

## 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 and the Supervisory Council the verification and evaluation of internal audit systems by testing certain controls and procedures but not being their substitute.*

### 4.1. IMPORTANT DEVELOPMENTS IN THE INTERNAL AUDIT ACTIVITY

#### 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 2021 was drafted by the Department of Audit and the Inspector General and it was submitted for review by the Audit Committee. Further this plan was approved by the Supervisory Council with Decision No.2, dated 13.01.2021.

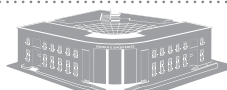
#### B. *Internal Audit Quality Assessment Programme*

Standards for the Professional Practice of Internal Auditing (Standards) require that an external quality assessment (EQA) of the internal audit activity to be performed at least once every five years by a qualified, independent appraiser or evaluation team from outside the institution.

The last assessment was conducted in 2020, by an independent team of the Audit Department of the Central Bank of the Republic of Turkey (CBRT). This is the second assessment conducted by external experts, after the one conducted by the Bank of the Netherlands in 2015.

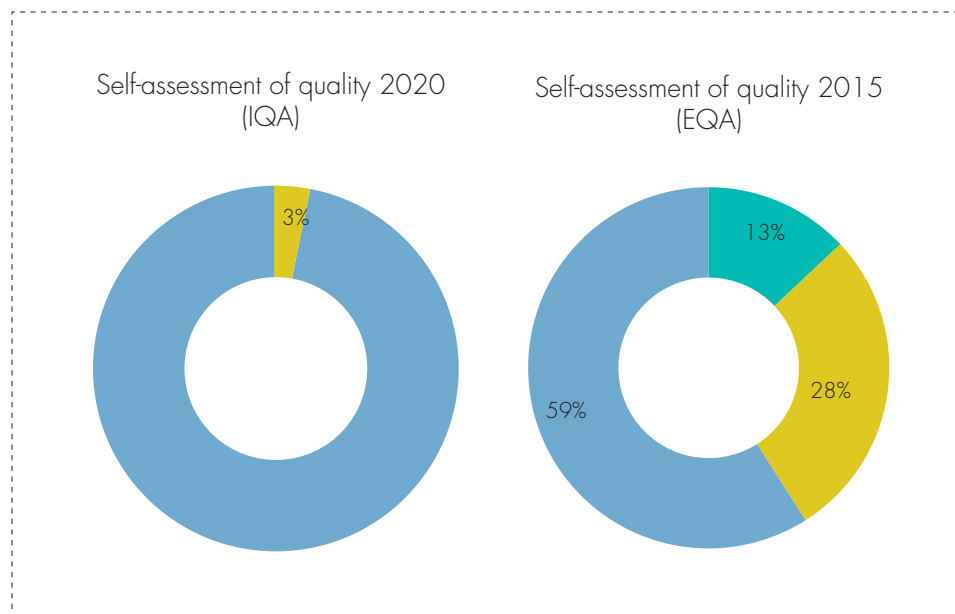
The general opinion is that the BoA's internal audit activity results in "**Overall Compliance**"<sup>40</sup>. This is the highest rating according to the Standards of the Institute of Internal Auditors (IIA) and the Code of Ethics according to the IIA Quality Assessment Manual. This level of compliance demonstrates a clear goal and commitment to achieving the Essential Principles for the Professional Practice of Internal Audit and the Definition of Internal Audit.

<sup>40</sup> The IIA Quality Assessment Manual suggests a three-point scale, "Overall compliant", "Partially compliant" and "Non compliant".



The following are the improvements in the BoA’s Internal Audit practice according to EQA estimates, in 2020 and 2015, respectively:

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



During 2021, the Audit Department revised the Internal Audit Manual with the latest International Professional Practices Standards of Internal Auditing. The review of this Manual addresses the main part of the recommendations left in the final Internal Audit Quality Assessment (EQA).

