced budget and its status as a central training institution is unclear. The quality of the current training programs offered by the Public Administration Agency is low and

of high risk. Among the approved internal documents, no responsible institution unit is identified for the development and implementation of training programs. The Agency's training process is exaggerated, not giving it access to accurate information on the costs of a program, and for efficient and economic decision-making.

The Public Administration Agency can not provide a clear picture of the value and usefulness of trainings for public administration employees, in the absence of a system for evaluating the impact of training on employee performance, while also hampering the proper targeting of future trainings. Such a system is lacking in the administration institutions and furthermore, the only indicator evaluating the impact of training on employee performance has now been removed from the periodic assessment form. Trainings are seen as a task to be accomplished and no one is interested in the value they can add to the institutions. Also, public administration institutions face difficulties in accessing training documentation, as the electronic system that could make the process more efficient is not used for this purpose.

The training process in the administration has been inefficient as a result of inputrelated issues, while the inability to measure the output quality does not ensure the effectiveness of the process as a whole.

12. Floods' prevention, protection and alertness

(realized in the second 6-month of 2018 and covering the period 2015-2017)

Albania is quite exposed in the face of a considerable number of natural disasters and calamities that may come from human activity. In addition to earthquakes, the greatest danger from natural disasters can come from floods, landslides or winter emergencies. Given the economic situation, infrastructure, scarce communication tools, mass emigration, construction boom and a number of factors related to the improper use of natural resources such as forests, water resources and environmental pollution, all these deficiencies make Albania's population and economy more vulnerable towards these phenomena.

The river system poses the greatest flood risk in the country. Floods are usually of river origin and occur in the period from November to March, when in Albania they account for about 80-85% of total rainfall per year. Due to the topographic patterns, flooding occurs abruptly, coming to the main river hydrographic network for 8-10 hours. During flooding, the specific flow of the main rivers fluctuates from 0.5 m3/km² (Drin River) to 2-5 m3/km² (Ishem River). Specific fluctuations of the

smaller rivers are even larger ranging from 2 to 10 m3/km². The flood risk in Albania is related to:

- the high potential of flooding the lowlands of the Western Lands;
- the flood potential, accompanied by smaller rivers and streams.

The main causes of flooding are related to the degradation of dam system conditions, drainage channels, drainage installations, pumping stations and other equipment for flood control and installations that do not have regular maintenance.

Audit message: The system for managing disasters and flood risk has gaps and lack of information as well as limited capacity in response to floods. Structures involved in managing flood situations may have functioned on their own, but lacking cooperation and co-ordination, affecting the strengthening of the civil emergency service system. It seems that civil emergency situations in our country are paradoxically managed, but referring to the fact that actors involved in this matter draft preventive plans without first identifying the risks of what they are preventing. Albanian institutions, conceptually and practically, tend toward reactive rather than proactive approaches to reducing disaster risk and prevention and focus more on readiness and response, but little on prevention/mitigation and rehabilitation. In response to disasters, communication between the governing bodies and the local population needs to be improved. Flood protection should be conceived as a system of long-term measures planned for at least 10-15 years. This includes changes in the legal, technical, financial, and scientific framework by defining the responsibilities and strengthening the capacities of the responsible institutions.

13. Quality and level of tariffs of student services at public universities

The university education
Law, carefully conceived to
give the necessary
autonomy to public
universities and revitalizing
the role of these
universities in scientific
research and contemporary
education, is not properly
implemented by all actors
involved in the higher
education sector

(realized in the second 6 months of 2018 and covering the period 2015-2018)

University education in Albania is a public service and good, and as such the relevant institutions responsible for it should pay particular attention to significantly increase its role in the society by providing better quality services for students, improve existing services and increase the number of services provided, as well as guarantee quality and competitive standards with those of developed

European countries.

University education needs to respond, adapt and anticipate changes in the labor market and development of the country. The purpose of education reform was to create a high quality education to respond to the needs of the labor market, as well as the directions of the country's strategic development, the establishment of sustainable internal and external control mechanisms to ensure European standards in the university system, the unification and standardization of the education system, the establishment of university education on a sustainable financial basis, as well as the institutional autonomy of public universities. Performing audits in higher education, as well as evaluating the law and the by-laws issued for its implementation and functioning of the education system as a whole, aims to increase the efficiency and efficiency of public universities in the provision of student services and achieving their mission.

Public sector universities' income from student fees is a considerable income for their budget. From the audit, ALSAI has concluded that the expenditures of public universities in most cases are not oriented towards increasing the quality of services to the student or scientific research. Currently public universities continue to offer the same student's services that were offered years before the audit period.

Audit message: The university education law, carefully conceived to give the necessary autonomy to public universities and revitalizing the role of these universities in scientific research and contemporary education, is not properly implemented by all actors involved in the higher education sector.

The Ministry of Education and Science continues to act against this Law, through unnecessary centralization, which makes unlawful acts by virtue of which the law recognizes the universities and on the other, by not making functional structures for financing and regulating education high. Representatives of this ministry in the boards of public universities, where they represent the decision-making majority, have not carried out their duties responsibly, without guaranteeing the autonomous financial sustainability of these institutions, even by making financial decisions without cost analysis for charging the services they provide.

The universities continue to remain passive in taking on the responsibility to provide quality education to their students, realistic scientific research (non-fictional and applied), and competitive tariffs to optimally finance their services. The mentality of the heads of public universities has not yet been aligned with the vision and

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competences of the new Law on University Education, while the mentality of the pedagogues continues to be closer to that of the teacher than that of the researcher.

Under students' perception of students, the universities have little or no regard for the quality of services they offer to them.

14. Managing public beaches

Albania is the only country in the region and in the Mediterranean that does not have a law on the coast, and consequently beach tourism is noncompetitive and underdeveloped, remaining outside the European tourist market

(realized in the second half of 2018 and covering the period 2016-2018)

In the management of the public beaches, the SAI has evidenced numerous problems affecting the spheres of management, environment, cleanliness, public spaces, urbanization and life security. Moreover, its own property issues in Albania have also had its negative effects on the Albanian coast, violating its legal nature as a public domain.

From season to season, almost the same problems are reported, both by the media and the responsible institutions, thus confirming a negative trend and "anomaly" in the system regarding public beach management. Citizens are reported on the lack of public spaces and in cases when they choose to visit private beaches, they encounter low hygienic and environmental conditions as well as lack of security.

Audit message: Albania is the only country in the region and in the Mediterranean that does not have a coastal law, and therefore beach tourism is uncompetitive and below its potential for development, remaining outside the European tourism market.

The regulatory acts do not guarantee the citizens' right to free access to beaches, encouraging massive privatization of beach stations, which is the source of informalization of local income.

In terms of security and cleanliness, Albanian beaches are the only ones in Europe that have not received a blue flag. In particular, there are no legal acts that should regulate the issue of baywatch, which is not recognized as a profession, resulting in not quaranteeing the protection of the citizens' lives.

The current management structure needs reform because it not only notices the lack of efficiency but does not constitute the premise for a sustainable management of

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tourism-oriented beaches. Municipalities face many problems as insufficient financial and human capacities. Consequently, municipalities fail to realize a beach management in function of tourism, but they manage it as a local asset. Decentralization of the main tourist asset is noted, while on the other hand the specialized tourism institutions at the central level have no management powers over the beach as a tourist resource.

15. The performance of the Financial Supervisory Board

The Financial Supervisory
Board for the period under
audit 2015-2017 has been
ineffective in meeting the
institutional mission as
regulator and supervisor of
the insurance market

(realized in the second 6-months of 2018 and covering the period 2015-2017)

The insurance market in Albania faces numerous problems that have caused widespread media echo due to the great impact on the (and not only) financial means of Albanian taxpayers. Non-payment of damages from the Compensation Fund,

premium pricing fluctuations and low solvency of insurance companies are some of the most worrying factors.

Albania's context is that of a small and underdeveloped insurance market compared to other Central and Eastern European countries. Regarding the value of gross written premiums, our country is ranked third by the end with a value of 112 million euros, leaving behind only Kosovo and Montenegro. Regarding the weight of gross written premiums in GDP, Albania ranks last with a weight of only 1.04%. The gross written premium per capita in Albania is 38.89 euro, an indicator that again ranks Albania the last country on the list.

Audit message: The Financial Supervisory Board for the period under audit 2015-2017 has been ineffective in meeting the institutional mission as regulator and supervisor of the insurance market. The historical problems with financial services in the country and mismanagement by the governing structures, and the Board's decision-making have violated the proper functioning of the market, transparency and consumer protection. Despite the good will of current leaders, efforts to achieve predetermined strategic and emergency targets need to be intensified.

In exercising its powers as regards the supervision of insurance companies, the Financial Supervisory Board, in certain cases has not always acted in full compliance with the law, by not taking appropriate sanction measures, at a minimum amount of 27,400,000 ALL (indefinite fines). The Competition Authority has failed to

cooperate with the Financial Supervisory Board to ensure a free and fair competition in the insurance market and this market still have features of an oligopoly.

The Albanian Security Bureau has not fulfilled its indebting function and the Financial Supervisory Board's oversight has not achieved its expectations. The Compensation Fund, although showing signs of recovery from the stalemate of last year, still carries 277,056,933 ALL of damages or about 25% of its full repay amount.

16. Financing of multi-sports clubs

The lack of a strategy for sport development, the inadequate functioning of some structures responsible for its development, and the lack of timely completion and the partial implementation of the regulatory framework for sports, shows that the Ministry of **Education, Youth and** Sports during the January 2016 -June 2018 period has not been sufficiently effectivein its legal, financial and organizational support to multi-sport clubs (realized in the second half of 2018 and covering the period 2016-2018)

Sport and culture are the first image of a country and with sport and culture internationally better known its features. Sports values are both national international. The transition communist system to the democratic system was accompanied by changes that, among other things, influenced the development of sport. It seems like sport after the collapse of communism, suffers from barren policies of the state, of all governments. From the current state of the sport, it creates the conviction that this sector has never been seen as a priority. The sports infrastructure and the success of massive national sports teams such as football, volleyball and basketball, in almost all countries of

our region, leave much behind Albania. Sport in Albania is recognizing a period of crisis related to reducing the number of athletes, their departure from the country, and the lack of results in many disciplines. All of our country has only two quality athletes represented in the international arena for athletics, weightlifting has no funds to make races and athletes go to activities with their money. Of course, there are many factors that negatively impact this difficult sporting situation, but the main ones are related to the lack of attention from public institutions; Lack of strategies for sport; Lack of investment in sports infrastructure, which does not meet even the minimum conditions for the development of activities; Poor financing of individual and collective sports, which, though scarce, is again abused with them; Lack of material base (sports sets, balls, tapes, official match uniforms) and medical products (vitamins, etc.).

Audit message: The lack of a strategy for sport development, the inadequate functioning of some structures responsible for its development, and the lack of timely completion and the partial implementation of the regulatory framework for sports, shows that the Ministry of Education, Youth and Sports during the January 2016 -June 2018 period has not been sufficiently effective in its legal, financial and organizational support to many sports clubs. Also, the change from a special sports directorate in the Ministry of Education, Youth and Sports to a general directorate involving other sectors such as youth and education, as well as the lack of monitoring of federal grant funds, creates a reasonable belief in the audit team that the Ministry of Education, Youth and Sports has had low effectiveness in the exercise of its functions.

17. Recreational Parks in Tirana - playgrounds

The activity of the institutions responsible for the management of recreational parks in the city of Tirana for the audit period has not been efficient in some aspects

(realized in the second half of 2018 and covering the period 2016-2018)

The history of playgrounds can be directly related to the history of the open urban surface. Initially, the main goal of the playgrounds was to remove children from street games by protecting them from the physical injuries they might have suffered.

Subsequently, the focus shifted by creating near inhabited centers and schools, recreational parks designed for all age groups and levels of society. Today, playgrounds located near residential areas are made up of free playgrounds and equipment installed for fun and exercise of physical skills for all age groups.

In line with the need to increase the number of recreational spaces in the city of Tirana, as well as adapting the ever-growing needs of citizens to European urban living conditions, starting in 2015, the Municipality of Tirana has started designing and building 32 playgrounds specifically dedicated to promoting the physical, mental and social development of children of all categories and age groups.

Audit message: The activity of the institutions responsible for the management of recreational parks in the city of Tirana for the audit period has not been efficient in some respects.

Even though since 2015 the Agency for Parks and Recreation has been established, which is responsible for the construction and maintenance of recreational parks, the Tirana Municipality and Agency have not yet adopted a Strategic and Institutional Plan for the design and maintenance of the parks.

From the moment of creation, the Agency for Parks and Recreation, despite efforts, did not work efficiently in order to identify key priorities regarding planning, construction and maintenance of recreational parks, especially for playgrounds. Since 2016, 26 new playgrounds have been built, many of which do not meet the criteria and best practice criteria. There are also evidenced existing playgrounds that are completely amortized and no PES initiative has been taken to repair and return them to a functional state.

The Agency for Parks and Recreation for implementation of Internal Order no. 23432, dated 13.06.2017 on "Taking Exploitation and Maintenance of Sports and Game Investment for Children", has not taken any concrete steps to draft an appropriate standards manual in the service of the management of recreational parks.

The lack of a study that would serve as a guideline in the design of supportive policies, the lack of a strategic plan, standards, guidebooks, expresses the lack of accountability of responsible institutions, which not only compromises the fulfillment of objectives but also creates opportunities for inefficient use of resources.

The Municipality of Tirana and the Agency for Parks and Recreation should act to meet all the requirements expressed clearly in the relevant institutional regulations not implemented so far, to finalize the objectives with the aim of increasing the quality of service to the citizens of Tirana.

18. Planning of waste processing and burning plant for energy production in Fier Municipality

The project is set up and moving forward by comparing only 2 alternatives, one existing without a project and one that could be under this project

(realized in the second half of 2018 and covering the period 2016-2018)

As in all Albania, in the territory of the Fier Municipality, waste management is at a very low level. Solid waste collection systems are only equipped with cities, but not the rural areas that

surround it. There is little recycling in this area, as it is only part of some components such as plastic cans, iron remains, etc., by informal workers who have their segregation, collection and sale a livelihood. Mostly, waste is disposed of on landfills. With some minor exceptions (Elbasan plant, Sharra and Bushat landfills, etc.), there are no other properly planned depots.

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It is also clear that the waste generated by the use of the oilfield by different private companies does not address where deposited the waste generated by the technological processes and drilling of oil extraction, defiling the environment created a risk to life and health where the establishment of a modern plant and the establishment of contracts with oil companies will have a positive impact on environmental protection in the Qark of Fier.

There is a dominant and widespread policy of pit opening and waste collection, which is very dangerous as well as the lack of monitoring and control of the institutions charged with the law. Economic instruments for waste management and processing are scarce and of little value.

Audit message: In the development of the urban waste incineration project for the acquisition of energy, stakeholders were formally consulted, such as the public, which has been constantly opposing, and local official institutions that did not give their professional opinion and have not represented their public, but the project is set to develop despite this situation. The project is set up and moving forward by comparing only two alternatives, the existing one without the project and what it might be under this project. When choosing this alternative, no other alternative options were considered, bypassing the processes of reuse and recycling of waste, and thus not implementing the National Waste Management Strategy.

Taking into account the national waste management issues and the lack of a responsible waste management structure, the ALSAI recommends the establishment of a Waste Management Regulatory Entity for setting a tariff in accordance with the "polluter pays" principle for dumping, PAYT (pay as you throw), for quantity and type of remnants. In it, the government, local governments, sectoral associations, chambers of commerce, civil society, environmental experts, the academic world, etc. should be represented. It should be partly funded by the State budget and partly by interest groups and local governments and in the composition of the board, according to budget participation, apart from the "shareholders", to guarantee the representation of civil society and environmental experts. The board appoints the administrator. At the same time, this Waste Management Entity is administered by the National Authority. The entity should target progressive self-financing, through revenue from the waste management process and from the packaging tax.

In mid-term until 2025, when it comes to EU accession, the National Waste Management Agency is created, according to a modern and apolitical concept (with a broad and open management board versus representatives of interest groups, the

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academic world, experts, etc.), which will serve as a Regulatory Entity and administrator of the entire process.

Through the reimbursement or state funding policies, the market for new collection, recycling or disposal entities for all these waste categories should be realized.

The SAI recommends the draftinf of the Environmental Code, redefining the current position of the environmental right between the criminal, civil and administrative law, with the aim of harshing and expanding the Criminal Code with environmental issues.

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III. COMMUNICATION AND COOPERATION WITH STAKEHOLDERS

III.1 COMMUNICATION AND TRANSPARENCY

III.1.1 ALSAI Communication Strategy 2017-2019

ALSAI's Communication Strategy for 2017-2019 is a very important document for the institution, taking into consideration the message given by Albanian SAI key counterpart European SAIs that "As SAI, we will be recognized for our work only if we manage to communicate clearly to citizens what we do and also the added value generated by our audits for the State and society, in order to be perceived as strategic institutions indispensable to the interests of citizens¹".

This strategy reflects this new approach and the ALSAI strategic objectives are clearly defined based on the needs, requirements and challenges of the institution in communicating with the public and other stakeholders, but also based on current human and financial resources, as well as the limited opportunity to increase them for the period of implementation of the Strategy. Monitoring of the implementation of this Strategy and its Action Plan has been carried out by the SAI Directorate of Communication and External Relations, in cooperation with the audit departments. The Action Plan emphasizes the essential role of the SAI to convey more clearly the key messages of the SAI's audits and recommendations for improving the state budget administration in traditional media, newspapers and magazines and in social media. In the following we present the main Strategy objectives and their realization:

Objective 1
Implementation status:
Completed

Increase the public profile of ALSAI and understanding of its mission, vision and role in society, in order to strengthen citizens' trust in the institution. During 2018, the SAI's public profile has

increased. The institution prepared and published 19 publications (17 leaflets and 2 catalogs). The key messages of audits in mainstream media, newspapers and

¹ Excerpt from Dr. Josef Moser speech at the 21st UN-INTOSAI Symposium. Dr. Moser,is a former President of the Austrian Court of Audit and former INTOSAI Secretary General for the years 2004-2016.

magazines have also been more strongly conveyed. Among the most important activities organized, there are annual analysis, scientific conferences and open month organization. All announcements and publications have been published in the SAI's website www.klsh.org.al and are accessible to the public.

the citizens and various stakeholders, in order to raise the level of raise. Increase ALSAI's external communication tools with appointed Public Relations and

Coordinators at each audit department. In particular, the ALSAI official website has developed clear objectives. It provides sufficient information, contains accurate upto-date information, is well designed to standards and provides access to a larger number of users.

