

3. INTERNAL AUDIT

The Control Department carries out the internal audit at the Bank of Albania. The main objective of the Control Department is to ensure compliance with the laws and by-laws in the activity of the Bank of Albania. The internal audit function ensures periodically and independently to the Bank's Administrators and the Supervisory Council the verification and evaluation of internal audit systems by testing certain controls and procedures, but not being their substitute, by advising and recommending improvements or reviews of these processes and functions.

3.1. HIGHLIGHTS IN INTERNAL AUDIT

A. IMPLEMENTATION OF THE INTERNAL AUDIT POLICY

The Annual Internal Audit Plan at the Bank of Albania was reviewed and approved in accordance with International Standards on Auditing. The annual plan for 2020 was drafted by the Control Department and the Inspector General, and was submitted for review by the Audit Committee. Once agreed by the Audit Committee, the plan was presented to the Supervisory Council, and was approved by its Decision No. 77, dated 18.12.2019.

B. INTERNAL AUDIT QUALITY ASSESSMENT PROGRAMME

The International standards for the Professional Practice of Internal Auditing (hereinafter "the Standards") require that an External Quality Assessment (EQA) of the internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the institution.

An independent team of the Audit Department of the Central Bank of the Republic of Turkey (CBRT) conducted this assessment (EQA) under the Joint Technical Cooperation Programme between the Bank of Turkey and the Bank of Albania.

The overall opinion is that the BoA's Internal Audit Activity is "Overall Compliant",³² the highest rating with the Standards of the Institute of Internal Auditors (IIA) and the Code of Ethics according to the IIA Quality Assessment

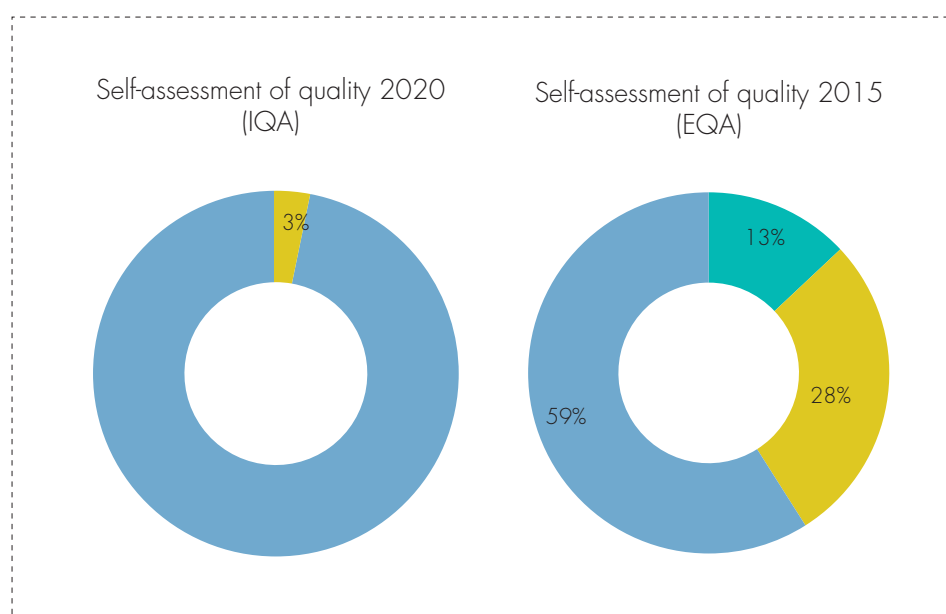
³² The IIA Quality Assessment Manual suggests a three-point scale, "Overall compliant", "Partially compliant" and "Non-compliant".



Manual (published in 2017) and demonstrated the capabilities of a function as “Integrated”³³ (Level 3) according to the IIA Maturity Model for the Public Sector. This level of compliance demonstrates the clear goal and commitment to achieving the Core Principles for the Professional Practice of Internal Audit and the Definition of Internal Audit.

Compared to the latest EQA assessment conducted by the Central Bank of the Netherlands, this assessment highlights the improvement in the Internal Audit practice of the Bank of Albania as evidenced below.

