

## 4. INTERNAL AUDIT

*Internal audit at the Bank of Albania is carried out by the Control Department. 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 the verification and evaluation of internal audit systems by testing certain controls and procedures but not being their substitute.*

### 4.1 HIGHLIGHTS IN INTERNAL AUDIT IN 2017

#### *Implementation of the Internal Audit Policy*

With the approval of the Internal Audit Policy and the revision of the Regulation on the Functioning of the Control Department, 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 2017 was drafted by the Control Department and the Inspector General and was submitted for review by the Audit Committee. Furthermore, agreed by the Audit Committee, the plan was presented to the Supervisory Council, and was approved by its Decision No.7 of 01.02.2017.

#### *Implementation and use of an application for internal audit and risk management purposes*

During 2017, the implementation of an application for automated audit management and operational risk management started. Thus, during April, the staff members of the Control Department and of the Operational Risk Unit were trained on how to use it and on the newest options offered by this application. Later, the staff worked on entering historical records of Internal Audit and Operational Risk. With the implementation of the new system, the audit universe of the Bank of Albania was revised, according to unified functions and processes, also for operational risk management purposes. During 2018, most of the internal audit activity are expected to be realized and documented in the new application.

#### *Implementation of the audit methodology for risk assessment purposes through the internal audit application*

The proposed 2018 plan was based on the Risk Assessment process for audit purposes through the first planning application with the new Pentana system.



Risk-based planning through this system increases the quality of planning based on the risks identified during the audit and updating of the audit universe with the risks and processes identified continuously from the Operational Risk Management process.

This process is also one of the issues identified by the External Quality Assessment by the central bank of the Netherlands (DNB) in 2015, implementing a fully risk-based audit plan.

### *Consolidation of relations with the ORM unit*

With the establishment of the Operational Risk Management (ORM) Unit in 2016, and the approval of the Operational Risk Management Policy and the Regulation on the functioning of this Unit, the reporting and cooperation lines between this Unit and the Control Department were consolidated to meet the objectives of each party.

The ORM Unit, at the beginning of each audit, makes available to audit teams (inspectors) the list of operational risks that have been identified, managed by the Unit and monitored by the ORM. Meanwhile, the Control Department makes available to the ORM Unit, at the end of each engagement, the audit report, risk assessment of the function and findings, format of risk-check processes, and any other information that may apply to operational risk management, in addition to the monthly reporting of operational risks related to the internal audit itself.

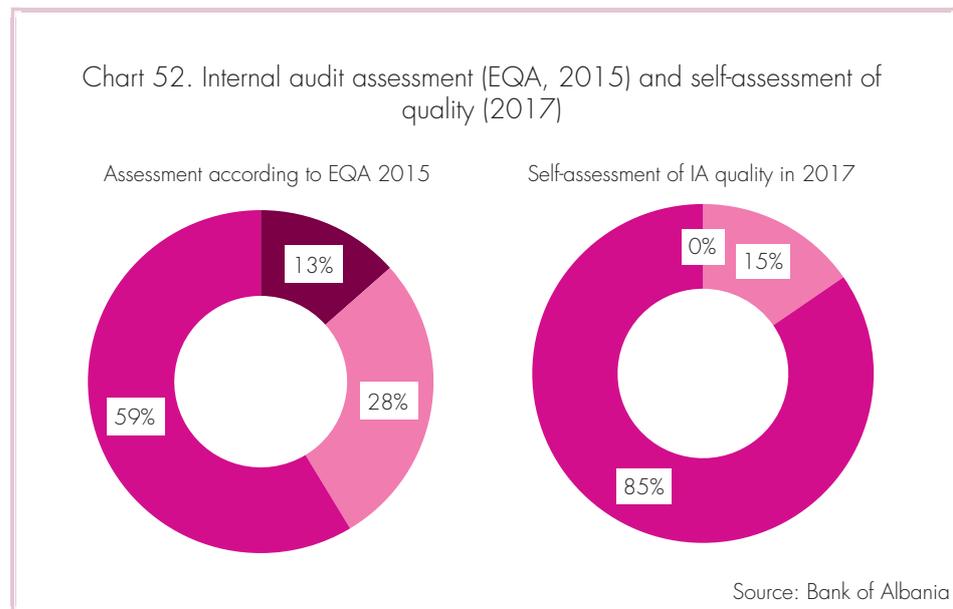
### *Implementation of Recommendations from the External Quality Assurance and Results of Internal Assessment*

During 2017, the Control Department carried out the "Self-Assessment of Internal Audit Quality Assessment", based on the (The Institute of Internal Auditors) IIA Guide and its standards on assessment of the internal audit function (Quality Assessment). This commitment, beyond fulfilling the main objective for the quality assessment of Internal Audit, fulfils one of the recommendations left by the External Quality Assessment Project, conducted by the central bank of the Netherlands (DNB) in May 2015.