In addition, in cooperation with the audit departments, a quarterly Statistical Bulletin was prepared and published on the official website. Another important activity was the organization of open lectures with students and pupils (held during the ALSAI Open Month for Citizens 2018), where the work of the SAI, mission, vision, etc., was presented.

Objective 3 Implementation status: Completed

Promote the SAI audit results to transmit to the public the results and benefits of the institution in improving governance through the fight against corruption. For the first time in 2018, the ALSAI has

appointed a group of "authorized conveyers" of the institution's message to the public. Here we mention the presence of ALSAI executives and of the Director of Performance Audit Department on TV programs, such as in Top Channel and Ora News TV. In the framework of the Memorandum of Understanding with USAID on the project "Transparency in the Health System in Albania", a series of trainings and collaborative meetings were held on project products, especially with NGOs operating in this sector.

Implementation status:

Expanding ALSAI's communication and interaction with the citizen, through active participation in activities and roundtables. For this purpose, SAI is oriented towards opening new

communication windows. There are 4 new communication links of the public with SAI's staff on the SAI official website www.klsh.org.al. The following instruments have been deployed and developed:

- Red Flags, which is widely used for evaluation and scanning of procurement procedures. This algorithm analyzes the database where the bidding procedures are located and automatically classifies them as problematic or not. In this way it enables real-time indications of probable procedures for conduct that is incompatible with law or unethical business, mainly related to non-compliance with anti-corruption laws.
- Complaints Mechanism, which receives complaints from citizens, provided that they complete all fields of information. This will avoid anonymous complaints, which may be content-free or may contain general baseless assumptions for further consideration.
- Data Mining. This tool provides the ability to generate statistics and download them in various formats (PNG, JPEG, CSV, Excel, etc.). This tool also includes a detailed search filter, which can be searched by date of publication, title, online print or audiovisual media where published, and by keywords or various keywords.
- Open Data. Until late, the SAI's audit decisions and reports are published on the official website in PDF format, which makes it difficult to extract data for further use. The publication of reports in the developed instrument enables a more concise and readable presentation of the objectives and conclusions of the audits at all levels of interested citizens.

Objective 5
Implementation status:
Completed

Consolidation of auditors' participation in opiniongiving in print media and the gradual shift towards opinion-giving in television programs. Public Relations and Citizenship Coordinators at each audit

department have conveyed to the media the findings and recommendations of their own department audit reports, have prepared audit materials for the official web and handled citizen letters and complaints in the respective departments.

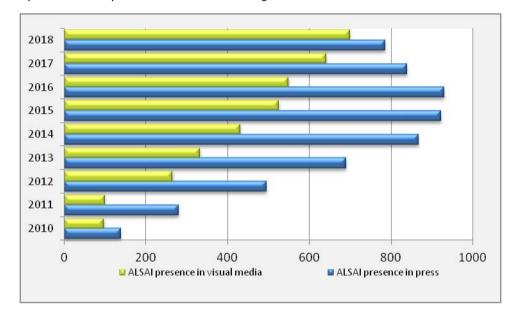
Objective 6
Implementation status:
Completed

Increase internal communication in the institution and exchange of information between audit departments and departments.

During 2018, the ALSAI was more active in using the intranet, as well as in the use of social media at the institutional level.

III.1.2 Communication with media

During 2018, the press has reflected SAI's press releases, audit reports and statements with a number of 786 articles, announcements, editorials and analytical reviews. At the end of 2018, ALSAI was present in the visual media with additional 60 chronicles than last year. The transparency of the ALSAI activity is increasing year by year and the institution is increasingly open and cooperative with the media.



Graph no. 1: ALSAI presence in the media during 2010-2018

Source: ALSAI, Directorate of Communication

III.1.3 ALSAI auditors' presence in the press

The presence of SAI auditors in the press through their editorials, opinions and essays has increased the transparency of the SAI's activity. The auditors' writings are presented to the public in 11 volumes (2013-2018 period) and are part of the SAI publications series. During 2018, the SAI executives and auditors were present in almost all newspapers with 121 articles. In the six-year period 2013-2018, SAI auditors published 642 articles.

III.1.4 Handling citizens' letters

The ALSAI is one of the most open institutions to citizens' complaints, which are addressed to us by regular or electronic mail. All citizen complaints letters are

professionally administered by the ALSAI staff on the subject they are dealing with. In each case, the citizens receive a response to the concerns raised unless the issues raised are beyond the competence of the institution. Even in these cases, the institution answers to the citizens. During 2018, the SAI has handled 447 letters and complaints, of which 157 outside the jurisdiction of the institution.

Of the 290 complaints within the SAI's jurisdiction, 192 of them have been verified and answered, while 98 are in the process of being verified. The main areas of public concern for governance issues in Albania (266 complaints or 53%) belong to privatization and property restitution issues; 34 or 9% of complaints are related to financial management and public procurement; 147 or 31% deal with different issues and 7% are requests for the right to information.

Financial administration and public procurement
Privatization and restitution of property
Others
Letters handled by the coordinator

Graph no. 2: ALSAI treatment of citizens' letters

Source: ALSAI, Directorate of Communication

With the adoption of Law no. 119/2014 "On the Right to Information" as a Constitutional Right, the right to information, now explicitly enshrined in a separate legislation is an fundamental right of every individual in a democratic society. Since the adoption of the law, the SAI has been receiving an increasing number of requests for information from year to year. The number of letters received by the SAI Coordinator on the right to information and reviewed by him for 2018 was 55. There were no cases during this year where information was refused.

III.1.5 Other transparency instruments

in the context of increasing transparency, during 2018, the SAI posted on the its website the full decisions of the ALSAI Chairman on audits carried out during 2018, to the extent of 96.5% (167 audit decisions were made out of 173 audits, as six audits were confidential) and 45 audit reports were also posted.

The ALSAI official website publishes all the reports prepared by ALSAI during 2018, such as Activity Report, Budget Report, Institution Development Strategy Monitoring Reports, Communication Strategy Monitoring Reports, Statistical Bulletins, etc.

ALSAI publishes on its website all publications that are part of the SAI publications series. Publications are accessible to the public not only on the read option but also on the download option.

2018 was the third consecutive year that the ALSAI organized the "Open Month" for citizens, turning it into an institutional tradition. The motto "ALSAI as servant to the Citizen" guides the SAI in all its institutional objectives. Experience gained and projected developments have confirmed that the process of modernizing the public external audit institution in Albania constitutes a public good as well as a value for the public institutions system. In this context as well as reflecting the requirements of the international standard of Supreme Audit Institutions, the ISSAI 12, "Values and Benefits of SAIS - Making a Difference in the Life of Citizens", the SAI organized its Open Month for Citizens on **25 October-14 December 2018.** During the months of November and December 2018, citizens had the opportunity to visit ALSAI premises, to get acquainted with the history and achievements of the institution in the 93 years of its existence, as well as to meet and talk with various staff, auditors and experts of the institution.

During the open month, the SAI organized 54 different activities, such as meetings with professors, academics, NGO activists, activities within the obligations of the SAI as a member of EUROSAI and INTOSAI, meetings with journalists; presentations of SAI publications; participation in the 2018 Book Fair; presentation of SAI publications in the public libraries of the city of Vlora and Shkodra, cultural activities, promotion of SAI participation in various international activities, "Junior Performance", where young auditors shared their experience and vision for the future of the institution, etc.

III.1.6 ALSAI publications during 2018

The ALSAI publications along with faithful recording of the content of the audits, the institution's findings and recommendations of each key audit, convey the strategic directions of its reform, which are to increase the contribution to improving public governance through deepening the fight against corruption and capacity building of SAI auditors at the level of a modern European auditor. During 2018, the SAI has added to the already 83 titles of publications for 2012-2017 another series of 17 editions for 2018, with the following titles:

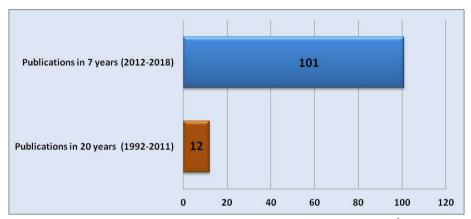
- Performance of the ALSAI activity for 2017 (in Albanian and in English);
- Scientific-Research Magazine, "Public Audit" (No.18, No.19 and No.20 in Albanian and in English);
- 2017 ALSAI Annual Analysis;
- ALSAI auditors in the daily press (volume 10 and volume 11);
- GAO's Green Book;
- Development Strategies of INTOSAI, EUROSAI and ALSAI;
- Polish Supreme Audit Institution (NIK) Profile;
- ALSAI and Parliament of Albania;
- ALSAI auditors' works at GAO, etc.

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Figure no.1: ALSAI publications

Source: ALSAI, Directorate of Communication

ALSAI publications at the end of 2018 reached 100 titles. The ALSAI Publications series are at the top of the 10 innovations that have been implemented by ALSAI during the last 7 years. During 2018, the ALSAI participated in the 21st edition of the International Book Fair of Tirana, marking the sixth consecutive year of a decent participation, with 95 publications.



Graph no. 3: Number of SAI publications during 1991-2011 and 2012-2018

Source: ALSAI, Directorate of Communication

The ALSAI Publications series have reached 100 titles, including:

- 20 issues of the scientific journal "Public Audit" in Albanian and in English;
- 7 annual analysis of the ALSAI's work;
- 8 publications dedicated to the performance of the institution in Albanian and in English;
- 11 volumes of SAI auditors' summarized writings in the daily press;
- 6 volumes related to the ALSAI Annual Scientific Conferences;
- 21 publications related to Auditing Standards (the ISSAIs);
- 16 publications reflecting SAI audits in 2012-2015, ALSAI's strategies, INTOSAI and ALSAI history, etc.

III.1.7 ALSAI Scientific Conference

ALSAI has continued the good tradition of organizing scientific conferences during 2018 as well. During 2018, two such conferences were held, the VII ALSAI Scientific Conference in cooperation with the SAI of Kuwait, entitled "Risk-based Audit" and the National Conference "For a recognized and well-placed National Anti-

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Corruption Authority in the governance system", in collaboration with the Institute for Democracy and Mediation.

Photo no.1: The ALSAI Sixth Scientific Conference Konferenca in cooperation with the SAI of Kuwait



Source: ALSAI

The VII ALSAI Scientific Conference in cooperation with the SAI of Kuwait took place on April 9-11, 2018 in Kuwait city. The main topic of the conference was the Risk-based Audit. The Conference was attended also by the Polish State Audit Office (NIK) and the National Audit Office of Kosovo. The conference focused on three main pillars: Risk-based audit, Institutional Working Risks and the Big Data Revolution and its impact of audit work. 3 presentations were delivered by the representatives of the participating SAIs.

National Scientific Conference ALSAI and the Institute for Democracy and Mediation

On December 14, 2018, ALSAI and the Institute for Democracy and Mediation organized the National Conference on the topic: "For a National Anti-Corruption Authority well-accepted and well-positioned in the system of governance".

The idea for organizing this joint conference was supported by the ALSAI's work products such as the SAI's Performance Audit report and the Institute for Democracy and Mediation study "Reducing the impact of politics on Anti-Corruption Agencies".

In addition to the personalities that led the Conference panel, representatives of the Ministry of Justice, UNDP, USAID, civil society organizations and media attended

the Conference. Many participants praised the cooperation ALSAI- Institute for Democracy and Mediation as one good example of cooperation between civil society and state institutions.



Photo no.2: Joint Conference ALSAI- Institute for Democracy and Mediation

Source: ALSAI

III.2 ALSAI AND PARLIAMENT, CHALLENGES FOR EFFECTIVE COMMUNICATION

During 2018, the State Supreme Audit has been guided by the principle of fulfilling its constitutional obligations by acting as an agent of the Parliament to ensure increased accountability and transparency in the use of public money by central and local government institutions.

Aiming at fulfilling the third goal of the ALSAI Development Strategy 2018-2022, that of strengthening communication and cooperation, the SAI, in addition to fulfilling the constitutional reporting obligation for implementing the actual budget and reporting on the performance of the institution, has aimed to inform the Parliament also through special reports which are of particular importance to the public.

During 2018, the SAI has sent to parliament and respective committees (in function of the topic covered) 57 audit decisions/audit reports on issues of high importance and public sensitivity. Only in November 2018 (through SAI letter no. 293, dated 14/11/2018), the Speaker of the Parliament and two Deputy Speakers were

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forwarded 18 Audit Decisions of ALSAI Chairman and the respective Audit Reports finalized during 2018.

The joint activity of ALSAI and SIGMA (an OECD Program for good governance) of June 04, 2018, entitled "Developing Effective Work Relations between SAI and Parliament" served to intensify and deepen the SAI's cooperation with the Parliament.

The purpose of the meeting was to raise the awareness of stakeholders on the role of the Supreme Audit Institution in establishing and developing effective relationships with the Parliament, civil society and other stakeholders, in order to increase the impact of the audit work and support the SAI mission. as a watchdog institution in the service of the Albanian citizen and the Parliament, to continuously fulfill its constitutional role and to ensure transparency and accountability in the use of public funds.

Organized on the basis of the SIGMA Document, no. 54 "Developing Effective Working Relations between Supreme Audit Institutions and Parliaments", this meeting presented good European experiences in building and maintaining cooperative relations between senior audit institutions and parliaments, to assist parliaments in maintaining Governments responsible for spending economically, effectively, and efficiently the public money and helping the SAIs to have a bigger impact on citizens' life through their audit work.

The meeting brought together about 60 representatives of independent institutions, civil society organizations, professors and journalists to discuss one of the key elements in strengthening accountability, the SAI-Parliament relations.

Members of the Albanian Parliament participated as well in the National Conference organized by the ALSAI and the Institute for Democracy and Mediation on December 14, 2018, on the topic "For a national anti-corruption authority recognized and well-established in the system of governance", which focused on issues of the fight against corruption.

With the aim of institutionalizing the SAI relations with the Albanian Parliament, ALSAI Chairman has approved by letter no. 34/39, dated 30.06.2018 the "Guide to the institutionalization of the ALSAI relations with the Parliament", a document that provides a strategic approach of the institution in line with the messages provided by the two UN resolutions aimed at promoting efficiency, accountability, effectiveness and transparency of public administration by strengthening the

supreme audit institutions. This document is a guiding platform for ensuring the continuity of good relations between the SAI and the Parliament.

For a more effective monitoring of the activity of constitutional institutions that have an oversight role on the State, the Parliament of Albania adopted the Decision no. 134/2018 "Manual of annual and periodic monitoring of the constitutional institutions that have an oversight role over the State". In compliance with the obligations of the SAI in the implementation of this document, the iALSAI reported in January 2019 on the status of implementation of the recommendations of the Parliament's Resolution "On the assessment of ALSAI performance for 2017", for which the SAI has drafted an action plan to fulfill its recommendations.

III.3 IMPLEMENTATION OF THE ALBANIAN PARLIAMENT RESOLUTION ON EVALUATION OF ALSAI ACTIVITY FOR 2017

Pursuant to Article 164 of the Constitution of the Republic of Albania and Article 31 of Law 154/2014 "On the Organization and Functioning of the Supreme Audit Institution of Albania (ALSAI)", the SAI has submitted to the Parliament its annual activity report for 2017. The Parliament of Albania on July 19, 2018 adopted the Resolution "On the evaluation of the activity of the ALSAI in 2017". In this Resolution, the Parliament has addressed the ALSAI recommendations as follows:

 deepening efforts to strengthen the independence of the institution to ensure impartial and objective audits;

In order to approximate the legal basis of the institution with the EU acqui communautaire and in fulfillment of the above recommendation of the Albanian Parliament, ALSAI has forwarded to the Parliament the letter no. 926, dated 02.08.2018 "On some additions and amendments to Law no. 154/2014 "On the organization and functioning of the SAI", in order to increase the impartiality and objectivity of the audit activity. So far, this SAI proposal has not yet been put on the agenda of the Parliament for consideration.

performing audit activity in accordance with international auditing standards;

The SAI is in the process of revising the audit manuals, reflecting on the proposals made by foreign experts of the IPA 2013 Twinning Project

implemented in the SAI in 2016-2018, by SIGMA experts and the results of the pilot audits carried out during 2018.

During 2018, the ALSAI has continuously improved methodological framework with the guides necessary to ensure that it conducts its audits in full compliance with the ISSAIs, such as:

- Methodology of drafting the annual and strategic plan;
- Guidelines for the audit against corruption and fraud;
- Public procurement audit manual;
- GAO's Internal Control Standards;
- Active handbook for IT audit².
- improving the audit methodology which should be based on risk analysis;

Risk-based audit is considered by SAI management as the key pillar of audit techniques in all steps of performing audit activity from planning, field audit and follow-up and publication of the final audit report.

Documentation of this activity is standardized and concretized for all departments in the Methodology document of drafting the annual and strategic plan. In its audit departmental activity analysis for 2018, the ALSAI used SWOT analysis to clearly identify strengths, weaknesses, opportunities and threats related to audit work and institutional management.

It is worth noting that the Annual Audit Plan for 2019 is fully drafted based on this document.

Increasing the weight of the performance audit;

Modern public audit institutions in Europe and around the world have for years shifted their audit scope by not only giving their opinion on the compliance and regularity of audited entities' activity, but also making recommendations on the economy, effectiveness and efficiency of audits on various government policies and programs. In compliance with the recommendation of the Parliament to increase the weight of the performance audit, aiming at enhancing the quality of these audits, the SAI has conducted 20 performance audits during 2018 against 15 conducted in 2017. The SAI's performance audits reflect the best practices and the most contemporary approaches and techniques applied by the INTOSAI community.

² All five listed documents are accessible to auditors and readers on the SAI website <u>www.klsh.al</u>

- deepening the information technology audit;

The deepening of information technology auditing, through consolidation and use of its elements in compliance, financial and performance audits, was first achieved through the transition from Directorate level to IT Audit Department level, increasing staff of this department and through approval of using the Active Handbook for IT Auditing. In addition, with the aim of improving the electronic management of all audit procedures during 2018, the implementation of the Program "Management and Process Support in the ALSAI" began, in accordance with international standards.

consolidation of the quality management system, which includes quality control and assurance:

The consolidation of the Quality Management System, which includes quality control and quality assurance, was first carried out through the drafting of the manual, which was prepared on the basis of the recommendations of the twinning project experts and best practices in the field. The manual has been forwarded for remarks and suggestions to all SAI structures and will be adopted by the end of 2019. The relevant directorate has prepared the quality assurance report and addressed recommendations for improving audit quality for 2017 and is in the process quality control on audit activity for 2018.

strengthening the follow-up of the implementation of ALSAI recommendations;

In fulfillment of the constitutional obligations for reporting to the Parliament and to the general public on the implementation of the SAI recommendations and the recommendation of the Parliament resolution on the SAI activity for 2017, the SAI addressed to the Prime Minister the letter no. 483, dated 20.04.2018 "On the immunity created by the anti-culture of impunity from the non-implementation of the ALSAI recommendations and the issuance of the Prime Minister's order for the implementation of the recommendations". Also with letter no. 1025, dated 07.09.2018, forwarded to the Secretary General of the Prime Minister, of the Minister of Finance and Economy and of the PIFC General Directorate the "Request for Cooperation to Follow up the Implementation of the ALSAI Recommendations".