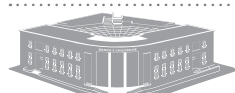
Compliance levels according EQA	Standards assessed during EQA by level of compatibility 2020	Standards assessed during EQA by level of compatibility 2015
Non-compliant	0	14
Partially compliant	3	29
Overall compliant	101	61
Overall assessment	Overall compliant	Partially compliant
Total	104	104



C. REVIEW OF THE INTERNAL AUDIT MANUAL IN THE FRAMEWORK OF THE IMPLEMENTATION OF THE IPA PROJECT

In the framework of the Twinning project with the Central Bank of Italy and the Bank of Romania, the Internal Audit Manual was reviewed and adapted to the European framework as well as to the latest Standards of International Professional Practice Internal Audit. Some of the most important reviews of this

³³ The IIA Capacity Model for the Public Sector illustrates 5 phases through which an IA activity can be developed as it defines implements, measures, and controls and improves its processes and practices by levels: “Beginner”, “Structured”, “Integrated”, “Managed” and “Optimized”.



Manual were:

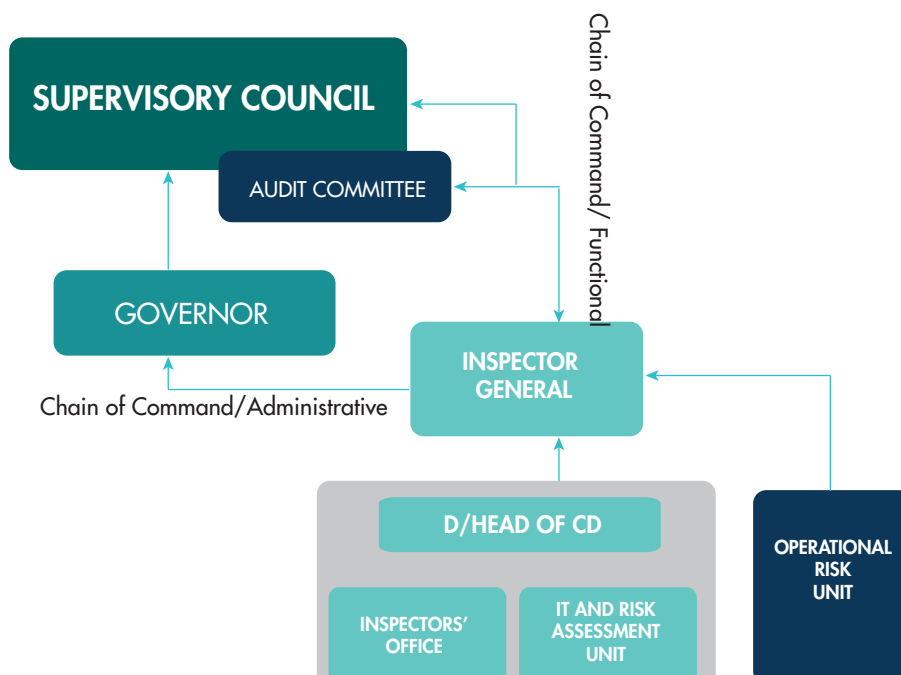
- Reviewing the annual planning procedure with the risk-based method and the mechanism for updating the Audit Universe;
- Audit sampling methods including statistical and non-statistical methods;
- New annex on data analytics and their use during audit engagements;
- Model Audit Programmes on the main activities of the Central Bank: financial stability, foreign currency reserve operations, monetary policy (macroeconomic modelling), monetary policy decision, monetary policy operations, payment systems;
- Developing a programme for evaluating the quality of Internal Audit and build key performance indicators of IA activity.

3.2. ABOUT THE CONTROL DEPARTMENT

In accordance with the Law “On the Bank of Albania”, the statute of the Bank of Albania, the policy and regulation of the Internal Audit and the regulation of the Audit Committee, the structure of the Control Department is presented in the following chart. Its purpose is to preserve the objectivity, independence, integrity of information, the efficient use of resources and the effectiveness of internal control systems at the Bank of Albania.

A. ORGANIZATIONAL STRUCTURE OF AUDIT DEPARTMENT

The organizational structure under the responsibility of the Inspector General:



B. PROFESSIONAL CAPACITY BUILDING AND CONTINUOUS TRAINING

In order to meet the strategic objective regarding capacity building of internal audit staff members, the audit inspectors have participated in online training programmes for internal audit and risk management provided by central banks; they have attended individual programmes for their professional development; and have taken professional membership/certification exams from international institutions in the field of finance and audit. The audit inspectors continued attending the ACCA, CIA, CISA certification programmes and minimum mandatory classes for upholding CIDA, ACCA, CA titles.