At the end of this engagement, the Control Department assessed the compliance of the Internal Audit Activity with the International Professional Practices (Standards / IPPF), as well as evaluated the current status of the recommendations given by the External Quality Assessment (EQA). The table below shows the situation at the end of 2017 regarding the External Quality Assessment (EQA) recommendations left by the central bank of the Netherlands (DNB) and the results of the engagement of the Internal Audit Self-Assessment:



Compliance levels according EQA	External quality assessment (EQA) 2015	Quality self-assessment (IQA) 2017
Does not comply	14	-
Partly complies	29	16
Complies	61	88
TOTAL	104	104



According to the chart above, only 15% of the standards are not fully implemented (in accordance with the best practices provided by the IPPF of the International Institute of Internal Auditors):

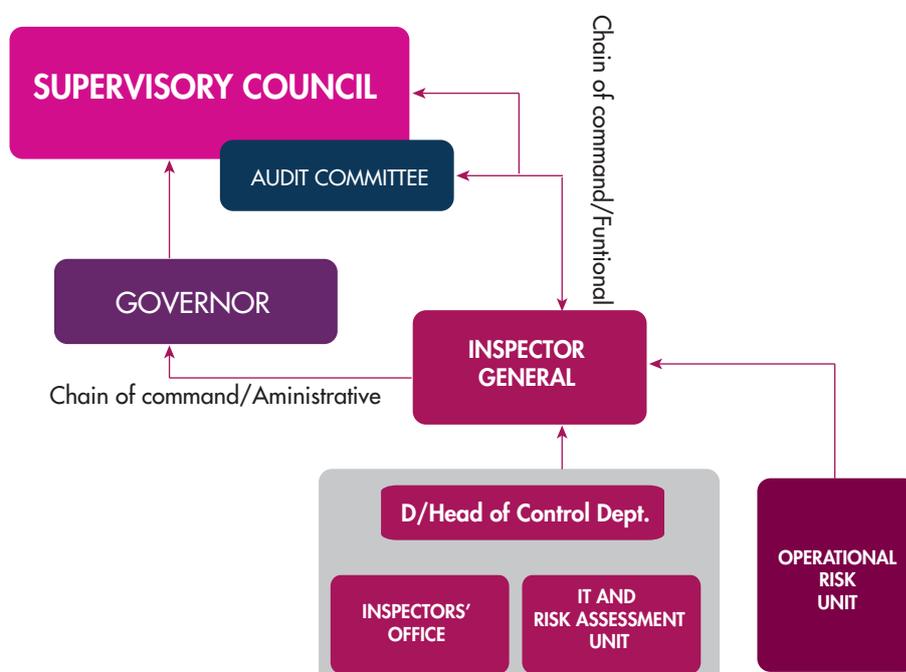
## 4.2 ABOUT THE CONTROL DEPARTMENT

In accordance with the Law “On the Bank of Albania”, the main objective of the Control Department is to ensure the implementation of laws and by-laws in the Bank of Albania activity and to act as a general control measure and provide consultancy services for the Administrators and the Supervisory Council, contributing to preserving the integrity of information, the efficient use of resources and the effectiveness of internal control systems at the Bank of Albania.



### Organizational structure of Control Department

During 2017, the organizational structure managed by the Inspector General was almost complete and had the necessary resources to engage.



### Professional capacity building and continuous training

In order to meet the strategic objective of capacity building of internal audit staff members, audit inspectors have been involved in training programs for internal audit and risk management provided by central banks, have attended individual programs for their professional development, and have taken professional membership / certification exams from international institutions in the field of finance and audit. During 2017, audit inspectors initiated and continued attending the ACCA, CIA, CISA certification programs and attending minimum mandatory classes for upholding CIDA, ACCA, CA titles.<sup>47</sup>

## 4.3 ENGAGEMENTS AND MAIN FINDINGS IN 2017

Audit engagements in 2017 focused on: (i) giving an opinion on the adequacy of internal audits set by the Management for the audited functions / processes, including applications supporting activities; and (ii) other not planned audit

<sup>47</sup> ACCA - Association of Chartered Certified Accountants  
 CIA - Certified Internal Auditor  
 CISA - Certified Information Systems Auditor  
 CIDA - Certified Investments and Derivatives Auditor  
 CA - Chartered accountant



and non-audit engagements with a special request by Administrators or other institutions.

During 2017, in total, 48 new recommendations resulted from 7 audit engagements for security, excluding suggestions resulting from consultancy engagements and engagement in "Self-Assessment of Internal Audit Quality in BoA". 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.

#### 4.4 HIGHLIGHTS IN THE OPERATIONAL RISK MANAGEMENT IN 2017

Following the successful completion of the project "On the Implementation of the Framework for Banking Operational Risk Management" in June 2016, the Bank of Albania managed to establish within a year the proper infrastructure, the functionality and efficiency of the responsible unit for the Operational Risk Management.

The objective of the Operational Risk Management is to manage uncertainties, and to inform and 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.