Implementation of the SAI recommendations for improving the legal and regulatory framework is important to improve the management of public funds and this was accomplished by the SAI during 2018 through proposals for amendments to 70 cases of laws and bylaws. For the most professional and standardized treatment of

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fraud and corruption cases, the ALSAI Chairman has approved by Decision No. 80, dated 30.06.2018 for the Manual "On detecting corruption and fraud in audit" and for a better implementation of this manua, the SAI has been training its staff throughout the year on this important issue.

Significantly increasing transparency in the publication of audit results;

The familiarization of the members of the Parliamentary Committees with audits carried out in their areas of activity and the strengthening of parliamentary oversight for the implementation of the SAI recommendations has been achieved through the sending to Parliament of specific reports that are of interest and sensitive to the public. During 2018, 57 decisions/audit reports on issues of high importance and public sensitivity were sent to the Albanian Parliament and respective committees (in function of the topic covered). Only in November (by letter no. 293, dated 14/11/2018), the Speaker of the Parliament and two Deputy Speakers of the Parliament were forwarded 18 Decisions of ALSAI Chairman and the respective Audit Reports carried out during 2018.

The recommendation of the Parliament Resolution on the SAI activity aimed at significantly increasing transparency in the publication of audit results with a focus on the professional and understandable transmission of the audit message to stakeholders and citizens has been achieved through:

- Publishing audit decisions and reports on the institution's website www.klsh.org.al;
- Presence of auditors in press during 2018 with 121 articles;
- The presence of the SAI management level in the visual media to address the issues and findings from the SAI audits;
- Cooperation with USAID and various NGOs;
- Organization of the open month in the period October 25, 2018-December 14, 2018;
- Realization of 17 publications, including scientific research journals of ALSAI which are accessible to all interested persons in the SAI website.
- the priority pursuit of the settlement of arrears and compensation of economic damages to the State Budget;

Communication and cooperation with stakeholder-----

Pursuant to the SAI law and the Code of Administrative Procedures, ALSAI during 2018 in every audit mission has verified the follow-up of all recommendations and in particular the evidences of the degree of collection of damages left by the entities causing economic damage. At the end of the year, ALSAI carries out special verification missions with the object of implementing the left recommendations.

With the aim of fulfilling the obligations deriving from this Resolution and improving the activity of the institution, ALSAI Chairman approved the document "Action Plan for Implementation of the Recommendations of Parliament's Resolution dated 19.07.2018 on the evaluation of ALSAI activity for 2018" and by letter 113/4, dated 26.09.2018, the SAI sent it to the Parliament.

At the end of 2018, the ALSAI has monitored the implementation of this plan which results from the 56 measures included in the action plan in implementation of the 13 recommendations of the Parliament:

- 12 measures have been fully implemented;
- 26 measures have been completed and are subject to ongoing work;
- 5 measures have been partially completed;
- 13 measures are in the process of being implemented by the end of 2019.

III.4 ALSAI RELATIONS WITH NGOS, ORGANIZATIONS OF FIELD, WITH PROFESSIONALS, HOMOLOGUE INSTITUTIONS, NTERNATIONAL ORGANIZATIONS, etc.

During the last seven years, ALSAI has signed 57 cooperation agreements, of which 30 with NGOs, 17 with counterpart institutions (partner SAIs) and others with state institutions and public universities. **During 2018, the ALSAI Chairman has signed two cooperation agreements with partner SAIs.** During 2018, seven cooperation agreements have been signed with the Mediterranean University of Albania, University of Durres "Alexander Moisiu", "Citizens' Center", Agency for Sustainable Economic Development, High Inspectorate for Declaration and Control of Assets and Conflict of Interest, the Romanian SAI and the Ukrainian SAI.

III.4.1 Cooperation with partner SAIs and other International institutions

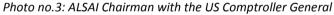
Of central interest for ALSAI is to organize activities in cooperation with SAIs and other counterpart institutions at home and abroad. The purpose of these activities is to further train and prepare the SAI auditors in order to serve the citizen better.

This is based on the philosophy of INTOSAI, which is best summarized in the motto of this organization: "Experientia mutua omnibus prodest". Based on the above, during 2018, 138 SAI auditors participated in 51 activities conducted abroad.

During 2018, SAI auditors attended a total of 520 days of training, workshops, meetings, conferences, etc. These activities were attended by both experienced auditors and newly recruited auditors. The following activities organized by SAI, or in which SAI participated during 2018 are:

Participation of ALSAI Chairman in important events abroad

Among the most important meetings attended by ALSAI Chairman is for sure the meeting on December 6, 2018 in Washington D.C. with the Comptroller General of the United States of America, Mr. Gene L. Dodaro, leader in the community of supreme public institutions in the world. Mr. Leskaj praised the reactivation of cooperation between the two audit institutions (ALSAI and the GAO) since 2012 and briefed the US Chief Comptroller General on the 10 key ALSAI innovations during 2012-2018, such as the new 2014 SAI law, which fully complies with INTOSAI standards, the focus on performance audits, investing in information technology audits, the SAI scientific conferences, the open month for citizens, the ALSAI Publications column (100 titles), the writings of the SAI auditors in the daily press, etc.







Source: ALSAI

Mr. Leskaj emphasized during GAO meetings that the GAO auditing standards of the US Supreme Audit Institution, as the most accurate reflection of the ISSAIs, the international standards, are always taken into account by the ALSAI. To this end, Chairman Leskaj showed the President of GAO, Mr. Dodaro the Albanian

translations of the GAO's Standards summary, called the "Yellow Book", published as a book by ALSAI in 2016, as well as the latest issue of 2018, translating GAO's "Green Book", a summary of internal audit standards in the US Federal Government.

Another high level activity in which ALSAI was represented by its Chairman was the Summit Conference "The Role of Audit Institutions in Increasing Accountability, Transparency and Integrity in the Public Sector", organized on May 15, 2018, in Sofia, Bulgaria by the Bulgarian National Audit Office, under the Bulgarian Presidency of the Council of the European Union".

Photo no.4: Participation in the high level Conference in Sofia, Bulgaria



Source: ALSAI

On November 8-9, the ALSAI Chairman, Mr. Bujar Leskaj paid a two-day official visit to Croatia, at the invitation of the Auditor General of the State Audit Office of Croatia, Mr. Ivan Klesic, on the occasion of the end of Mr. Leskaj's 7 year term. The welcome meeting was held at the headquarters of the Croatian SAI and then an extended meeting was held with the management and auditors of the Croatian SAI. By remembering the close cooperation that the ALSAI and the Croatian SAI have had in recent years since 2012, the ALSAI Chairman praised also the implementation of the IPA 2013 Twinning Project in Albania by the Croatian and Polish SAIs during 2016-2018 and focused on the components and missions developed by Croatian experts on performance audits and quality control.



Photo no.5: The two day visit of ALSAI Chairman in the Croatian SAI

Source: ALSAI

Another important activity was the 15th Anniversary of the National Audit Office of Kosovo, due to the special links and intensive mutual assistance that both supreme audit institutions of Albania and Kosovo have had during the last 7 years. On 4 October 2018, an ALSAI delegation, headed by the Chairman, Mr. Bujar Leskaj participated in the 15th Anniversary celebrations of the establishment of the National Audit Office of Kosovo in Prishtina.



Photo no.6: Participation in the 15th Anniversary celebrations of the SAI of Kosovo

Source: ALSAI

ALSAI, active participant of EUROSAI Working Groups

In the following are the activities that have been developed within the EUROSAI Working Groups, in which the ALSAI has participated, by giving its modest contribution.

IT Working Group

The 12th meeting of EUROSAI IT Working Group took place on April 11-13, 2018 in Tallinn, Estonia, which is chaired by the Supreme Audit Office of Poland. EUROSAI-ITWG is one of EUROSAI's largest working groups. The meeting was attended by representatives from the 36 member SAIs of EUROSAI. EUROSAI-ITWG aims to encourage Europe's Supreme Audit Institutions to jointly explore the strategic impacts resulting from developments in the field of information technology (IT), both in the area of auditing and the use of IT in institutional administration of SAIs.

Working Group on audit of funds allocated for Calamities and Natural Disasters

On March 29-30, 2018, an ALSAI delegation led by the Chairman, Mr. Bujar Leskaj participated in the 4th Annual Meeting of the EUROSAI Working Group on "Audit of funds allocated for disasters and natural disasters", held in Moldova. The meeting was welcomed by the President of the Court of Accounts of Moldova, Mr. Veaceslav Untila as the host SAI of the event and subsequently the Chairman of the SAI, Mr.Bujar Leskaj. In his address, Mr. Leskaj emphasized the importance of exchanging audit work experiences and the contribution of European SAIs in this area of social importance, as well to assist and recover as soon as possible the communities affected by natural disasters and calamities, a contribution that goes directly to the achievement of some of the key strategic objectives of the United Nations Sustainable Development Agenda 2030.

Environmental Audit Working Group

The Working Group on Environmental Audits held two meetings during 2018. The first meeting was held on April 25 - 27, 2018, in Helsinki, Finland. The second meeting of this Working Group was held on September 25-28, in Bratislava, Slovakia. During these activities it discussed how audits on environmental management should be carried out by the relevant SAIs, with emphasis on sustainable development, information, consultation and public participation.

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Audit and Ethics Working Group

On October 22-23, 2018, the 9th meeting of the EUROSAI Task Force on Auditing and Ethics (TFA & E) took place in Lisbon. As a member of this group, the ALSAI participated in this important EUROSAI event, which addressed one of the most pressing issues for public administration, the ethics, which is related to the prevention and fight against corruption. Addressing this topic is of paramount importance to the supreme audit institutions charged with overseeing sound management of public finances.

Municipal Audit Working Group

EUROSAI organized the annual meeting of the members of the EUROSAI Task Force on Municipal Audits (TFMA) and the Municipal Audit Seminar, in Belgrade on November 5 and 6, 2018, on the topic "Local Government Finance-Future Challenges". The EUROSAI Municipal Audit Task Force was established in June 2016 and is composed of 26 members of the European SAI, aiming to improve systems and procedures related to municipal audit, exchange of best practices. good for achieving substantially effective audit results in terms of improving public financial management, improving external audit exercised in the municipality, so that the results bring positive change and benefits for both the citizens and the taxpayers in general.

On 30-31 October 2018 in Tirana, EUROSAI and ALSAI successfully conducted the meeting on one of the key directions of the EUROSAI Strategic Plan 2017-2023, to support effective, innovative and adequate audits by promoting and mediating professional cooperation. The event was organized within the framework of the Open Month that ALSAI has already made a tradition of its performance in the last years.

III.4.2 Strengthening ALSAI audit capacities through participation in training and internships abroad

ECA's Internship and GAO's Fellowship

Bryan Tracy, author of individual motivation and self-development issues, who has written over 70 books on individual professional development and success in the business world, states that "Individuals who develop the ability to constantly adopt new and better forms of knowledge, in order to apply them to their daily work and lives, are the drivers and promoters of our society towards the future". In this context, as highlighted in the ALSAI Development Strategy 2018-2022, human capital, the auditors remains the most important and valuable asset for the SAI,

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considering that success in fulfilling its mission and achieving its objectives depends significantly on the establishment of a competent and well-trained audit troupe.

Of particular importance in this regard is the acquisition of experience through training, workshops, etc. by supreme audit institutions with long experience in the field of auditing.

The European Court of Auditors (ECA) and the US Government Accountability Office (GAO) have made a special contribution to the modernization of the audit activity and the training of ALSAI auditors, through the partnerships in their internship and fellowship programs.

In 2018, 2 ALSAI auditors have been part of ECA structures for a period of 5 months and three others completed this internship at the end of February 2019, benefiting from the European Court of Auditors internship program, by contributing to various departments and directorates of ECA. The internship conceived as a process of acquiring knowledge through training and involvement in ECA audit teams has enabled the SAI auditors to become familiar with the entire audit process and the various techniques used to collect and analyze data.

Internship is considered an efficient tool to provide knowledge on auditing EU funds. In total there are 15 ALSAI auditors who have obtained internships at ECA and in March 2019 3 Performance Department auditors have attended the program.

The successful collaboration initiated since 2012 with the US Government Audit Office has continued throughout 2018. Two SAI auditors participated in a 4-month fellowship with this Office and have currently completed this audit program.

The Annual Audit Fellowship Program offered by the GAO is a 4-month intensive course of study, with 640 hours of training, seminars and e-learning designed to assist the supreme institutions of audit to enhance their professional capacities and strengthen SAIs' ability to fulfill their missions in enhancing accountability and transparency in governance around the world.

Various training activities

During 2018, ALSAI auditors have participated in various workshops, trainings or other activities. Some of them are quoted below:

• On August 6-17, 2018, a performance audit meeting, initiated by the International Development Initiative (IDI) of the International Organization of Supreme Audit Institutions, INTOSAI, was held in Lusaka, Zambia. This meeting

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was followed by a meeting on the same topic held in October 2017 in Budapest, Hungary.

The purpose of the International Development Initiative (IDI) program, entitled "*The Role of SAIs in the Fight Against Corruption*", is in support of member institutions' efforts to introduce an integrity-based approach to the fight against corruption.

The ALSAI representatives presented the results of the audit on the "Albanian Government Anti-Corruption Strategy". Audit reports of all participants were subject to the Peer Review procedure, during which the working groups set up by the auditors participating in the meeting reviewed the compliance of the audit plans with international standards.

Interaction between the Supreme Audit Institutions (SAIs) of the European Union is mainly carried out within the framework of the Contact Committee, which consists of the heads of SAIs of EU Member States. For 2018, the Contact Committee's annual meeting and the technical meeting of the coordination officers were held on October 11 and 12 in Dubrovnik, under the chairmanship of the host country, the SAI of Croatia. At the meeting along with the Heads of the SAIs of EU Member States, they were invited to participate as active observers the SAIs of Albania, Montenegro, Serbia, the Republic of Northern Macedonia and representatives of SIGMA. The purpose of the meeting was the joint discussions between SAIs on their practices and experiences in auditing specific topics relevant to recent developments in the European Union. Mr. Ivan Klesic, Chairman of the Croatian SAI in the authority of the SAI Contact Committee Steering Committee, welcomed the participants and stated that: "The Contact Committee is a very effective network for professional contacts between EU public auditors, through working groups, forums and task forces on specific audit issues."

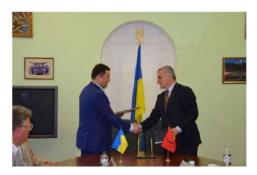
III.4.3 Cooperation Agreements with Partner SAIs

During 2018, two cooperation agreements have been signed with partner SAIs:

On June 15, 2018, in Kiev, Ukraine, the ALSAI Chairman, Mr. Bujar Leskaj signed the Cooperation Agreement between the Chamber of Accounts of Ukraine and the ALSAI. The President of the Chamber, Mr. Valeriy Pastkan said that for him this was the second agreement he signed with the European Supreme Audit Institutions (SAIs) after taking office in March 2018 and said that "the most important moment

comes immediately after the signing, when the parties must translate it into concrete initiatives of their willingness to work together".

Photo no.7: Signing of the Cooperation Agreement between ALSAI and the SAI of Ukraine

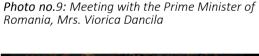




Source: ALSAI

On 18 September 2018, in Bucharest, Romania, the ALSAI Chairman Mr. Bujar Leskaj signed the renewal of the Agreement and the Co-operation Plan for Joint Activities 2018-2021 between the Court of Accounts of Romania and the ALSAI. The President of the Court, Mr. Mihai Busuioc praised the deal as important to his institution and its reform objectives, after taking over the mandate from the Romanian Parliament a year ago. He stated that the Albanian public external audit institution had received a very positive opinion from the President of the Court of Accounts of Portugal and former President of the European Court of Auditors (ECA), Dr. Vitor Caldeira and stressed that "with concrete initiatives we will develop our will for joint work, work that will bring added value to the auditors of our two SAIs".

Photo no.8: Signing of the Cooperation Agreement between ALSAI and the SAI of Romania







Source: ALSAI

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III.4.4 Implementation of the twinning project during 2018

The ALSAI in fulfillment of the second strategic objective of the Development Strategy for the previous period, 2013-2017 "Increasing audit capacities and audit quality" paid particular attention to the implementation of the IPA 2013 Twinning Project "Strengthening external audit capacities in Albania". This project, funded by the European Union, started its implementation in March 2016 and completed the work in July 2018. It was divided into three components and aimed at:

- Improving the legal framework for auditing;
- Development of audit methodologies and reporting capabilities;
- Strengthening institutional capacity and improving the impact of audit results.

The project, which proved to be very successful and valuable for the SAI's audit capacity building, in the 26 missions developed during 2018 focused on:

- Analysis of the legal framework and ALSAI practices for following and implementing recommendations and drafting a manual for recording conclusions and recommendations, as well as developing an IT system for tracking them.
- Drafting the ALSAI IT audit manual;
- Review of SAI's Financial Audit and Compliance Manuals.
- Review of the SAI reports to the Parliament and the Parliamentary Committee on Economy and Finance and focus on the quality of transparency and communication, compared to good European experience;
- Determining the professional expectations of the SAI auditors as well as the components of the auditors' certification procedures;
- Developing procedures for continuous training and development management;
- Drafting the project's product sustainability plan;
- Drafting a glossary of audit terms for public administration in Albania.
- Analysis of the legal framework and SAI practices for following and implementing recommendations and drafting a manual for recording conclusions and recommendations, as well as developing an IT system for tracking them.

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In order to implement the experience gained from the project implementation, which aims to build the institutional capacity of the external audit in Albania, the Chairman of ALSAI has approved the following documents:

- **1.** Methodology for drafting the strategic and annual plan, risk analysis and central risk register;
- **2.** Anti-Fraud and Anti-Corruption Handbook, through Decision no. 80 of ALSAI Chairman;
- **3.** Guide to institutionalizing ALSAI's relations with Parliament.

Regarding the recommendations given by Polish, Croatian and Dutch experts, ALSAI Chairman during 2018 has approved two matrices which included the recommendations left by the experts, through document no. 920, dated 01.08.2018, document no. 34/59, dated 30.11.2018, as well as the Sustainability Plan, through document no. 34/58, dated 30.11.2018. These three documents clearly set out the structures responsible for implementing these recommendations and the relevant deadlines.

