

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.

3.1. HIGHLIGHTS IN INTERNAL AUDIT

Implementation of the internal audit policy

The Annual Internal Audit Plan at the Bank of Albania was reviewed and approved in accordance with the International Standards on Auditing. The annual plan for 2019 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. 7, dated 6.2.2019.

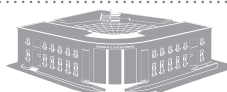
Relations with the Operational Risk Management Unit (ORM)

Collaboration with the ORM Unit continues on a regular basis. The ORM Unit makes available to audit teams (inspectors) the list of operational risks that have been identified and reported by the departments of the Bank, 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 continuous operational risk management.

In addition, the Control Department, reports regularly on the operational risks related to the internal audit itself.

Implementation of recommendations from the external quality assurance and results of internal assessment

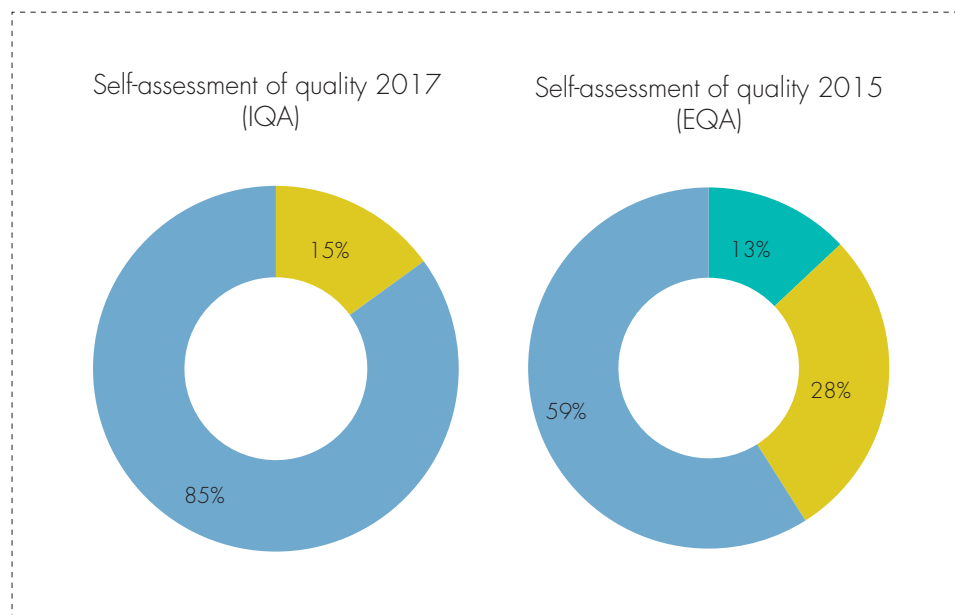
The Control Department implements the Internal Quality Assessment programme. According to this programme the External Quality Assessment was conducted by the Central Bank of the Netherlands (DNB) in May 2015. Following this assessment, the Control Department, at the end of 2017, accomplished



the engagement of the Internal Audit quality self-assessment (Internal Quality Assessment). The next assessment is projected to be realised in 2020.

Table 9 The table below shows the external assessment realised in 2015 and the self-assessment realised in 2017

Compliance levels according to EQA	Standards assessed during EQA by levels of compliance (2015)	Commitment status of Self-assessment of IA quality in AB in 2017
Do not comply	14	0
Partially complies	29	16
Complies	61	88
TOTAL	104	104

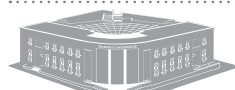


Engagements and main findings in 2019

Audit engagements in 2019 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.

In 2019, in total, 30 recommendations resulted from 9 audit engagements for security. The recommendations mainly addressed the need for a review of the regulatory base (43%); improving the processes (37%); and implementation of the regulatory base (20%).