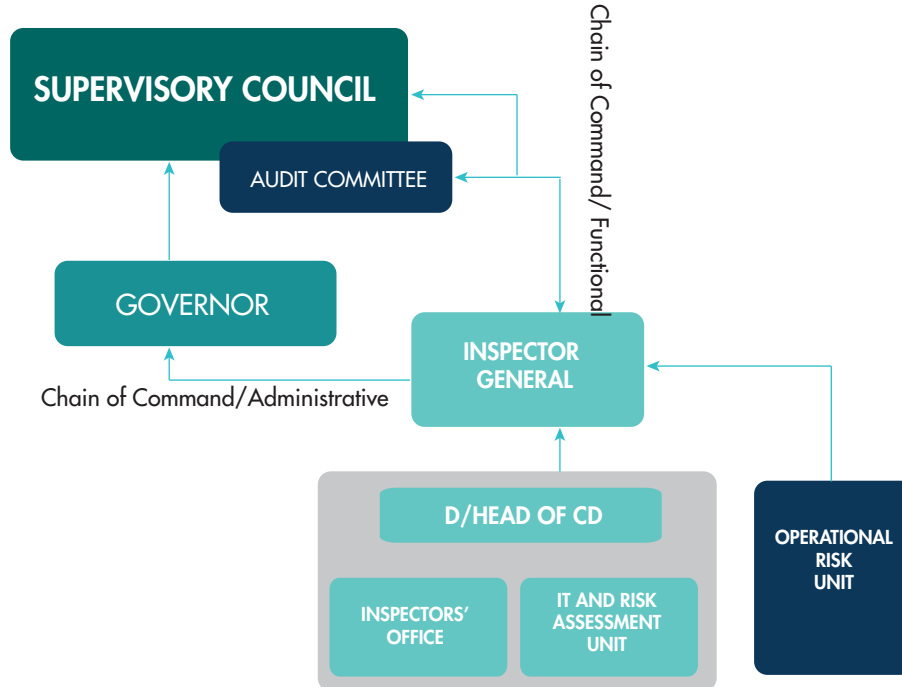
#### 4.2. ABOUT THE CONTROL DEPARTMENT

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

Following is provided the organizational structure managed by 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. At the same time 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.

## 4.3. ENGAGEMENTS AND MAIN FINDINGS IN 2020

Audit engagements in 2021 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 2021, in total, 31 recommendations resulted from 11 audit engagements for security. The recommendations mainly addressed the need for reviewing the regulatory base (26%), improving the processes (48%) and implementation of the regulatory base (26%).



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. 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 2021***

In 2021, 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.

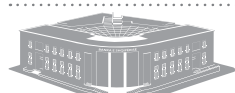
The main focus of ORM during this period has been carrying out the periodic process of reviewing and evaluating all processes carried out at the bank level, reassessing operational risks, monitoring and reviewing action plans and within the framework of Business continuity management (BCM), the reviewing of activity continuity plans with the latest updates.

##### ***B. Business continuity management (bcm) at the bank of albania***

The BoA already has a full framework approved by the Supervisory Board regarding the business continuity management. 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.

In the framework of improving the Bank's responsiveness, an integral part of this regulatory framework are the individual business continuity plans for each department, the strategies followed as well as the tasks and responsibilities for each participant. Based on the BCM Policy, the periodic review of its elements is carried out minimally every two years. For this reason, the process of reviewing operational risks included the review of business continuity management plans based on the lessons learned from the last two crises.

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, were overcome successfully and with lessons learned on risk and the business continuity



management at the Bank of Albania (BCM). 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.*

### C. 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.

With the approval of the regulation "On administrative investigation of signalling, protection of confidentiality and protection from revenge in the Bank of Albania", the Bank has operated with a full regulatory framework, with all the necessary guidelines and tools to enable employees to signal the suspicious cases.

Following the recommendation at the end of the control exercised by HIDAACI, the Signalling Unit drafted two separate guidelines in accordance with the law and the internal regulation of the BoA:

1. Instruction "On the administrative investigation of signalling and protection of confidentiality in the Bank of Albania";
2. Instruction "On the administrative investigation of the whistle-blower request for protection from revenge".

The above have been reported to HIDAACI according to legal requirements.