During the 28 months of the twinning project implementation, 99 missions have been conducted, involving 65 Polish, Croatian, Dutch, Estonian and Portuguese experts with a total number of 1053 days/people. The meetings, trainings conducted with the experts and study visits involved around 100 SAI executives and auditors and for the period March 2016-11 July 2018, there were realized 2219 days/people (in training, missions, pilot audits, study visits, etc.).

IV. INSTITUTIONAL MANAGEMENT AND STRATEGIC DEVELOPMENT

IV.1. PERFORMANCE BASED ON PERFORMANCE MEASUREMENT INDICATORS' FRAMEWORK

The Supreme Audit Institution of Albania (ALSAI) has applied in recent years the performance measurement framework as an instrument that not only provides transparency but reflects the degree of responsibility for identifying aspects of institutional functioning and audit activity that need to be improved. Voluntary evaluation of institutional performance using the SAI International Standards(the ISSAIs) and international best practices in the field constitutes a consolidated philosophy of the functioning of ALSAI in its journey towards modernizing and meeting strategic development objectives. As presented in the institution's Performance Report for 2017, ALSAI has methodologically consolidated and implemented the Performance Measurement Framework. This framework is presented in the form of a detailed indicator matrix, according to the 6 main areas, each of which consists of many dimensions that are measured according to well-defined criteria from both the measurement and the scoring point of view.

The indicator matrix takes into account the fact that the supreme audit institutions (SAIs) are complex institutions and that the performance indicators of the various areas are interrelated. This indicator matrix generates both synthesized and analytical information. The synthesized indicators make it possible to compare the performance of the SAI with that of other Supreme Audit Institutions, as well as to analyze the dynamics of institution development over the years. Whereas, through analytical dimensions it is possible to identify aspects that need to be improved compared to INTOSAI standards and best practices.

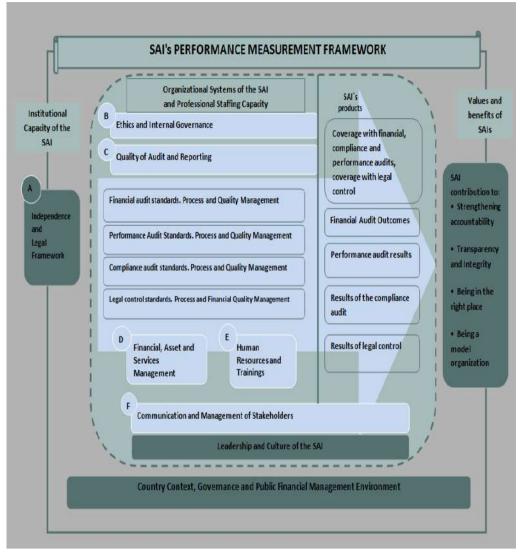
IV.1.1 Performance analysis accordin to indicators

The monitoring of performance indicators enables ALSAI to track progress on key aspects and provide important information on which to base managerial and organizational decisions that ensure continuous improvement and consolidation of

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institutional growth. This methodological approach is not an end in itself but it is in the function of accomplishing the constitutional mission and the internal objective of creating added value for citizens.

Chart no.1:SAIs Performance Measuremenet Framework



Source:ALSAI

In the above diagram, constructed on the basis of dimensions measured by **25 indicators** (referring to 6 fields), the activity of ALSAI is analyzed with reference to the following fields.

Independence and Legal Framework;

- Internal Governance and Ethics;
- Audit Quality and Reporting;
- Financial Management, Assets and Support Structures;
- Human Resources and Training; and,
- Stakeholder Communication and Management.

The results of the self-evaluation of the performance indicators by the fields are realized according to the scoring methodology of the Performance Measurement Framework (ALSAI, 2017), where for each dimension and field the scoring level ranges from 0 to 4, are reflected in the diagram below.

As shown in the diagram, the aggregated indicators by field identify the fact that ALSAI has a performance above the average level and specifically for three out of 5 assessment areas it is 3 (out of 4) and for two assessment areas it is 4. Assessment, which appears at first glance, to be the same as last year.

But if we do a more in-depth analysis, we find aspects that reflect improvement and those where more structured work needs to be done.

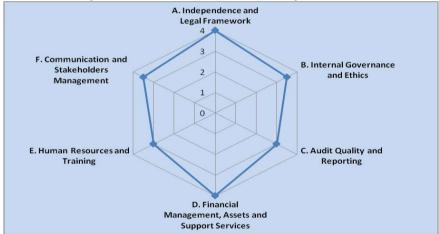


Chart no.2: ALSAI's Performance Measuremenet Framework for 2018

Source:ALSAI

IV.1.2 Summary of performance indicators for 2018

The evaluation of specific indicators of each dimension constituting the areas is based on the self-assessment approach by the ALSAI working groups. The results of the scoring process according to the specific criteria are presented in the table below.

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Table no.2: Summary of ALSAI's performance indicators for 2018

Indicator	Field	Dimensions	Score
	A. Independence an	ıd Legal Framework	4
SAI-1	Independence of SAIs	(I). Appropriate and effective constitutional framework	4
		(Ii). Independence / financial autonomy	3
		(Iii). Independence / organizational autonomy	4
		(Iv). The independence of SAI's President and its Officers	4
SAI-2	The SAI term	(I). Warrant enough	4
		(Ii). Access to information	4
		(Iii). The right and obligation to report	4
	B. Internal Governa	ance and Ethics	3
SAI-3	Cycle of Strategic	(I). The content of the Strategic Plan.	4
	Planning	(Ii). Contents of Annual / Operational Plan	3
		(Iii). Organizational Planning Process	3
		(Iv). Performance Monitoring and Reporting	3
SAI-4	Environment Organizational	(I). Internal Control Environment - Ethics, Integrity and Organizational Structure	4
	Control	(Ii). System of Internal Control	4
		(Iii). Quality Control System	3
		(Iv). Quality Assurance System	4
SAI-5	Audits of External Sources	(I). The selection process for the contract Auditors	
		(Ii). Quality Control of Audits of External Sources	N/a
		(Iii). Quality Assurance audits by external sources	N / a
SAI-6	Leadership and	(I). Leadership	4
	Internal Communication	(Ii). Internal Communication	4
SAI-7	The General Audit	(I). General Process Audit Planning	4
	Planning	(Ii) Contents of the General Audit Plan	3
	C. Audit Quality an	d Reporting	3
SAI-8	Covering the	(I). Coverage of Financial Audit	N/a
	Audit -3-	(Ii). Screening, and objectives of	

		Performance Audit	2
		(lii). Screening, and objectives of the	
		Compliance Audit	4
SAI-9	Financial Auditing	(I). Policies and Financial Auditing Standards	3
	Standards and Quality	(Ii). Management of Financial Audit and Group Skills	3
	Management -3-	(Iii). Quality Control in Financial Audit	3
SAI-10	Financial Audit	(I). Planning the Financial Audit	3
	Process -3-	(Ii). Implementation of the Financial Audit	3
		(Iii). Evaluation of Audit Evidence, Conclusions and Reporting of the Financial Audit	3
SAI-11	Financial Audit Results -4-	(I). The timely submission of Financial Audit Results	4
		(li). Timely publication of the Financial Audit Results	3
		(lii). Following implementation of comments and recommendations of the Financial Audit by SAI	3
SAI-12	Performance Audit Standards	(I). Performance Audit Policies and Standards	2
	and Quality Management -3-	(li). Management of the Performance Audit Group and Skills	3
		(Iii). Quality Control on Performance Audit	3
SAI-13	Performance	(I). The Performance Audit Planning	3
	Audit Process -3-	(Ii). Implementation of Performance Audits	2
		(Iii). Reporting on Performance Audits	3
SAI-14	Performance Audit Results -3-	(I). The timely submission of the Performance Audit Reports	4
		(Ii) . Timely publication of the Performance Audit Reports	4
		(Iii) Following the implementation of the Performance Audit comments and recommendations from SAI	2
SAI-15	Compliance Auditing	(I). The Compliance Audit Policies and Standards	2
	Standards and Quality Management -3-	(li). Management of the Compliance Audit Group and Skills	3

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		(lii). Quality Control of Compliance Audit	4
SAI-16	Compliance audit	(I). Planning the Compliance Audit	2
	Process -3-	(Ii). Implementation of the Compliance Audit	3
		(Iii) assessment of audit evidence, conclusions and Reporting in Compliance Audits	3
SAI-17	Results of the Compliance	(I). The timely delivery of the Compliance Audit Results	4
	Audit -3-	(li). Timely publication of Compliance Audit Results	3
		(iii Following implementation of comments and recommendations of the Compliance Audit by SAI	3
SAI-18	Standards of	(I). Policies and Judicial Control Standards	
	Judicial Control and Quality	(Ii). Management of Judicial Control Panel and Skills	N / a
	Management (Judicial SAI)	(lii) Quality Control Trial in Controls	
SAI-19	The Judicial	(I). Planning judicial control	
	Control Process (for SAIs with	(Ii). Implementation of judicial control	N/a
	judicial functions)	(Iii) Decision-making process during the main controls	
		(Iv) Final decision of judicial control	
SAI-20	Results of judicial control (for SAIs	(I). Notice of Decisions regarding the Judicial Control	
	with judicial functions)	(Ii). Publication of decisions regarding the Judicial Control	N/a
		(lii). Following the implementation of decisions regarding the Judicial Control	
	D. Financial Manag	ement, Assets and Support Services	4
SAI-21	Financial	(I). Financial Management	4
	Management, Assets and	(Ii). Planning and Effective Use of Assets and Infrastructure	3
	Support Services	(Iii) Administrative Support Services	4
	E. Human Resource	s and Training	3
SAI-22	Human Resource	(I) HR Function	3
	Management -3-	(Ii) Human Resources Strategy	3
	<u>i</u>	<u> </u>	

		(Iii) HR Recruitment	4
		(Iv) Remuneration, promotion and Staff Welfare	4
SAI-23	Development and Vocational	(I) Plans and Processes for Development and Training	3
	Training-3-	(Ii). Professional Development and Training on Financial Audit	3
		(lii) Professional Development and Training on Performance Audit	3
		(Iv) Professional Development and Training on Compliance Audit	3
	F. Communication a	and Stakeholders Management	3
			-
SAI-24	Communication	(I) Communications Strategy	3
SAI-24	with the legislative,	_	
SAI-24	with the	(I) Communications Strategy (Ii). Best practice in relation to	3
SAI-24	with the legislative, executive and	(I) Communications Strategy (Ii). Best practice in relation to Communication with the Legislative (Iii) Best practice in relation to	3
SAI-24 SAI-25	with the legislative, executive and	(I) Communications Strategy (Ii). Best practice in relation to Communication with the Legislative (Iii) Best practice in relation to Communication with the Executive (Iv) Best practices regarding communication with the Judiciary, Prosecution and	3 3

Source: ALSAI

In the evaluation of the **Field A, "Independence and the Legal Framework**", we base our scoring on the assessment of the Austrian Court of Audit and its conclusion that ALSAI activity was in line with: *the Lima Declaration, the Mexico Declaration and the International Standard of Supreme Audit Institutions, the ISSAI no. 11.* However, the recommendations of international experts on improving the legal framework for strengthening real independence, mainly the financial one, remain of current value. The ALSAI's experience of achieving real independence has been considered as "best practice" and has been part of presentations and discussions at several international events, such as at a International Commemorative Conference held in Peru¹ in

¹ "40 Years of Lima Declaration", a commemorative International Conference held në Lima, Peru, December 2017

December 2017, or at the high-level Conference on "The Role of Supreme Audit Institutions to increase Accountability, Transparency and Integrity in the Public Sector" held in Sofia, Bulgaria, in May 2018, etc.

Despite that from the legal prospective, ALSAI has a sufficient mandate and access to information, even during 2018, there have been cases when auditees have obstructed the exercise of its audit activity by not providing all the required information, thus affecting the objectivity of the opinion on audit. We mention the case with the Ministry of Health and Social Protection, a case that reflects the irresponsibility of some civil servants performing State functions. In order to increase the real financial independence and address the problems encountered during the implementation of its fundamental law, ALSAI has addressed the Albanian Parliament with the proposal for some legal improvements to the SAI law, aiming at the full realization of its constitutional mission.

The set of indicators assessing the Field B, "Internal Governance and Ethics", identifies that ALSAI is driven by setting a good example and being a model institution that promotes transparency and accountability through good governance and ethical behavior. Significant steps have been taken to ensure good governance, by adopting the principles of good governance in all aspects of institutional work. Accountability as a principle is clearly acknowledged by senior management and is pursued by everyone within the institution.

Compared to last year, ALSAI improved the content dimension of the strategic plan by drafting and implementing the "Methodology of strategic and annual planning of audit activity based on risk analysis²". However, some aspects remain to be improved such as: the inclusion in the annual plan of measurable indicators at the product and the outcome level; consultation with stakeholders of the envisaged annual plan; tracking public visibility and measuring impact through external feedback in accordance with ISSAI 20, p. 6; or aspects of building systems that take into account quality-related risks that arise during operation (according to the ISSAI 40, p. 8).

The **Field C, "Audit Quality and Reporting**" covers the three types of audit (financial, performance and compliance audit) and evaluates the quality and results of audit work, which is the main activity of the SAI, through three indicators: *Principles; Processes and Results*.

² http://www.klsh.org.al/web/metodologjia_e_planifikimit_4430.pdf

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The dimension-based analytical system enables analysis of "root" causes, by clearly identifying what measures should be taken to improve the audit dimensions in real terms. Thus, the evaluation system shows that much remains to be done with regard to the dimension of financial audit coverage, as well as the coverage and selection of performance audit objectives remains far from good international models. Careful and consistent work needs to be done to determine the materiality and risk for each audit, as well as its specific elements; while sampling is another aspect where interventions remain necessary, etc.

By conducting pilot audits with the assistance of Polish experts in the IPA 2013 Twinning Project, it has been possible to clarify specific audit processes; an experience which will be shared with the auditing troupe through in-house training. Also, drafting easily understandable audit reports, in a shorter format, is one of the challenges for this year (2019).

The **Field D, "Financial management, assets and support units**" showed that ALSAI has appropriate organizational management and support structures that ensure good governance, by supporting internal control and management practices (in line with the requirements of the ISSAI no. 12, Principle 9).

The **Field E, "Human Resources and Training**" demonstrates the SAI's performance in human resource management and development. ensuring that the audit troupe has sufficient qualification, professional development and updating of knowledge on audit standards and methods, as well a strategic approach to professional development. The aspects that should best meet the ISSAI standards relate to the development of a training portfolio based on the auditor's specificity and competence. The SAI aims mainly at enhancing the capacities associated with financial audits and the use of information technology to support the audit activity.

The Field F, "Stakeholder Communication and Management", is evaluated in accordance with the ISSAI 12 requirements and identifies one of the key objectives of the SAI, demonstrating its importance to stakeholders. ALSAI has used all instruments recommended by best practices in order to increase the knowledge of stakeholders to understand the role and responsibility of an independent public sector auditor. The SAI has identified stakeholders and developed the communication strategy by refining communication and management channels to include all stakeholders. Aspects that continue to be a challenge for the year ahead will be the assessment of the impact of the SAI on stakeholders, or the concretization of the plan of cooperation with parliamentary committees. Of

particular importance is the strengthening of cooperation with the Executive and the Legislature to increase the degree of implementation of the ALSAI recommendations through the use of instruments built in cooperation with these institutions.

As it happened for 2017, the analysis for 2018 based on the above indicators shows not only ALSAI performance strengths, which mainly consist of the dimensions of institutional and financial independence, internal process management, growth and efficiency of internal control systems; leadership and communication; publication of financial, performance and compliance audit results; financial management; supportive administrative services, etc., but also identifies the weakest points of the institution's performance, which as presented in the table above are rated with the score 2 (where the scores range from 0-4). The aspects requiring further improvements consist mainly of dimensions related to the full understanding and implementation of compliance and financial audit standards, or to the implementation of performance audits, assessed in detail against all specific standards of the ISSAIs of second, third and fourth level: ISSAI 200, 300 and 400. Aspects of risk analysis as a basis for determining materiality in its entirety and also for specific elements of planning and programming audits, represent a challenge that we have begun to face in early 2019. This is going to be a process intertwined with methodological improvements as a whole.

The detailed level of indicators as well as references to documents, manuals or standards and best practices constitute a clear pathway for the SAI, in facing the challenges of consolidated development not only in the short term but also in the medium term in meeting the objectives deriving from Constitution and Law.

IV.2. MONITORING OF ALSAI'S DEVELOPMENT STRATEGY 2018-2022 AND OF RISK MANAGEMENT STRATEGY

The ALSAI has drafted the Development Strategy for the 5-year period 2018–2022, which outlines the key directions of institutional developments, by defining three strategic goals and 22 objectives, specified for each of the goals. The Strategy is supported by an Action Plan which includes a set of activities and actions, which completion will enable the achievement of objectives and the achievement of strategic goals in future periods.

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Monitoring the implementation of the Development Strategy is considered as an effective mechanism by which ALSAI systematically monitors progress, assuring that it is moving towards the set objectives and at the same time has important information for effective and timely decision-making. Through the monitoring, the current level of Performance Indicators was evaluated and measured against the forecasts, what served the ALSAI for:

- providing up-to-date information on the progress of the Strategy in general (Situation Indicators);
- identifying in time potential shortcomings or risks affecting the achievement of the objectives (Warning Indicators);
- ensuring better decision making and timely response to challenges (Policy Indicators);
- creating and strengthening effective cooperation between all SAI structures;
- realizing effective implementation of the Transparency Principle, by communicating SAI results to the public, Parliament and the community of stakeholders.

The results of this monitoring show that for 2018, which is the first year of implementation of ALSAI Development Strategy 2018-2022, the projected objectives have been generally achieved on a large scale.

The Action Plan has foreseen a total of 74 activities and measures out of which 36 actions were foreseen to be undertaken during 2018 and to be implemented annually during all Strategy period. The evaluation of the achieved indicators is presented at the following levels:

Table no.2: Status of Strategy activities during 2018

	Status of activities	Number of activities	Realization in %
1	Activities thoroughly performed	31	86%
2	Activities partially performed	3	8%
3	Non-performed activities	2	5 %

Source: ALSAI

The implemented activities aimed at achieving strategic objectives related to strengthening and completing the legal and methodological framework to ensure that audit activity is conducted in accordance with the requirements of INTOSAI standards, while working in two parallel dimensions: empowerment and growth of the

independence of the institution and the formation of a high professional public audit portfolio. To this end, the envisaged activities were aimed at meeting the objectives of: Developing policies, rules and methodologies in support of the implementation of the audit standards, applying them in practice and making them an essential part of the audit work, as well as updating and improving them. Such conception has ensured that the realization of the objectives is achieved both in form and content.