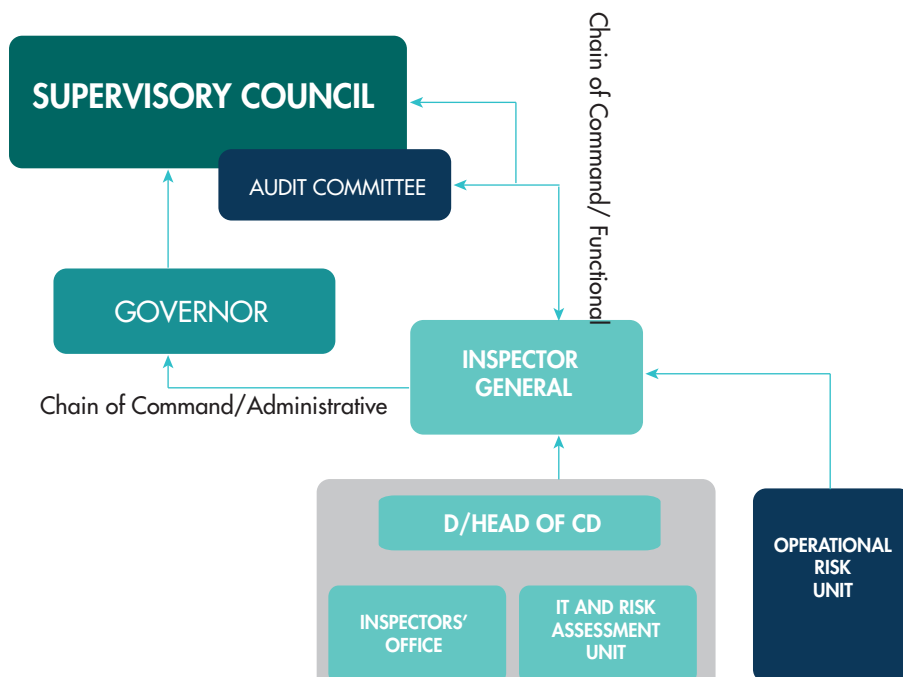
The findings and recommendations for each of the audits carried out during this period were first addressed to the heads of the units and then to the Bank of Albania's Administrators.



3.2. ABOUT THE CONTROL DEPARTMENT

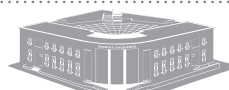
In accordance with the Law "On the Bank of Albania", the status of the Bank of Albania, the policy and regulation of the Internal Audit and the regulation of the Audit Committee, the structure of the Control Department is presented in the following chart, with the purpose of preserving objectivity, independence,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

The organizational structures under the responsibility of the Inspector General



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 training programs for internal audit and risk management provided by central banks; they 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. The audit inspectors continued attending the ACCA, CIA, CISA certification programs and minimum mandatory classes for upholding CIDA, ACCA, CA titles.



3.3. 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.

Developments in operational risk management

In 2019, 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. Priority was given to updating the database and consolidation of employees’ knowledge on operational risk.

Assessment of Operational Risk Management by international experts

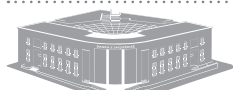
Operational Risk Management is assessed based on the methodology employed by the International Operational Risk Working Group (IORWG) for central banks, of which the Bank of Albania is also a part. Following this process, the progress of the maturity level of the Operational Risk Management has shifted from ‘ad-hoc’ to ‘managed’. This assessment exceeds the Bank of Albania’s expectations, thus overcoming the “basic” level. Currently, the major part of Central Banks that have been consolidating the Risk Management function for more than 5 years, are currently rated at this level.