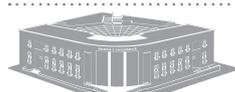
##### *Assessment of Operational Risk Management by international experts*

The operational risk management function was consolidated during 2017 at the Bank of Albania. This was achieved due to: a) the expression of tolerance on operational risk by the Supervisory Council, b) Drafting and approval of action plans by the Administrators, c) Periodic review and reassessment of the Operational Risk Database by the ORM unit.

As a result of these developments, the level of maturity of ORM's activity (estimated by the IORWG international experts) was significantly increased to 69.22% for 2017 (from 50.32% at the end of 2016). This is considered the initial stage of the third level of risk assessment as "Managed" (≥69% of this level III).

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

The assessment is carried out by the International Operational Risk Working Group (IORWG), part of which is also the Bank of Albania. This organization is made up of 70 central banks and has been active since October 2005. Following this process, the progress of the maturity level of the Operational



Risk Management has shifted from 'ad-hoc' to 'managed', thus overcoming the 'basic' level. This assessment exceeds the Bank of Albania's expectations for the end of 2017.

This maturity level indicates that in the risk management policy, the Board (Council) determines the implementation of the risk management structure, and supports the expression of risk appetite. There is a defined risk matrix and a governance structure directly reporting to Senior Management. The exchange of information between the risk units is ad-hoc (as necessary) and periodic. Qualitative and quantitative methods are used for assessing and monitoring operational risks, which may include, as appropriate, Key Risk Indicators (KRIs), risk analysis, incidents and internal losses. Also, the results from the assessment of the Operational Risk Management Unit are taken into consideration in the tactical / operational decision-making processes by the Bank of Albania units.

Independent rating certifies the level of maturity by an independent international organization and demonstrates the importance given by the Bank and the Supervisory Council to the Risk Management function at the Bank of Albania, awareness raising and education of people at all levels for risk management, which has affected and will affect the well-functioning and the continuous improvement of the basic and supportive functions regarding risk management.

### *Increase and implementation of operational risk culture at bank level*

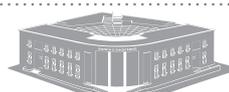
One of the main engagements of the ORM unit is to further increase the operational risk culture at the bank level in order to reach the objective of the well-functioning of the ORM process in the short term, with a view to ensuring that all employees have the knowledge and speak the same language regarding the operational risk.

Particular importance was given to the incident reporting standard during 2017, to the consistency of reporting the horizontal events (which affect some units except the reporting one), near-miss events and immediate notification in case of high-impact incidents.

### *Continuation of the next important BCM Project - Business Continuity*

Business Continuity Management (BCM) is an activity-oriented process that establishes a strategic and operational regulatory framework according to the needs, which:

- Proactively improves the organization's recoverability in case of operational disruptions that make it impossible to meet the main objectives;
- Provides a method for restoring the ability of the organization to deliver



the products and services at the agreed time and quality after the termination of the activity occurs;

- Provides a proven ability to manage the discontinuation of activity and protects the organization's reputation.

During 2017, we worked on the selection, organization and creation of the Working Group that will implement the project for the drafting and implementation of the BCM at the Bank of Albania. This Working Group was created by the Governor's Order no.6025 dated 30.12.2016.

In June 2017, the working group organized several-day training in cooperation with external experts by the Financial Services Volunteer Corps. Along with exchanging experiences and best practices for BCM, this training included a whole day dedicated to the coordinators assigned to follow the BCM in order to familiarize them with topics such as: general information on BCM, main goals, the importance of this program for the Bank, etc.

Upon completion of the Operational Risk Management Project in 2016, the products and data bases created during this project are serving as the foundation for the progress and finalization of the newly initiated project for BCM in the Bank of Albania. Now, with an increased risk culture and drafting/ identification of business processes from all the units of the Bank of Albania, the project for the Business Continuity Management has the necessary basis to develop benchmarks provided in the project plan, which, together with the commitment of each unit, can guarantee the successful achievement of objectives.

### *Whistleblowing, a new legal function at the Bank of Albania*

Pursuant to point 2 of the decision of the Council of Ministers no. 816, dated 16.11.2016, the Bank of Albania, as a public authority which meets the legal requirement for the number of employees, has the obligation to establish a responsible unit to handle and investigate signalling. Pursuant to this decision, and Law No. 60/2016 "On Signalling (Whistleblowing) and Protection of ", in 2017, the responsible unit for whistleblowing at the Bank was appointed, as well as the responsible persons, to carry out the functions of the administrative investigation process following signalling.

Also during 2017, the Bank of Albania drafted and approved the internal regulation "On the Administrative Investigation of Signalling, Protection of Confidentiality and Protection from Retaliation at the Bank of Albania" with Decision of Council of Ministers No. 75, dated 06.12.2017. The implementation of this regulation aims to a) prevent and suppress corruption at the Bank of Albania; b) to promote alerts on suspected corruption actions or practices; c) protect whistleblowers who signal suspected corruption actions or practices at their workplace.