The Strategic Goal 1 "Increasing the impact of audit work focusing on the 6Es" is designed to cover the broader dimension of development, addressing issues of the highest level such as the Goal for "Strengthening ALSAI's independence and mandate", as well as the technical and methodological plan of the audit approach. These objectives have been seen in the light of the growing impact of audit through the provision of quality audit products, with the aim of ensuring that SAI becomes a driver of positive change and improvement in promoting good governance in the country. Methodological development has continued to support and foster change by becoming a vanguard of SAI developments. The adoption of the Methodology of compiling the strategic and annual plan based on risk analysis provided the basis for further development in applying the risk-based audit approach at the earliest stage of planning of the audit work. The Guide on the audit of corruption and fraud while auditing and the Manual of Public Procurement Audit completed the methodological framework by providing auditors with detailed guidance on specific areas of material relevance to the audit focus.

The increase in the number of financial and performance audits versus traditional financial regularity (compliance) audits has been in line with the recommendations addressed in the EC Progress Report on Albania 2018, as well as with SIGMA recommendations. Also, during 2018, ALSAI started the revision of the Audit Manuals by type, with the aim of improving and updating them in full compliance with the requirements of the ISSAIs and the present conditions in which SAI activity is conducted.

Professional development and training activities have accompanied the changes and progress made in the audit methodological framework. The Annual Professional Development Program as well as specific training programs aimed to support and harmonize the knowledge presented through theoretical materials with application in the audit practice, while simultaneously enhancing capacity, deepening knowledge and emphasizing skills with the ultimate goal of reaching higher quality and audit professionalism.

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In meeting the objectives underpinning **Strategic Goal 2** "Optimizing professional capacity, audit capabilities, work procedures, logistics and other supporting functions", the SAI continues to strengthen the foundations of a high public audit institution that is strategically investing in human capital, by providing the capitalization of auditors' professional and ethical values as a guarantee of progress and development. Fulfillment of the activities foreseen in the SAI Development Strategy and detailed in concrete and specific objectives in the Annual Professional Development Plan has ensured that each auditor attends more than 25 training days on average per year. The trainings are structured to cover general training topics such as the legal and regulatory framework for public sector audit activities, audit training by type of audit, by considering this closely related to the objective of increasing the quality and number of financial and performance audits, as well as of IT audits.

The objective of automating the audit process through the implementation of the SAI "Process management and support" Program has been developed in parallel with the training of all SAI staff to enable them to use this program.

In view of its mission and vision as the supreme public audit institution in the country, the fulfillment of **Strategic Goal 3** "Strengthening communication and cooperation" supports the SAI, in view of the implementation of the ISSAI 12 "SAI Values and Benefits" and the ISSAI 20. During 2018, ALSAI continued to maintain a high level of communication and cooperation with all stakeholders, with the Parliament of Albania, civil society and being in the service of the citizen, while maintaining very high performance indicators and successful implementation of the SAI Communication Strategy. However, as the results achieved in this respect largely depend on the awareness of the other parties involved, the challenge stays in that part of the objectives that have not yet been achieved or are still in process.

The conclusions drawn from this monitoring process as well as the proposals for taking the necessary actions towards the required changes are reflected in the "ALSAI Development Strategy Monitoring Report" for 2018 and made known to stakeholders, the public and all SAI staff on the official website of the institution www.klsh.org.al. Specifically, ALSAI is working to determine what actions and measures will be taken to ensure the continued progress of each strategic goal, in particular, future actions and steps, if any, for continued progress towards the completion of each Goal.

Revision of ALSAI's Risk Management Strategy

The ALSAI Risk Management Strategy provides a comprehensive and structured approach to identifying, assessing and managing the institution's risk. It aims to

build and foster development based on regular reviews and updating processes of risk assessments, depending on the changes in the strategic environment that the SAI operates. Pursuant to Law no. 10296, dated 08.07.2010 "On Financial Management and Control", later amended, ALSAI adopted the Risk Management Strategy in 2015, which is updated every three years but also at a lower frequency, if substantial changes in the risk environment happen. This Strategy sets out the general principles of risk management in the SAI, by using systematic approaches to identify, analyze, evaluate, treat, monitor and communicate the key risks associated with the SAI's responsibilities, in order to minimize unforeseen adverse events and maximize opportunities. The Risk Strategy Review for 2018 consisted of an updated assessment of identified, evaluated and systematically addressed risks during each year since the adoption of the Strategy.

The Risk Management Policy ensures the establishment of roles, responsibilities and reporting lines within the SAI for risk management, an effective communication and the active involvement of staff at all levels, guided by and monitoring the progress of the Strategy and reviewing the ongoing risk management process.

The purpose of risk management is to ensure that the ALSAI has an effective process to support better decision-making, based on realistic evaluation of results, to reasonably ensure that the foreseen objectives will be achieved, to effectively plan and manage available resources, to prioritize the actions to be taken, to increase trust in the management system and develop a positive institutional and supportive culture.

As a strategic planning tool, the ALSAI has used the SWOT Analysis to assess the strengths, weaknesses, opportunities and threats that are part of its activity, that is, what exists under current conditions and that have or may have a significant impact on the strategic goals of the institution. This analysis has enabled the ALSAI to create a deep and complete recognition of all the factors involved in the strategic decision-making process and which are specified in the Development Strategy for the period 2018-2022. The strategic developments of the environment in which the SAI operates and interacts have been analyzed with a view to identifying internal and external strategic threats, opportunities, factors and situations that have or are expected to have an impact on the performance and results of the Supreme Audit Institution (SAI). Based on these analyses, ALSAI has determined that in a summarized way, the factors that determine the entities to be audited are: Parliament/External Partners/Public interests, materiality by size/value, risk, history of control deficiencies, history of violations and deviations, impact/prevention of

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fraud and corruption, change in legislation, status or mandate, coverage by internal audit and other factors.

In its revised Risk Management Strategy, the ALSAI has identified the main, external and internal risks. The latter are categorized into institutional management risks and audit work risks, where risk factors are defined according to specific areas of audit at program level and type of audit, its assessment, criteria for determining major risks; risk mechanisms and risk measurement criteria, in accordance with the SAI policies. Based on the strategic objectives of the SAI and the risks that hinder the fulfillment of these objectives, the final product is the design of <u>ALSAI's Risk Register</u>, presented according to the degree of probability of occurrence and the consequences of the risk.

To identify external risks, the SAI has used the PESTLE³ technique, according to which the risks are summarized in 5 main categories corresponding to the Political, Economic, Social, Cultural, Technological, Legal and Environmental risk. The environment and level of development in the public sector in general and in particular in the management of public finances continues to significantly exhibit the risk of fraud and corruption, addressed in several fields and priority areas. The SAI pays constant attention to higher priority risks (*Key Risks*) to the highest level. Generally, the risks identified in the management of public finances are the result of external factors, of the environment where the audit is carried out and also of internal factors-resources available from the SAI (people, skills, competences, due professional care), for which the ALSAI has created a set of controls in response and aiming at minimizing both the impact and the likelihood of these risks' occurrance.

IV.3 INSTITUTIONAL MANAGEMENT PROGRESS

IV.3.1 Development and Management of human resources

The ALSAI, in the context of institutional reform, has considered the effective management of human resources as one of the key aspects of the process towards modernization and sustainable institutional development. The policy of human resources management in the SAI has aimed at the rigorous implementation of the requirements of the International Standards of Supreme Audit Institutions (the ISSAIs), in the field of human resources management and the Public Administration Principles and Best Practices recommended by the European Union. ALSAI, in its

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³ ISSAI 9130

Institutional management and strategic development------

management policies considers that human resources are an important factor in achieving the key institutional objectives and in this respect, human resource management is viewed as a precondition and vital for the functioning of the institution efficiently and effectively. Also, the SAI has addressed as a driving factor of the success the modern and effective management of human capital, in order to ensure better professional skills and deeper knowledge of international standards in the field.

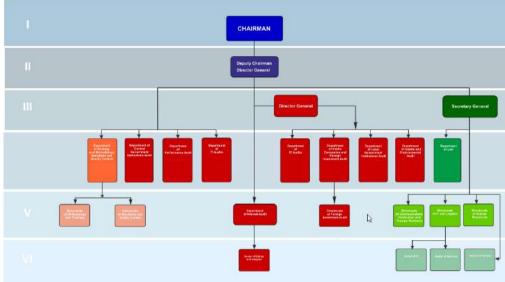
Organizational Structure/Organigram

ALSAI is focused on installing an effective regulatory framework, in order to consolidate effective HR processes and systems, by trying to maximize employee productivity. This management is carried out based on clear policies and rules, which are truly reflected in the composition of a rational and effective institutional organizational strukture (organigram). The organizational structure of the SAI was approved by Decision no. 4, dated 27.01.2017 of ALSAI Chairman "On the Structure of Job Order, Classification of Jobs and Salary Level in ALSAI", later amended. The structure is designed to meet the ever-increasing institutional objectives to ensure effective internal control systems, thereby forming an integrated system that responds dynamically.

The Organizational Structure enables effective lines of interaction and reporting to fulfill the responsibilities at the structural unit level. Effective reporting lines are installed within each unit, what enables the communication of qualitative information aimed at achieving the objectives of the unit. In line with the expectations for institutional modernization and the implementation of the International Auditing Standards, the functioning of the Performance Department established in the second half of 2012, continued to consolidate throughout 2018. During 2018, the Department of Methodology, Standards and Audit Quality Assurance was also established, by integrating in this department the former Directorate of Standards and Audit Quality Assurance. The main focus of the newly established department is compilation and development of audit policies, compilation of development strategies and their monitoring; compilation of audit methodologies, manuals and guides, as well as control and quality assurance of audit activity. Likewise, throughout 2018 the consolidation of the Information Technology Audit Directorate continued, by growing the unit into an IT Audit Department.

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Figure no.3: ALSAI Organigram at the end of 2018



Source: ALSAI, Human Resources Department

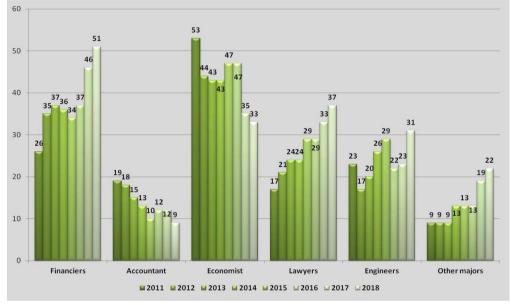
For 2018, the approved ALSAI organigram has in total 191 auditors and support staff. From 2011 and 2012, years in which the structure had a total of 156 auditors and support staff, the dynamics of staff growth resulted in 5 additional auditors each year and 10 new auditors for 2018, culminating with 191 auditors. This addition has thus ensured better coverage of the increasing demands for coping the complexity of the SAI audit activities with sufficient human resources. From the dynamics analysis over the years, the HR structure reflects the management's philosophy of increasing the audit troupe, associated with a prudent and balanced policy of respective senior management directly related to the audit activity, indicating that HR management focuses on ensuring and enhancing the quality of auditing and the control and oversight aspects.

Table no. 3: ALSAI staff composition in years

	2011	2012	2013	2014	2015	2016	2017	2018
Management	10	14	14	13	16	15	16	20
Senior auditors	7	5	7	9	9	9	12	16
Auditors	103	105	106	110	116	119	118	128
Support employees	22	23	28	33	23	17	20	17
Service employees	10	9	9	8	9	9	10	10
Total	152	156	161	166	171	176	181	191

Source: ALSAI, Human Resources Department

Referring to the professional composition, the main professions are financiers and jurists. Due to the nature and complexity of the audited activities, which require financial and legal interpretation, the demand for these two professions will continue to be a priority. The graph below shows the composition of staff by function starting from 2011.



Graph no.1: ALSAI staff through years according major and expertise profile

Source: ALSAI, Human Resources Department

In order to improve their performance, a part of the auditors and executives have completed studies for second majors or have obtained various national and international certificates, thus:

- 2 directors have the title of "Professor" and "Associate Professor",
- 6 executives and auditors have the title "Doctor of Science",
- 33 executives and auditors have a second major (Diploma), of which 25 in Law, 7 in Finance and 1 in another major,
- 6 executives and auditors have International Certificate in Accounting and Auditing (CIPFA) and International Certificate in Auditing (CPA),
- 7 auditors are Certified Accountants and 2 auditors are Accounting Experts,
- 19 executives and auditors have the certificate of Internal Auditor,
- 13 auditors have the Certificate of Real Estate Appraisal Expert,

 9 executives and auditors have Diplomas/Certificates of training developed by the IDI (INTOSAI Development Initiative).

It is worth mentioning the fact that 15 SAI auditors received training through 5-month internships from the European Court of Auditors (ECA) and 5 executives and auditors through 4-month internships from the US Government Audit Office (GAO).

On recruitment and career promotion processes

During 2018, ALSAI recruited 32 employees. The SAI considers staff recruitment and selection as the starting point for human resource management, as it is closely linked to its strategy, structure and functions. ALSAI has implemented effective human resource management and recruitment policies, based on the three basic principles: i) evaluation of professionalism, ii) transparency and iii) open competition and possibility of participation for all concerned.

Employee recruitment policies have been applied in line with the strategy of human resource development and management, in order to ensure that SAI provides the right staff with the right qualifications, skills and experience to meet current and prospective needs. As a very important process for the performance of the institution, recruitment is carried out in accordance with all the procedures, rules and legal provisions in force on civil servants.

The purpose of the SAI career promotion policy is to ensure the use of employee potential in line with the institutional regulatory framework. This policy is intertwined with policies for motivation and professional development. Every ALSAI employee has the right to be promoted and proof of this is every staff member.

During 2018, ALSAI conducte 8 tests and promoted in higher categories 51 auditors (23 second degree auditors passed into first degree auditors and 18 first degree auditors passed into senior auditors, while 6 senior auditors were promoted into chief-auditors. Meanwhile, 1 first degree auditor has been promoted Chief of Sector, 1 Senior Auditor has been promoted Director of a directorate, 1 Senior Auditor has been promoted Director of a department, 1 Chief Auditor has been promoted Director of a department and 3 employees have endured category reductions, due to their non-successful tests.

Gender Equality

The ALSAI policy in support of women's career development and gender equality is reflected in sustainable indicators. The institution employs 82 female employees,

13 of which are in management positions (Secretary General, Director General, Department Director, Director of Directorate, Chief Auditor, Head of Sector), 55 female employees are in audit positions and 14 women and girls are employeed in support departments, directorates and sectors. The policy pursued over the years towards gender equality is illustrated by the chart below, which clearly shows that the female/male ratio for 2018 has grown to 42.9% to 57%, from 33% to 67% in 2011. ALSAI intends for 2019 to grow the female/male ratio to be 50% to 50%. Graphically the trend is:

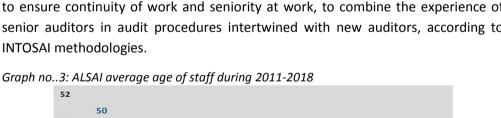


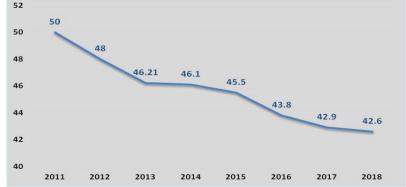
Graph no.2: ALSAI personnel per gender division

Source: ALSAI, Human Resources Department

Age and seniority at work

Other equally important indicators for human resources are the age of employees to ensure continuity of work and seniority at work, to combine the experience of senior auditors in audit procedures intertwined with new auditors, according to INTOSAI methodologies.





Source: ALSAI, Human Resources Department

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The average age at the ALSAI at the end of 2018 is 42.6 years, from 50 years in 2011. The age of auditor indicator has recognized the trend of lowering the average age of employees, due to the recruitment of young professionals with responsive skills to dynamic development of new technologies and new areas facing the public sector. The staff consists of 44 auditors under the age of 30 years, 77 auditors in the age range of 31-50 years, while over the age of 51 are 70 auditors and support staff. A total of 33 auditors have retired for the period from 2012 to 2018.

IV.3.2 Professional Training

Through its professional development policy, ALSAI has assessed the need to create sustainable values, applying a systematic process of professional and ethical learning by encouraging and supporting a continuous and flexible development environment capable of coping with different situations, challenges and risks.

Professionalization requires not only a commitment to train staff to the necessary standards, but also the creation of an environment in which professional attitudes are encouraged, developed and sustained through an institutional infrastructure that extends beyond the SAI.

The successful implementation of the SAI Staff Professional Development Program for 2018, according to the goals projected in the requirements of the ALSAI Chairman Decision no. 230, dated 31.12.2017, enabled every auditor of the SAI during this period to achieve the objectives and the basic indicators that promote the strengthening of professional capacities through training.

The Methodology, Standards and Audit Quality Assurance Department monitors and ensures the best coordination and combination of functions for institutional development, by putting together the three elements of capacity building and sustainable progress.

During 2018, the SAI training harmoniously alternated the two options are: training in the country, by conducting seminars on consolidation of knowledge and trainings sessions in the ALSAI premises with local and foreign lecturers and the approach of abroad seminars and training sessions developed in collaboration with partner SAIs and other international donors and partners.

By the end of 2018, ALSAI auditors have capitalized an average of 29 training days per auditor, reaching the highest level of this indicator throughout the development

of this institution over the years, since its establishment. The training performance indicators for 2018, confirm a stabilizing trend and prove that over the years, the training structure has changed in all its derivatives, in line with staff requirements for change and development and has followed contemporary professional advancement priorities. The qualifications are geared towards the in-depth recognition and application of International Auditing Standards and the International Professional Auditing Professional Framework, considering them as a comparative advantage in enhancing the quality of subsequent engagements. The Training Programs aimed at updating the knowledge and filling in the auditors' knowledge with additional knowledge on the audit approach, enhancing the quality of audits by fulfilling the public auditor's mission (at the individual and institutional level), guided by the motto and professional credentials: "ALSAI as servant of the Albanian citizen".

In-house training sessions are mainly focused on three main pillars:

Training for new staff, with key presentations and insights on the role and responsibilities of the Supreme Audit Institution, imparting basic knowledge and concepts on accountability, public accountability and mission of public audit professionals; the skills and abilities they need to master; techniques and tools to use during their work, etc., (two three-week sessions, each in April and June).

Knowledge updating training sessions, which are geared to existing and experienced staff, mainly in the form of case study; sharing experience within departments by communicating findings and recommendations for top rated audits; as well as the provision of training by international and local partners, organized throughout 2018. This set of training included two monthly packages: trainings delivered during August 2018 and those conducted during October-November 2018, (referred to in Order no. 916, dated 31.07.2018 of ALSAI Chairman).