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

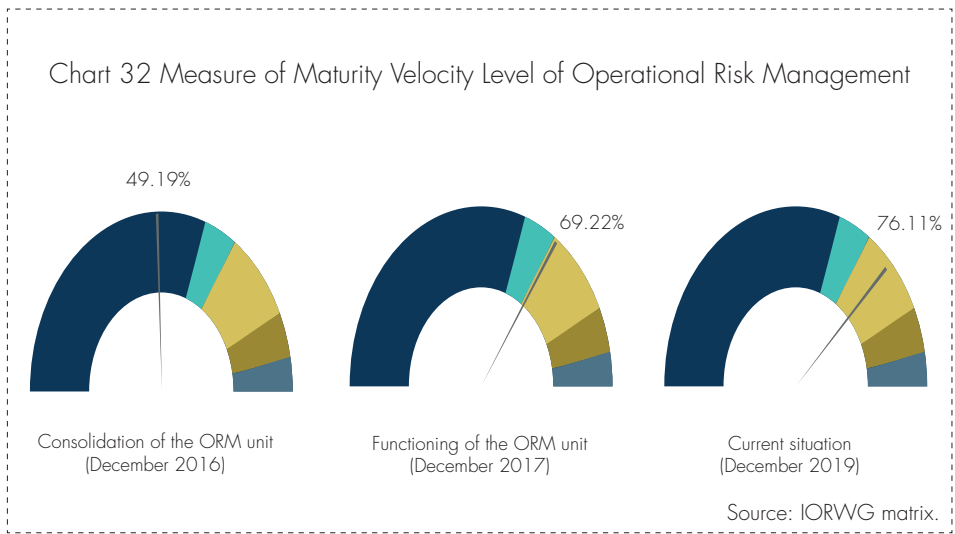
After structural and regulatory consolidation of the operational risk management function of the Bank of Albania, the maturity level, during 2017, increased considerably to 69.22% (from 49.19% at the end of 2016). This process includes approval of the Operational Risk Tolerance by the Supervisory Council; drafting and approval of action plans by Administrators; periodic review and reassessment of operational risk database.

The current maturity level assessed for 2019 is 76.11%. This is based on the performance of the process on the implementation of action plans and the assessment of risks periodically reported by units. This level fully complies with the medium-term objectives of the ORM function at the Bank of Albania.

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.



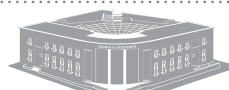
This independent assessment certifies the maturity level by an independent international organisation and shows the importance that the Bank of Albania and the Supervisory Council give to the function of Operational Risk Management at the Bank of Albania, the need for awareness and education of employees at all levels for the management of risk, and how this has affected and will affect the well-functioning and continuous improvement of the core and supportive functions in the framework of risk management. There has been notable progress related to the management of processes and reporting and strengthening of risk culture according to the international assessment.

Business continuity management at the Bank of Albania (bcm)

In 2019 Q1, the Bank of Albania finalised the Project “Compilation and Implementation of Business Continuity Management programme at the Bank of Albania”. The purpose of this project is, through the drafting of the necessary regulatory framework, 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.

The drafted regulatory acts are based on BS 25999 Standard and best practices in the field of Business Continuity Management (BCM). BS25999 Standard is broadly accepted as the base standard for drafting and implementing an effective BCM Program and is applicable to all institutions (including industry and relevant sectors).

Based on this Standard, “Business Continuity Management” is a process oriented to business, which sets forth a strategic and operational framework adapted to the following needs:



- To pro-actively improve the recovering capacity of the organisation against operational disruptions which may render it unable to accomplish the main objectives;
- to ensure a method of recovery for the organisation's capacity to provide products and services in the agreed time and quality after the disruption of business;
- to provide a proven ability to manage disruption of business and to protect the reputation of the organisation.

Whistleblowing function at the Bank of Albania

Consolidation of the whistleblowing function has helped 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 actions or practices; c) protect whistle-blowers who signal suspected corruption actions or practices at their workplace.

The entire regulatory base and all guidelines (annexes) and the necessary instruments were available throughout 2019 to enable the staff to signal suspect cases.

Abbreviations of terms used

IG – Inspector General
DC - Department of Control
IIA – Institute of Internal Audit
ORM– Operational Risk Management
EQA – External Quality Assessment
ChA – Chartered Auditor (Legal Auditor)
IQA – Internal Quality Assessment
IORWG - International Operational Risk Working Group (IORWG)
IPPF – International Professional Practice Framework
ACCA – Association of Chartered Certified Accountants
CIA – Certified Internal Auditor
CISA – Certified Information Systems Auditor
BCM – Business Continuity Management
KRI - Key Operational Risk Indicator