3.3. ENGAGEMENTS AND MAIN FINDINGS IN 2020

Audit engagements in 2020 focused on: giving an opinion on the adequacy of the internal audits set by the Management for the audited functions/processes, including applications supporting activities.

In 2020, in total, 20 recommendations resulted from 11 audit engagements for security. The recommendations mainly addressed the need for reviewing the regulatory base (45%), improving the processes (15%) and implementation of the regulatory base.

The findings and recommendations for each of the audits carried out during this period were first addressed to the heads of the units and then to the Bank of Albania's Administrators.

3.4. OPERATIONAL RISK MANAGEMENT

The main objective of Operational Risk Management is to: manage uncertainties and possible risk to the activity of the Bank; inform at any time the Administrators; assist the decision-making process on risks that may hinder the achievement of Bank of Albania's objectives or have adverse financial and/or reputational impacts.

A. DEVELOPMENT ON OPERATIONAL RISK MANAGEMENT IN 2020

In 2020, the Operational Risk Management Unit continued to monitor and review identified risks within the Bank units, and compiled regular reports for the Administrators, the Audit Committee and the Supervisory Council, on the results and analyses of the Banks' exposure to operational risk. The focus in 2020 was particularly on the preventive measures and the impact of the pandemic on the activity of the Bank of Albania, their qualitative well-management and in a timely manner.



B. ASSESSMENT OF OPERATIONAL RISK MANAGEMENT BY INTERNATIONAL EXPERTS

Operational Risk Management is assessed based on the methodology employed by the International Operational Risk Working Group (IORWG) for central banks, of which the Bank of Albania is also part.

Following this process, based on the annual assessment for 2020, the progress of the maturity level of Operational Risk Management in BoA is presented as 'managed'- at 76%, in full compliance with the expectations of the Bank of Albania, maintaining this level despite the effects of the pandemic. The situation of this year (the Covid-19 pandemic), strengthened the activity of the unit to be prepared in time to coordinate with the Bank units and the Crisis Management Group the uninterrupted continuation of the Bank's activity without compromising its objectives. This level fully complies with the medium-term objectives of the ORM function at the Bank of Albania.

The major part of Central Banks that have been consolidating the Risk Management function for more than 5 years, are currently rated in this level.

AD-HOC	BASIC	MANAGED	ADVANCED	MATURED
<61%	≥61%	≥69%	≥86%	≥94%

This process includes: approval of the Operational Risk Tolerance level by the Supervisory Council; drafting and approval of action plans by the Administrators; periodic review and reassessment of operational risks.

The assessment is conducted periodically based on the IORWG matrix. This sets out the design of the processes and control systems for these processes, including their means of organisation and their structure, reporting results related to the risk management and risk culture, which is a challenge that needs continuous monitoring, coherence and awareness-raising.

C. BUSINESS CONTINUITY MANAGEMENT (BCM) AT THE BANK OF ALBANIA

In 2019, the Supervisory Council approved the full framework related with the Business Continuity Management at the Bank of Albania. The purpose of Business Continuity Management is that in case of operational interruptions during a Crisis/Emergency, to support the Bank in its efforts to improve response capacity, ensuring the continuation of critical processes and recovering the normal business of the Bank as fast as possible.

Crises expose the strengths and weaknesses of any organization's governance, as well as their ability and flexibility to manage through the crisis. The earthquake and the Covid-19 pandemic during 2020 were challenges, which



were overcome successfully and with lessons learned on risk and the business continuity management at the Bank of Albania (BCM), by considering also the short time of implementation of the BCM programme. Risk prevention, continuity planning and improvement in the management of major shocks are crucial to ensure the sustainability of the institution.

All the main activities of the Bank of Albania have continued to operate smoothly, without any interruption. Operational teams have fulfilled their duties and responsibilities in the face of the emergency created.

D. WHISTLEBLOWING FUNCTION AT THE BANK OF ALBANIA

Consolidation of the whistleblowing function has helped the Operational Risk Management as well. In compliance with the Law No.60/2016 "On Signalling (Whistleblowing) and Protection of whistle-blowers", this unit aims to:

- a) prevent and suppress corruption at the Bank of Albania; b) promote alerts on suspected corruption acts or practices; c) protect whistle-blowers who signal suspected corruption acts or practices in their workplace.

The year 2020 has functioned with the full regulatory framework and tools needed to stimulate and raise employee's awareness to signal suspect cases of corrupt practices.