Training on knowledge testing, for additional knowledge and performance evaluation of auditors, organized in September 2018 (pursuant to Order No. 64, dated 22.05.2018 of ALSAI Chairman "On updating additional knowledge needed in the process of evaluating results at work").

The annual professional development curriculum included:

- about 53% of topics focused on audit methodology, standards and audit framework by audit type;

- 22% of topics focus on issues of general regulatory and legislative framework, at national and institutional level;
- the other 25% includes specific audit issues, familiarity with software that supports audit processes and audit engagement in practice.

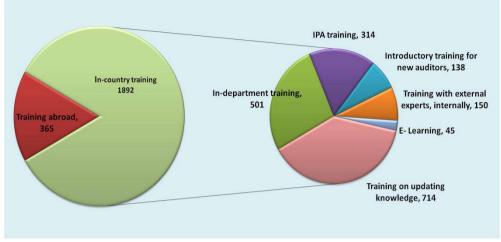
In order to maximize the quality and value of the knowledge gained in the training process, ALSAI relied heavily on diversifying information sources. To a significant extent during 2018, the SAI was supported by intensive and quality training activities, developed by the experts of the IPA 2013 Twinning Project, mainly Polish experienced auditors from NIK, but also from the SAI of Croatia and the Netherlands Court of Audit; training at home and abroad, through workshops and study visits.

The focus on training for new auditors have been topics on the most important and fundamental documents in public auditing, such as: the Lima Declaration (ISSAI 1) and Mexico Declaration(ISSAI 10); International Standards on Auditing: General Principles of Public Sector Auditing (ISSAI 100); General Principles of Financial Auditing (ISSAI 200); General Principles of Performance Auditing (ISSAI 300) and General Principles of Compliance Auditing (ISSAI 400); Resolutions of the United Nations General Assembly (A / 66/209 and A / 69/228), etc.

Auditors' professional development activities have included various forms of training approaches such as training seminars and workshops, study visits, discussion meetings offered at home and abroad, by national and international experts, thus ensuring the diversification of knowledge. In general, such activities include:

- In-the-house (in the SAI premises) training by experts and trainers of internal staff;
- In-country training by external experts of international or national institutions;
- Other in-country trainings by national organizations and institutions;
- Training abroad by participation in training courses, study visits, conferences and seminars organized by counterpart institutions or international organizations abroad.

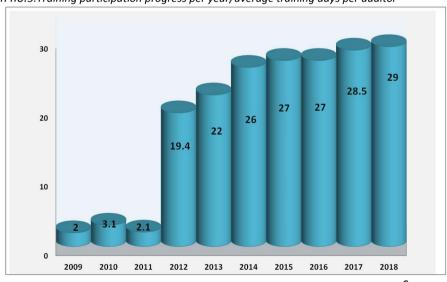
Graph no.4: Professional development activities (home and abroad)



Source: ALSAI

ALSAI has continued to use all available resources and has used the most appropriate forms to ensure the high effectiveness of its professional development activities. Although training has remained one of the most used forms, professional development has been enriched year by year with other more effective and modern activities provided both at home and abroad, with foreign and local experts, as well as personalities of the professional and academic field.

Graph no.5:Training participation progress per year/average training days per auditor



Source: ALSAI

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By the end of 2018, ALSAI auditors had ensured an average of 29 training days/year, targeting the highest level of this indicator throughout the development of this institution over the years, since its establishment. In reference to comparative analytical procedures, the indicator of the average number of training days/year per auditor turns out to be 14.5 times more than the 2009 average, which had only 2 days/year per auditor. These achievements place the ALSAI training system at the same level of its developed counterparts and comparable to the most advanced experiences of Supreme Audit Institutions.

Abroad training and qualifications

These activities have enhanced the opportunities for direct contacts and benefits from the exchange of experiences during 2018, when **138** SAI auditor followed qualification activities. In the period 2015-2018, ALSAI has conducted a total of **572** activities abroad, such as official visits, workshops, cooperation agreements with analogue European institutions and beyond, participation contact committees meetings, working group roundtables, scientific conferences and training seminars, study visits to counterpart SAIs, etc.

We point out that this indicator in 2009 recorded a minimal number and was enough for only a few visits to a symposium without weight or attendance at international congresses. Of key importance was the active participation of the SAI auditors during 2018 in events such as: Conference on Fighting Corruption, in Washington DC; Seminar on Integrity, in Hungary; ITSA meeting, ITASA,in Bern, Switzerland; Working Group on Disasters meeting in Moldova; Joint Scientific Conference on "Risk Based Audit" in Kuwait; IT Working Group Meeting in Tallin, Estonia: The Working Group on Environmental Audit Meeting in Helsinki; the Scientific Conference "The Role of Supreme Audit Institutions in Increasing Accountability, Transparency and Integrity in the Public Sector" in Sofia; The Meeting "On techniques and methods of financial analysis" in Luxembourg; Seminar on Public Procurement in Athens; Seminar on assessment tools and methods in Luxembourg; Performance Audit Training in CEF, Slovenia; Air Quality Meeting in Warsaw; SAI Training for Peer Review in Bratislava; the IPA Anti-Corruption Project in Vienna; Study Visit to Poland in the framework of the IPA Twinning Project; the IDI Anticorruption activity in Zambia; Performance Audit study visit in the Netherlands Poland in the framework of the IPA Twinning Project; Peer to Peer activity in Kuwait; Financial Audit Workshop in Budva; the WGEA Meeting in Bratislava; the Performance Audit, CAO and USAID in Prishtina; the

Conference "The role of the SAI in promoting integrity" in Hungary; The PMF activity in Madrid; Seminar on Audit Methodology in Warsaw; TFA & E in Lisbon; Workshop on Financial Audit in Ankara; TFMA seminar in, Belgrade; Screening Process of the EC Chapter 32 in Brussels, etc.,

During the period 2013-2018, in implementation of professional development policies, based on agreements and relationships with international organizations and partner SAIs, ALSAI auditors gained experience from internship programs for periods of 5-6 months at the European Court of Auditors (ECA) in Luxembourg. **15** SAI auditors have gained qualification and specialization knowledge through 5-6 month internships at the European Court of Auditors.

On the other hand, the pursuit of internship programs with the US Government Acountability Office (GAO) continued to be successfully applied, with 2 auditors successfully completing 5-month qualification programs this year, reaching up to 5 auditors in the last 4 years. Internship is considered a very important and useful tool to provide knowledge on EU funds auditing, knowledge sharing on systems audit tools and techniques, networking knowledge of SAI auditors' network of countries aspiring to become EU members, etc.

IV.4. IMPLEMENTATION OF RECOMMENDATIONS CONTAINED IN THE EUROPEAN COMMISSION PROGRES REPORT ON ALBANIA, PUBLISHED ON APRIL 17, 2018

The European Commission's Progress Report on Albania, published on 17 April 2018, addressed some short-term recommendations for the SAI, respectively in the **Chapter 32 "Financial Control"**: "Albania should in particular adopt a risk-based, external audit approach that will describe how to gradually reduce the number of compliance audits and increase the number of financial and performance audits" and in the **Chapter 5 "Public Procurement"** for the SAI and the High Inspectorate of the Declaration and Control of Wealth of Senior Public Officials and of the Declaration of Conflicts of Interests: "Albania in the years to come should systematically follow the conflicts of interest and strengthen public audit capacity in this regard".

ALSAI has considered as very important and strategic the assistance and advice given over the years by the European Commission, the Directorate General of the Budget (DG-Budget) and the EU Delegation to Albania. The SAI considers them

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among the most important partners in the reform process and modernizing the SAI towards approximation with EU acquis communautaire. The European Commission Progress Reports on Albania have been considered as important documents in defining the institutional development priorities, in line with INTOSAI and EUROSAI goals, as well as contributing to good governance through the uncompromising fight against corruption and prevention of corruption. ALSAI is maximally committed to the implementation of the short-term Recommendations addressed by the Progress Report and considers the among the primary objectives in the management policies of the audit activity and in particular:

The recommendation: Chapter 32 "Financial Control": "Albania should in particular adopt a risk-based, external audit approach that will describe how to gradually reduce the number of compliance audits and increase the number of financial and performance audits". This European Commission's recommendation is in full coherence with the ALSAI Development Strategy which sets out the key institutional development directions for the period 2018-2022. In terms of audit activity, this strategy has set out to increase performance audits⁴ and financial audits based on risk analysis. Currently SAI is cooperating with SIGMA in order to strengthen the audit capacities for conducting training focused on risk based audit. Consequently, in pursuance of these objectives and the recommendation addressed by the European Commission, ALSAI prepared the Document "Methodology of drafting the strategic and annual audit plan", which was approved by ALSAI Chairman Decision no. 79 dated 30.06. 2018. This document is providing an approach to prepare and implement the audit plan, based on risk analysis, considered as an important factor in institutional performance and good governance.

This document was drafted based on the experience gained so far by theAL SAI, under the motto of INTOSAI "Experentia mutua Omnibus prodest (all benefit from common experience)", as well as a number of important documents resulting from institutional cooperation and partnerships such as the reports of Expert Missions of the National Audit Office of Poland (NIK), in the framework of the EU funded IPA 2013 Twinning project "Strengthening External Public Audit Capacity in Albania", integrating with the approaches recommended in the Guide of SIGMA (an OECD Program) "On risk assessment in audit planning and the implementation of the requirements of International Standards on Auditing".

⁴ Strategic Objective 1.2: "Increasing focus on Performance Audit"; Strategic Objective 1.3: "Conducting Financial Audits in compliance with International Standards on Auditing; Strategic Objective 1.4 Consolidate compliance audit as required by the ISSAIs. Strategic Objective 2.2: "Risk Based Audit".

ALSAI, referring to the recommendation addressed in the EC Progress Report, revised the audit plan by increasing the number of financial audits and performance audits, based on ALSAI Chairman Decision no. 70 dated 30.06.2018 (www.klsh.org.al). Following the directions of this decision, in 2018 ALSAI increased the number of financial audits from 20 to 28 and the number of performance audits from 18 to 20 audits. The SAI will pursue a strategic development approach through the implementation of the audit planning process referred to risk analysis, with the aim of gradually reducing the number of compliance audits and increasing the number of performance audits and financial audits to implement the principles of governance and in consideration of public expectations.

Regarding the Recommendation addressed in Chapter 5 "Public Procurement", a recommendation addresed both to the SAI and the High Inspectorate of the Declaration and Control of Wealth of Senior Public Officials and of the Declaration of Conflicts of Interests: "Albania in the years to come should systematically follow the conflicts of interest and strengthen public audit capacity in this regard", the ALSAI Chairman and the Inspector General of the above-mentioned High Inspectorate, on 26.10.2018 with ALSAI Prot. No. 1210 and High Inspectorate Prot. No. 3243 re-signed the Cooperation Agreement between the two institutions (www.klsh.org.al) by completing the Agreement signed in 2012 and engaging among others to cooperate in organizing joint activities to provide each other with additional expertise and training services in their respective fields of activity, as well as to raise public administration awareness of preventing and avoiding corrupt and abusive practices as well as conducting joint training activities on conflict prevention, treatment and sanctioning issues in public procurement procedures. The ALSAI has informed on the above cooperation the General Directorate at the European Commission and the EU Delegation in Albania with letter no. 1228, dated 01.11.2018.

V. EUROPEAN COMMISSION ASSESSMENTS AND RECOMMENDATIONS IN PROGRESS REPORT 2019

The European Commission has published on May 29, 2019 Progress Report for 2019, which assesses the progress and progress in meeting the criteria of our country.

5.5. Chapter 5: "Public procurement" of Albania's Stabilization and Association Agreement with the European Union (page 60).

"The State Audit Institution reports a substantial number of irregularities in public procurement with an estimated financial loss to the state budget of around EUR 3.7 million¹ in 2018 compared to EUR 12 million in 2017 and, EUR 25.6 million in 2016", page 60, the first paragraph, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-albania-report.pdf)

5.32 *Chapter 32: Financial control*" of Albania's Stabilization and Association Agreement with the European Union (page 97-99).

External Audit

"Albania's constitutional and legal framework provides for independence of the State Audit Institution (SAI) in line with the standards of the International Organization of Supreme Audit Institutions (INTOSAI). However full implementation of the legal framework still needs to be ensured." (page 98, penultimate paragraph, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-albania-report.pdf).

"In recent years the SAI has taken measures to improve the professional development of its audit staff. The SAI is implementing the 2018-22 strategic development plan and the 2017-19 communication strategy. The quality of audit work needs to be further improved, as the audit activities do not yet fully comply" (ibidem, page 98, penultimate paragraph, page 99, the first paragraph).

"though in 2018 SAI issued for the first time an opinion on the execution of the 2017 state budget. In June 2018, the SAI adopted a risk-based external audit approach.

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¹ Economic damage only in procurement. The total economic damage for 2018 is € 193 million,

European Commission assessments and recommendations in Progress Report 2019-----

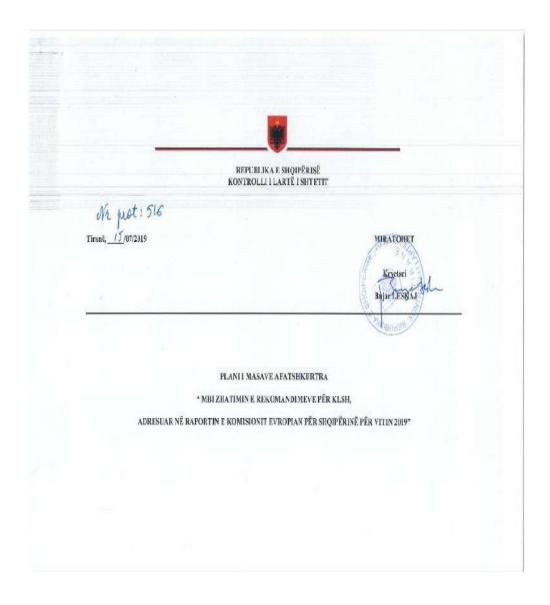
The number of performance audits increased to 18 in 2018, in comparison to 15 in 2017 The impact of audit work is limited, and the timely implementation of audit recommendations should be improved" (ibidem, page 99, the second paragraph).

"Audit reports are summarized quarterly and published on a regular basis on the SAI website. The 2017 Memorandum of Understanding between SAI and Ministry of Finance on monitoring the follow-up of audit recommendations resulted in the creation of a technical secretariat with representatives of both parties. The first meeting was held in December 2018 to elect its Chairman and to agree upon its regulation and action plan 2019." (ibidem, page 99, the third paragraph).

Also, on page 9, in the section referring to GOVERNMENT, the ALSAI contribution is also quoted in terms of territorial administrative reform:

On local government, the territorial administrative reform (TAR) needs to be further consolidated as part of the wider decentralization agenda. The government undertook a mid- term review of the 2015-2020 national cross-cutting strategy for decentralization and local governance. The Supreme State Audit Institution also carried out an assessment of the TAR and issued a report on it, in October 2018. The new legislation affecting local government is not yet fully harmonized and implemented.

VI. MEASURES PLAN ON IMPLEMENTATION OF EUROPEAN COMMISSION RECOMMENDATIONS FOR ALSAI



Measures Plan on im	plementation o	f EC recommendations	for ALSAI



REPUBLIC OF ALBANIA ALSAI

No.Prot :516 Tirana, 15/07/2019

APPROVED

CHAIRMAN

Bujar LESKAJ

SHORT-TERM MEASURES PLAN "ON IMPLEMENTATION OF RECOMMENDATIONS FOR ALSAI, ADDRESSED IN THE REPORT OF THE EUROPEAN COMMISSION FOR ALBANIA FOR THE YEAR 2019"

The European Commission has published on 29 May 2019 the Progress Report for 2019, which assesses the progress towards meeting the criteria set by the EU in the framework of Albania's integration into the European Union family. As one of the three elements of Chapter 32 "Financial Control" of the Acquis Communautaire, the Progress Report cites the level of achievement and fulfillment of the requirements by the State Supreme Audit and sets out the relevant recommendations.

External audit

- "Albania's constitutional and legal framework provides the independence of the State Audit Institution (SAI) in accordance with the standards of the International Organization of Supreme Audit Institutions (INTOSAI). However, full implementation of the legal framework still needs to be ensured.¹"
- The large amount of annual audit reports produced by the SAI affects its institutional capacity. In recent years, ALSAI has taken measures to improve the professional development of its audit staff.
- 3. ALSAI is implementing the Development Strategy 2018-2022 and Communication Strategy 2017-2019. The quality of audit work needs to be further improved, as audit activities have not yet fully met INTOSAI standards².
- 4. In 2018, SAI for the first time issued an opinion on the execution of the state budget for 2017. In June 2018, ALSAI adopted a risk-based external audit approach. The number of performance audits increased to 18 in 2018, compared to 15 in 2017. The impact of the audit is limited and timely implementation of audit recommendations needs to be improved.³"
- 5. Audit reports are compiled on a quarterly basis and are regularly published on the ALSAIs website.
- 6. The Memorandum of Understanding signed in 2017 between ALSAI and the Ministry of Finance on monitoring audit recommendations has resulted in

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¹ Page 98, penultimate paragraph,, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-albania-report.pdf).

² Page 98, last paragraph, page 99, first paragraph.

³ Page 99, second paragraph

Measures Plan on implementation of EC recommendations for ALSAI------

the establishment of a technical secretariat with representatives of both parties.⁴

In reference to the issues brought to the attention by the assessments made in this Progress Report, as a follow-up to the objectives set out in the ALSAI's Development Strategy 2018 - 2022⁵ and the ALSAI's Communication Strategy 2017-2019⁶ in order to ensure the full compliance with the external audit requirements of the public sector in Albania, ALSAI is committed to take all necessary actions that effectively address the implementation of all recommendations in a timely and qualitative manner and reporting time.

⁴ Faqe 99, thirr paragraph

ALSAIs Development Strategy 2018 - 2022 approved with the Decision of ALSAIs Chairman, no. 1353, dated 31.12.201 7
http://www.klsh.org.al/web/strategjia zhvillimit klsh 2018 2022 2 opt 4004.pdf
ALSAIs Communication Strategy 2017-2019, approved by the ALSAIs Chairman, no. 16/48, dated 31.07.2017.

No.	Measures / activities	Parties involved	Deadline	Result's indicator	Impact's indicator
Recon	Recommendation no. 1 Ensure the full implementation of the SAI legal framework	tation of the SA	legal framework		
ri .	Proposal for amendments of the Law no. 154/2014 "On the functioning and organization of the SAI".	ALSAI – Parliament	From 2018	Approval of the amendments of the Law 154/2014	Ensure the implementation of the legal framework of ALSAI de juro and de facto. SAI has to make sure that its activity is in accordance with the requirements of International Standards on Auditing and international best practice.
Recon The qu	Recommendation no. 2: The quality of audit work should be further improved	ved			
2.1	Developing and updating the audit methodology and guidance framework in full compliance with the requirements of INTOSAI Standards and reflecting and the best practices of auditing of International Audit Institutions, GAO and EU Member States.	ALSAI	Continuously	Methodological framework amended and updated in time and in line with standard requirements	Profilisation of ALSAI as a modern European supreme public audit institution, which bases its activity entirely on INTOSAI's standards.
2.2	Establishing and implementing an effective management system for the quality of the audits, which ensures the successful use of two elements of Quality Control and Quality Assurance in planning, performing, reporting and overseeing the audit work.	ALSAI	Within the year 2019 and continuously	ALSAIs Quality Management Guideline approved by ALSAIs Chairman. Reporting for quality control monitoring and assurance	
2.3	Develop and apply a contemporary approach on auditing the State Budget execution based on the requirements of ISA 600 and ISSAI 1600 "Specific Requirements for Auditing Financial	SIGMA - ALSAI	Within the year 2019 and continuously	Guidelines on "Auditing the State Budget execution" approved by the Chairman of the SAI	Shaping and formatting the auditing process of the state budget execution by aiming high standards and qualitative audit work by ensuring that ALSAI successfully meets the key

objective of this audit to deliver an opinion needed for the Minister of Finance and Economy Report and the report of the Council of Ministers submits to the Assembly "On the implementation of the 2017 state budget". This will be ensured not only by auditing the regularity of transactions but also the accuracy of reporting on budget implementation, the use of the Council of Ministers reserve fund and control of financial management and control systems and the organization of the internal audit function in the public sector	Increase the number and the quality of ALSAI's audits in evaluating PPPs implementation considering this as one of the areas of highest risk for the Albanian economy.	Fully implementation of the IPA project 2013 recommendations "Strengthening external audit capacity in the public sector in Albania" and ensure sustainability of IPA Project achievements in the coming years.
	Training for auditors on the PPP legal framework, requirements of European legislation and other international practices conducted by local and foreign experts at home and abroad. Develop specific guidelines to assist auditors in auditing PPPs.	Applying and agreeing to benefit from EU technical assistance for Albania;
	2020-2021	2019
	SECO	EU delegation in Tirana and ALSAI
Statements Groups, Including the Work of Audit of Spending Units ^{7,2} .	Strengthening the audit capacity of ALSAI in the field of PPPs ⁸	Proposal for a Project. ⁹ to support ALSAI in specific areas of institutional capacity development to be financed by the EU technical assistance for Albania;
	2,4,	2.5.

SIGMA - The support for ALSA1s has enabled a continuous assistance in enhancing and strengthening ALSA1s audit capacities. At the request of the Chairman of the ALSAI, SIGMA will continue assisting auditors on developing a specific guideline for Audit of Budget Implementation throughout 2019.

The SAI has applied for support from SECO under the Project. Strengthening Capacities in PPP Auditing. The project is under discussion. SAI will prepare project fiche addressing EC Progress Report and SIGMA recommendations, and as a follow-up to the Twinning Project.

5.6	Training auditors with new knowledge and maintaining a high level of training attendance.	ALSAI	Continuously	Trainings conducted Auditors trained with an average 25 training days per year	Increase audit capacity and audit quality, guided by international best practices and principles, basing the methodological and professional development of human resources on two main pillars: creating a high professional profile of the public external auditor; and ensuring that the audit activity is performed in full compliance with external auditing standards as well as the best practices in the area.
2.7	a) Publication of audit reports in summary form in "Open Data" format, according to the instrument developed with the as sistance of the USAID Health. Transparency Project by classifying the audit reports by areas such as Health, Education, Finance, Local Government, etc. b) Use of "Data Mining", according to the instrument developed with the help of the Project, to extract various data from online media, as articles prepared by SAI staff, or that cite SAI audit findings. c) Red Flags Instrument, an USAID project product. This instrument an USAID project product. This instrument will be used for the evaluation and scanning of procurement procedures. This algorithm analyses the database where the bidding procedures are located and automatically classifies them as problematic or not.	ALSAI and the Center for Economic Emancipation of Media	Continuously	Trainings conducted	In the Open Data format summary, the audit report will contain information on 'Social Problem Context', 'Audit Entities', 'Audit Objective' and 'Conclusions'. In addition to this summary and in a form accessible for the public, the full report as well as other documents with the data used in the report in the form of tables or graphs / images will be attached. The Data Mining instrument is based on keywords that are in the focus of ALSAs such as effectiveness, efficiency, economy, economic damage, audit, missing revenue, legal improvements, abuse, corruption, etc. and accessed for an indefinite period, regardless of what the online media chooses to do with original articles. A public better informed and more aware of the SAl's work. The Red Flags instrument provides real-

time indications of potentially unlawful or unethical procedures, mainly in relation to non-compliance with anti-corruption laws.	A better informed public that is more aware of the ALSAI findings and recommendations. Portal materials - raw material for newspapers, radios and television.	Increase the transparency of the ALSA's activity, in order to inform the citizens about the way of spending public money.	The publications and the policy of Open Door for the public, convey to the public the strategic directions of the institution's development and the reforms, thus contributing to the improvement of public governance.	t recommendations should be improved. Albania should ensure more systematic and timely implementation of external audit	ALSAI, as an agent of the Assembly for the management of public money, is guided by the depth of the argument and audit findings, the full usefulness of the recommendations for concrete
	Workshops for Information exchange, training	Information exchange meetings	Number of publications; Number of auditors' articles in the media; Realization of Open Door during November 2019.	ld ensure more systematic and tim	Annual Report on Monitoring and Implementation of Audit Recommendations Submitted by SAI to Albanian Parliament
	July 2019-June 2020	Continuously	Continuously; Open Door for the public during November 2019	oved. Albania shou	April 2019
	ALSAI and the Center for Economic Emancipation of Media	ALSAI and the Center for Economic Emancipation of Media	ALSAI	s should be impro	ALSAI- Parliament
	Development of the "AuditiPublik.al" portal in cooperation with the Certer for Economic Emandpation of Media, an NGO in the field of transparency of public administration, in order to increase the online information on the key audit findings and recommendations of the ALSAI for the public	Development of Monthly News Letter on SAI activity national and abroad in cooperation with the Center for Economic Emancipation of Media.	The continuation of ALSAI publications, the presence of SAI auditors with articles in the daily press and the realization of the open month each year.	Recommendation no.3: Timely implementation of audit recommendation recommendations.	Submission to the Parliament of the report on the follow-up and implementation of audit recommendations as part of the annual performance report
	2.8	2.9	2.10	Recom Timely recomm	3.1

improvement of public funds management, in line with the guidelines of ISSAI standards, ensuring direct access and readability of the members of the Parliament.	Through these reports, ALSAI informs the Parliament and the Executive on the implementation of recommendations, reflecting aggregate but also detailed data on all types of recommendations as well as at institutional level. With the main focus of increasing the level of implementation of the recommendations, ALSAI will continue	to insist on the use of all institutional instruments for institutionalizing an effective cooperation and partnership between the Parliament, the SAI and the Government with the main objective to increase the parliamentary oversight.	Based on best practices, conclusions and recommendations learned from SIGMA and World Bank / PEFA evaluation documents, ALSAI will further emphasize	In particular with the relevant Parliamentary Committees with the audited entities, in order to monitor the implementation of recommendations and increase the impact of ALSAI reports.
Periodic reports on the status of the implementation of SAI recommendations sent to the Albanian Parliament	Establishment of the Sub- Committee on Audit Matters in the Parliament of Albania	Specific reports on the follow-up and implementation of audit recommendations sent by the SAI to the Minister of State for Relations with Parliament	Resolutions of the Albanian Parliament	Audit Reports with high public interest submitted by ALSAI to the Parliament of Albania
July, September 2019 January 2020	Continuously	July 2019 January 2020	Continuously	Continuously
ALSAI- Parliament	ALSAI- Parliament	ALSAI	ALSAl- Parliament/ audited entities	ALSAl- Parliament
Submitting a consolidated report on the Implementation of Recommendations to the Parliament every four months	The requirement for the establishment of a dedicated subcommittee for the review of audit reports / and the level of implementation of recommendations by audited entities considered that as an effective mechanism for increasing accountability by government institutions.	Submitting periodically to the (Executive) Minister of State for Relations with Parliament the Report on the implementation of recommendations with the purpose of monitoring their implementation by audited entities.	Conduct parliamentary hearings to discuss audit recommendations of particular interest.	Submission of Audit Reports, Performance Audit reports and Reports of high importance and public sensitivity to respective Committees
3.2	e e	3.4	3.5	3.6

					the Pariament on the value that brings to the state and society an effective public audit. The mutual role of the legislature in enhancing the impact and the value of SAI audits should be at the fundament of SAI's efforts to provide a sound supportive and helpful environment for the SAI
3.7	Use of cooperation agreements with the Ministry of Finance and other stakeholders to develop appropriate instruments of mutual benefit for the implementation of public audit recommendations (including internal audit and external audit).	audited entitles	Continuously	Joint meetings and discussion roundtables with audited entitles regarding the implementation of recommendations	Raising awareness of the role of the SAI and the values of auditing in the audited entities.
3.8	In line with the Cooperation Agreement between the State Supreme Audit and the Ministry of Finance and Economy, a Secretariat for Cooperation between the two institutions has been established and functions, one of the objectives is to establish effective mechanisms to ensure the increase of the level of implementation of the audit recommendations.	ALSAl- Ministry of Finance- Technical Cooperation Secretariat	Continuously	Joint activities between the two institutions; Activities of the Joint Secretariat	Strengthening the cooperation between ALSAI and the Ministry of Finance and Economy, the relevant structures of the PIFC system (internal audit, financial management and control and financial inspection) in order to synergize activities to increase the effectiveness and strengthen the role of public sector auditing in Albania.
3.9	Perform verification of the implementation of previous recommendations in each audit mission.	ALSAI	Continuously based on the ALSAIs Annual Audit Plan	Follow up and monitoring the indicators of acceptance and implementation of recommendations: 1. The number of the recommendations accepted versus recommendations given; 2. The number of the implemented recommendations wersus accepted recommendations	ALSAI aims to increase the impact and impact of its audits by expanding the base of the users of its products, audit findings, opinions and recommendations, to serve both direct and indirect users, using the most effective communication channels in order to reach the end user and the ordinary citizen.

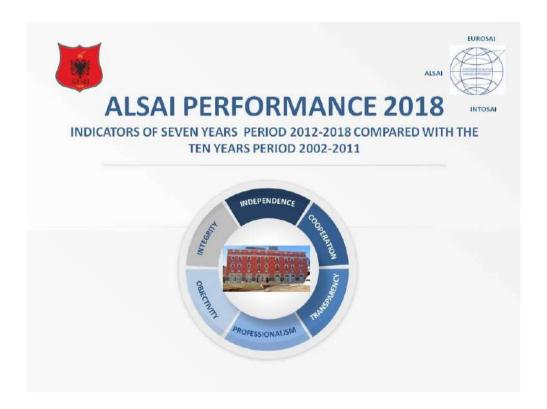
Identification of the perception of the SAI activity by the citizens and other stakeholders through cooperation with the civil society. This will constitute the instruments that will increase the	impact and the users of the ALSAI products.
Follow up and monitoring the indicators of acceptance and implementation of recommendations:	The number of the impact an recommendations accepted versus products. recommendations given; The number of the implemented recommendations versus accepted recommendations.
Continuously based on the ALSAIs Annual Audit Plan	
ALSAI	
3.10 Conducting specific thematic audits to ALSAI verify the implementation of recommendations in order to identify the level of implementation and draft a consolidated report.	
3,10	

Measures Plan on implementation of EC recommendations for ALSAI-----

VII. ALSAI IN FIGURES AND GRAPHICS

10 YEARS vs 7 YEARS

2002-2011 2012-2018



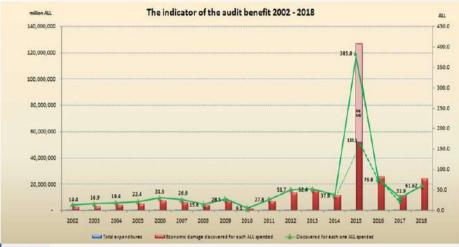


AUDIT EFFECTIVENESS INDICATOR



(Ratio of claims discovered and claimed by ALSAI with actual ALSAI budget expenditures)

Audit effectiveness Indicator, as one of the most significant indicators of the performance of Supreme Audit Institutions, for 2018 results that for every 1 ALL spent for ALSAI, 61.6 ALL have been discovered and sought to be indemnified.



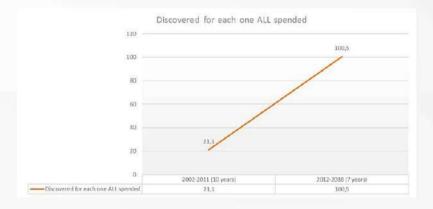
2 ALSAI



AUDIT EFFECTIVENESS INDICATOR



For the period of the 7 years, 2012-2018, it turns out that for every 1 ALL spent by ALSAI, i was required be reimbursed 100.5 ALL. This is or 4.8 times more than it was required for the 10 years period, 2002-2011 (21.1 ALL).



3 ALSAI



DISCOVERED ECONOMIC DAMAGE AND LOSSES IN PUBLIC FINANCES FROM FINANCIAL VIOLATIONS FOR YEARS 2012 - 2018

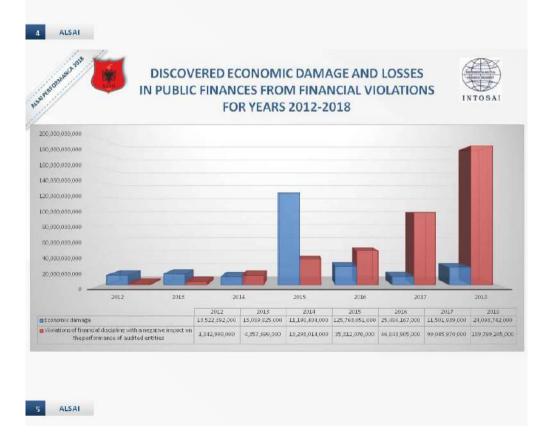




From the audits carried out during 2012 - 2018, ALSAI has ascertained: A. Financial irregularities and breaches in revenues and expenses incurred, with a total economic damage of ALL 227 billion or EUR 1.75 billion.

B. Violations of financial discipline with a negative impact on the performance of audited entities, with a total of ALL 391 billion or EUR 3 billion.

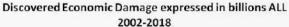
In total, ALSAI found violations in the amount of ALL 618 billion or approximately EUR 4.76 billion.

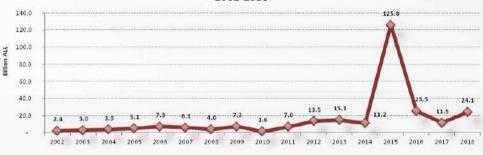




ECONOMIC DAMAGE







6 ALSAI

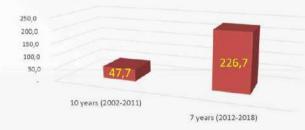


ECONOMIC DAMAGE



Discovered Economic Damage
For periods 2002-2011 and 2012-2018, in billions ALL.

Economic damage Discovered (billion ALL)



■ Economic damage Discovered (billion ALL)

In 7 years (2012-2018) ALSAI has discovered 4.75 times more economic damage compared to the 10 years period, 2002-2011

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ALSAI



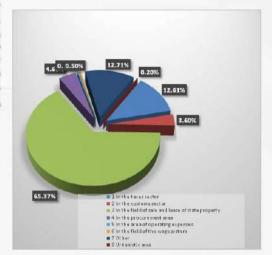
DISCOVERED ECONOMIC DAMAGE AND LOSSES IN PUBLIC FINANCES FROM FINANCIAL VIOLATIONS





Structure of economic damage by fields, for years 2012 - 2018, in million ALL

1	In the taxes sector	27,824
2	In the customs sector	13,037
3	In the field of sale and lease of state property	144,864
4	in the procurement area	10,248
5	In the area of operating expenses	1,160
6	In the field of the wage system	927
7	Other	28,253
8	Urbanistic area	364
	Total	226,678



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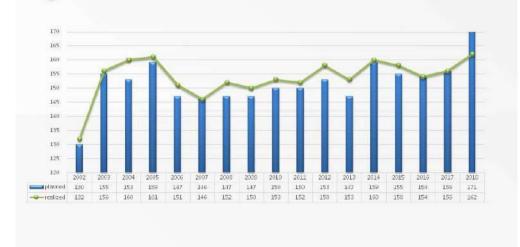
ALSAI

PERFORMED AUDITS, 2002-2018



INTOSA

Carrying out audits over the years 2012 - 2018

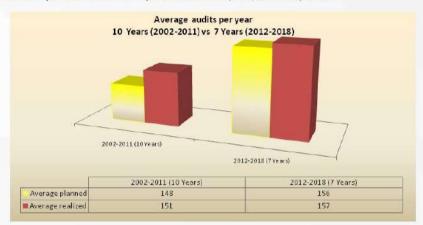




PERFORMED AUDITS, 2002-2018



Ouring 2018, ALSAI carried out 171 audits, thus fulfilling the objective of audits planned at the beginning of the year. The indicator of performed audits over a period of seventeen years (2002-2018) shows:



Audits	2002-2011 (10 years)	2012-2018 (7 years)	
Planned	1484	1095	
Realized	1513	1101	

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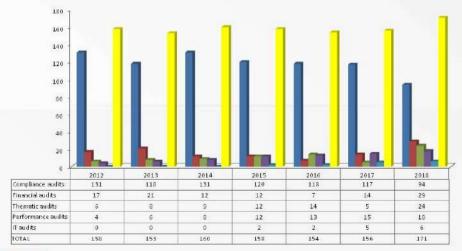
ALSAI



PERFORMED AUDITS STRUCTURE

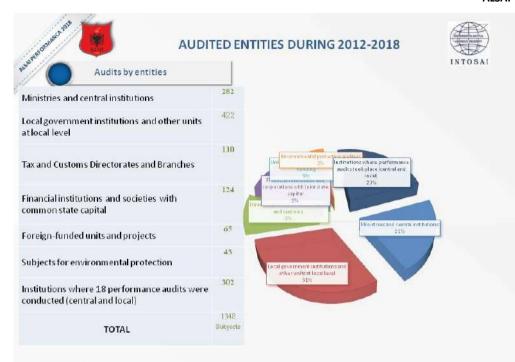


For the period January-December 2018, the State Supreme Audit Institution conducted 171 audits out of 162 planned audits. The performance indicator of audits in the period 2012-2018 is as below:



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ALSAI



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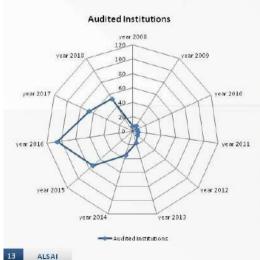


PERFORMANCE AUDITS



Performance Audit is conceived as a priority in the institution's development strategy, as one of the modern pillars of

ALSAI's development, based on INTOSAI experiences.



The number of Performance Audits has increased significantly over this 7-year period, based on International Standards on Auditing and the new Law on ALSAI, 154/2014, based on the work of auditors, local and foreign auditors, covering all sectors which practice public socio-economic activity...

During this 7-year period, performance auditing has succeeded in achieving all of the strategic objectives set, but challenges for the future remain, especially the challenge of turning this audit into an engine of institutional development and improvement.

Performance audits are currently the professional window through which ALSAI collaborates mostly with partner SAIs for parallel or pilot audits.



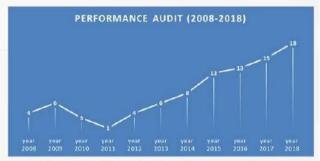
PERFORMANCE AUDITS



For 2018, ALSAI has conducted and issued reports for 18 Performance Audits, including its performance audits 53 institutions,







During 2008-2009, ALSAI conducted 10 performance audits with the assistance of the British and Dutch SAI, as part of a twinning project. In 2010-2011, the number of performance audits decreased significantly, to 3 in 2010 and 1 in 2011.

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ALSAI



PERFORMANCE AUDITS DURING 2018



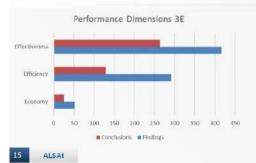
From a quantitative point of view, a total of 18 audits were conducted in 53 subjects, with a number of findings, conclusions and recommendations, respectively 759, 419 and 444.

Performance			Recor	mmendations	
Dimensions 3E	Findings	Condusions	Organizational measures	For legal improvement	Total (measure)
Economy	52	26	5	2	7
Efficiency	291	129	124	19	143
Effectiveness	416	264	252	42	294
Total	759	419	381	63	444

in Section 3 of ALSAI Law No.154 / 2014 and ISSAI 300 "Basic Principles of Performance Auditing" the following terms and expressions have the following meanings:

"Performance audit" is concerned with the audit of economy, efficiency and effectiveness and includes:

auditing of economics, which means minimizing the cost of resources used in a public activity, without compromising its quality.



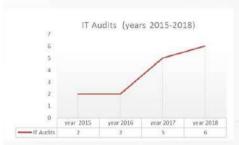
- efficiency audit, which means optimizing the source-output ratio of public activity, modifying processes, structures and the entire economic value chain, in accordance with national and international standards and best practices.
- effectiveness audit, which means evaluating the final results and objectives set in accordance with the audited entity's policies.

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TECHNOLOGY INFORMATION AUDITS IN YEAR 2018 AND YEARS 2015-2018



IT Audits in the periode 2015-2018



Audited entities

Based on the Audit Plan for the year 2018, the IT Audit Department conducted audits of information technology systems in the following entities:

- > National Agency for Information Society (AKSHI).
- ➤ Ministry of Internal Affairs, General Directorate of Civil Status.
- Public Administration Department (DAP).
- > National Business Center (QKB).
- Elbasan Municipality.
- > Public Procurement Agency(APP).
- > Audit on Implementation of Recommendations.

Year 2018

- > There were identified 120 findings and appropriate remedial measures were recommended.
- On average, 20 findings were identified for each audit.

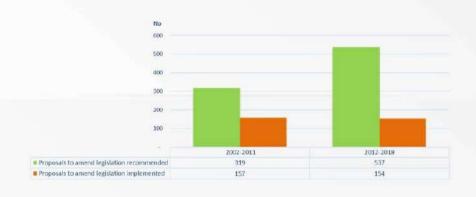


ALSAI

RECOMMENDATIONS FOR LEGISLATION IMPROVEMENT



Recommendations and implementation of proposals for legislation change during the years 2002-2018 are presented graphically:



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ALSAI



RECOMMENDATIONS

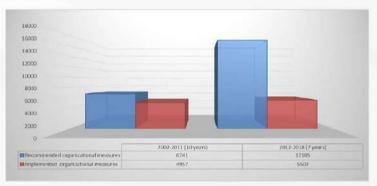




Recommended and implemented organizational measures for 2002-2018

By 2018, ALSAI has recommended 2942 organizational measures aiming the improvement of the organizational systems of the audited entities.

Recommendation and implementation of organizational measures for years 2002-2011 and 2012-2018 is presented



ALSAI



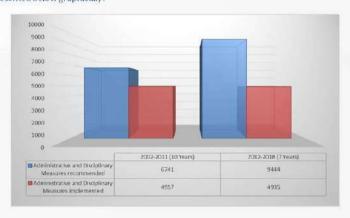
RECOMMENDATIONS



Recommended and implemented disciplinary and administrative measures for the years 2002-2018

ALSAI, for the year 2018, for the shortcomings and violations found in ist audits, has requested the respective audit entities to review and take 1172 disciplinary and administrative measures.

The recommendation and implementation of disciplinary and administrative measures for the years 2002-2011, and 2012-2018 are presented below graphically:



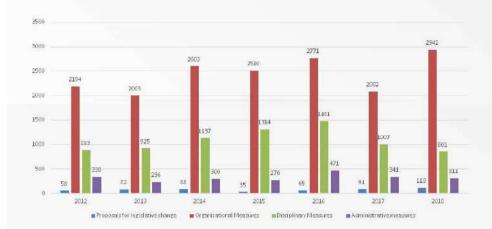
ALSAI



RECOMMENDATIONS



Recommendations for the years 2012-2018



ALSAI



CRIMINAL CHARGES 2002-2018



Number of criminal charges and criminally charged person 2002-2018

ALSAI has fought uncompromisingly against abuses and financial fraud with the public property, aiming to improve public governance by deepening the uncompromising fight against corrupted officials, ALSAI has mainly addressed criminal charges for "Abuse of power", "violation of tender's equality ", etc.

ALSAI in the last 7 years, 2012-2018, has registered 307 Criminal charges for 959 persons, or otherwise it has weekly addressed one Criminal Charge, for midd and high level officials, suspectet to have been involved in serious violations.

Otherwise, we can notice that in these 7 years, one full year of ALSAI's work was only for criminal charges (one criminal charge every day of the year).



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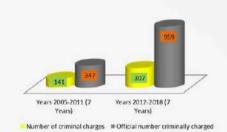
> From the data in first graphic, it is clearly shown that the number of criminal charges in the last 7 years, 2012-2018 (307 criminal charges) is approximately 2 (1.83) times higher than for the 10 years period, 2002 - 2011 (168 criminal charges), while the number of persons chriminally charged was reported is 2 times higher for the period 2012-2018.

> Also, when comparing the data of the second graphic, the number of criminal charges in the last 7 years, 2012-2018 (307 criminal charges) is 2.2 times higher than the 7 year period 2005 - 2011 (141 criminal charges).

Graph 1: Number of criminal charges and officials criminally charged for the period 2002 – 2011 (10 years) vs 2012-2018 (7 years)



Graph 2: Number of criminal charges and officials criminally charged for the period 2005 – 2011 (7 years) vs 2012-2018 (7 years)



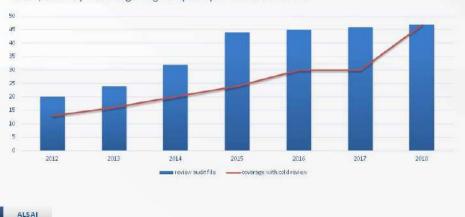
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QUALITY ASSURANCE PROCESS ("Cold Reviews")



Based on International Standards of Auditing, quality assurance is considered a necessary process in the objective identification of deficiencies, as well as in giving concrete recommendations regarding measures to be taken to improve the future work, thereby ensuring a higher quality of the audit work.



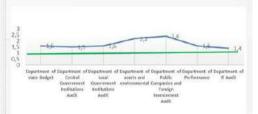


QUALITY ASSURANCE PROCESS ("Cold Reviews")



Number of audit files reviewed





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ALSAI



IMPLEMENTATION OF THE TWINNING PROJECT



The twinning project "Strengthening External Audit Capacity", which started to be implemented in ALSAI in March 2016, has continued to be successfully implemented during 2018. The IPA project was divided into three components:

- 1) Improving the legal framework for auditing;
- 2) Developing audit methodologies and reporting capabilities;
- 3) Strengthening institutional capacity and improving the impact of audit results.

Performance

During this year, 26 missions were completed, of which 2 belong to the first component, 16 missions to the second component and 8 missions to the implementation of the third component.

During the 28 months of twinning project implementation, 99 missions took place, involving 65 Polish, Croatian, Dutch, Estonian and Portuguese experts with a total number of 1053 days / people.

In the meetings, trainings conducted by the experts and study visits, 100 ALSAI menagers and auditors were involved for the period March 16, 2016-July 11, 2018 with a total 2219 days / people.

ALSAI



INSTITUTIONAL MANAGEMENT



"United in ambition and determination"

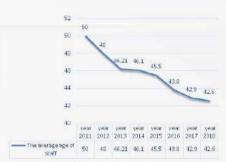
INTOSAI XXII Congress

SAI audit body for the years 2011-2018

INTOSAl's XXIIth Congress in Abu Dhabi encouraged SAls to use the Professional Competence Framework to form the present and future body of top public sector auditors.



The average age of ALSAI auditors at the end of 2018 was 42.6 years old, from 50 years old in 2011. The performance of these age indicators has recognized the trend of lowering the average age of employees due to the recruitment policies of employees with professional qualifications who respond to the dynamic development of new technologies and new areas that the public sector faces.



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ALSAI



INSTITUTIONAL MANAGEMENT



Gender Equality for the years 2011-2018

The trend is graphically below presented

Representation of the ALSAT's staff by gender



ALSAI's policy to support women's career development and gender equality is reflected in sustainable indicators. 82 are female employees. 13 of which are in management positions (Secretary General, Director General, Department Director, Director of Directorate, Chief Audit, Head of Sector), 55 female employees in audit positions and 14 female employees in Departments, Director and Support sectors. The policy pursued over the years towards gender equality is illustrated by the chart below, which clearly shows that the female / male ratio for 2018 is 42.9% to 57%, from 33% to 67% in 2011. Also for 2019 for this ratio to be 50% to 50%.

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ALSAI





At the end of 2018, SAI auditors had an average of 29 training / audit days, whereas in 2010 and 2011, this indicator was 2.5 training / audit days per year. The training performance indicators for 2018 confirmed a stabilizing trend and proved that over the years the training structure has changed in all its derivatives, in line with the staff requirements for change and development and has followed contemporary professional advancement priorities.



28 ALSAI



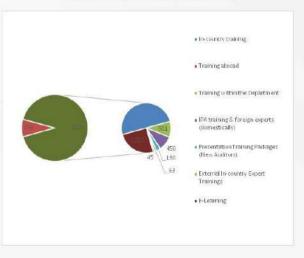
INSTITUTIONAL MANAGEMENT



The analysis of the training activity for 2018 and its results confirmed that ALSAI has established an effective training and professional development system, capable of creating the necessary professional capacities and possessing such capabilities that enable the implementation of ISSAI auditing standards, with the ultimate goal of providing users of ALSAI audit reports assurance for the quality and accuracy of the reported work.

ALSAI

Professional Development Activities (national and abroad)



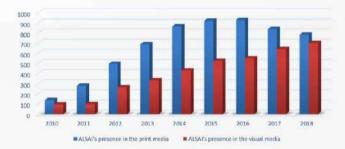


ALSAI PRESENCE IN MEDIA



Communication with citizens over the years 2002-2018

- > During 2018, the printed press has reflected our press reports and statements with a number of 786 articles, announcements, editorials and analytical reviews.
- ➤ At the end of 2018, we were present in the visual media with 60 chronicles more than the last year.
- > The transparency of ALSAI's activity is increasing year by year and we are increasingly more open and cooperative with the media.



ALBANIAN SUPREME AUDIT INSTITUTION

30 ALSAI



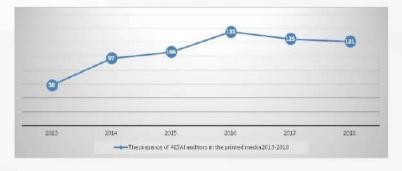
INSTITUTIONAL MANAGEMENT



ALSAI auditors presence in the printed media 2013 - 2018

The presence of ALSAI auditors in the printed media was made available to the public in 11 volumes (2013-2018), which have been added to ALSAI's publications column. During 2018, ALSAI was present in almost every newspaper, with 121 articles written by SAI menagers and auditors.

During six years, 2013-2018 ALSAI auditors have published 642 articles (the analysis begins in 2013 as there is no prior presence of auditors in the media, except for few cases in 2012).



31 ALSAI



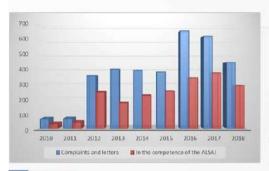
INSTITUTIONAL MANAGEMENT



Communicating with citizens during 2002-2018

We note that in 2010, 2011, on average, 65 complains were handeled per year which is 10 times less than in 2018. In 2018, out of a total of 447 complains, 157 were out of the competencies and jurisdiction of the institution.

From 290 complains within the SAI jurisdiction, 192 complains have been verified and answered, while 98 are in the process of being verified.





- Financial administration and public procurement
- Privatization and restitution of property
- Others
- Letters handled by the coordinator

During 2018, ALSAI has continued to treat with fairness and professionalism the letters and complaints of the citizens, who in every case received responses, even when the issue raised by them was outside the competence of the institution. In these cases, ALSAI has oriented the citizens to which institution they should address their consern in order to get solutions.

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INSTITUTIONAL MANAGEMENT



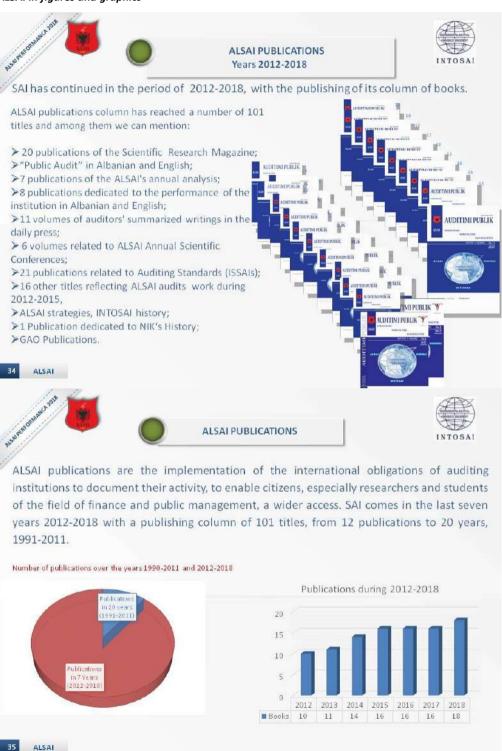
2018 was the third consecutive year that the State Supreme Audit Institution organized the "Open Month" and this can already be considered an institutional tradition.

During the Open Month, 25 October - 14 December, 54 different activities were held, such as meetings between different Audit Departments in order to exchange experiences; meetings with journalists; presentations of ALSAI publications by new auditors; participation in the 2018 Book Fair; presentation of ALSAI publications column at two fairs; meetings with academics, professors, philosophers of various fields; book promotions of interest to ALSAI; cultural activities, promotion of ALSAI's participation in various international activities in the last two years with the aim of exchanging experiences; "Junior Performance", where young auditors shared their experience and vision for











ANNUAL SCIENTIFIC CONFERENCES 2012 - 2018



ALSAI during 2012 - 2018 has continued the good tradition of organizing annual scientific conferences.

Six such conferences have been held over the past 7 years:

ALSAI 1st Scientific Conference on the topic "87 years SAI in 100 years Albanian state";

AlSAI 2nd Scientific Conference on "The Role of Supreme Audit Institutions for Responsible Public Management in Today's Challenges"

ALSAI 3rd Scientific Conference on "National Audit in the Service of National Governance";

ALSAI 4th Scientific Conference on "Risk Analysis";

ALSAI 5th Scientific Conference in collaboration with the Faculty of Economics of the University of Tirana on the topic "Auditing for Sustainability and Development";

VII SAI Scientific Conference in cooperation with Kuwaiti SAI on the topic "Risk-based audit".

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COOPERATION AGREEMENTS



During 2012 - 2018, 19 cooperation agreements were signed with partner SAIs

No	Homologous Institutions
1.	National Audit Office of Kosovo (February 2012)
2.	Court of Audit of Slovania
3.	National Audit Office of Poland (May 2012)
4.	State Audit Office of Croatia
5.	Turkish Court of Accounts
6.	Austria Court of Auditors
7.	MontenegroState Audit Institution
8.	Audit Office of the Institutions of Bosnia and Herzegovina
9.	State Audit Office of Republic of North Macedonia
10.	Agreement with TIKA
11.	Czech Republic Supreme Audit Office
12.	Bulgarian National Audit Office
15.	State Audit Bureau of Kuwait
14.	National Audit Office of Kosovo (November 2016)
15.	Audit Office of the Republic of Cyprus
16.	State Audit Office of Hungary
17.	Accounting Chamber of Ukraine
18.	National Audit Office of Poland (March 2016)
19	Romanian Court of Accounts

During 2012 - 2018, 10 cooperation agreements were signed with the State Institutions

No	State institutions
1.	The High Inspectorate of Declaration and Audit of Assets and Conflict of Interests
2.	Ministry of Finance
3.	General Prosecutor Office
4.	Department of Public Administration
5.	Public Procurement agency
6.	Commissioner for Civil Service Oversight
7.	Ministry of Finance
8.	The Agency for the Audit of EU Accredited Assistances Programmes
9.	General Directorate for the Prevention of Money Laundaring
10.	The High Inspectorate of Declaration and Audit of Assets and Conflict of Interests

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CIP Katalogimi në botim BK Tiranë

RSH. Kontrolli i Lartë i Shtetit

Irena Islami, Armanda Begaj / përkth. në angl.

ALSAI performance report 2018 / përgat.

Fatos Çoçoli. – Tiranë : KLSH, 2019

... f. ; ... cm. ISBN 978-9928-159-86-1

1.Kontrolli i Lartë i Shtetit 2.Raporte

3.Shqipëri

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