

---

# Comparative Study on the Organization of Internal Public Audit in Albania and Romania

---

*Nensi XHANI, Ph.D. Student,  
University of Craiova, Faculty of Economics and  
Business Administration, Romania,  
e-mail: xhaninensi@gmail.com*

*Univ. Prof. Marioara AVRAM, Ph. D.,  
University of Craiova, Faculty of Economics and  
Business Administration, Romania,  
e-mail: marioaraavram@yahoo.com*

*Ilir MEÇE,  
Internal Audit Directorate, Ministry of Finance and  
Economy, Albania, e-mail: Ilir.Mece@financa.gov.al*

*Latif ÇELA,  
Internal Audit Directorate, Ministry of Finance and  
Economy, Albania, e-mail: Latif.Cela@financa.gov.al*

## Abstract

*The audit process has progressed and improved with the economic and political development of each country as response to the challenges of society and politics in each country and as result of the global changes' effect. The purpose of this study is to analyze the development of the audit concept and to study the main factors influencing the internal audit legislation in Albania and Romania. The research aimed to highlight some aspects of theory about how the internal audit has emerged in Albania and Romania, and to provide an overview of the differences and similarities of the two legislations on public internal audit. A detailed comparative study of the laws of both countries has concluded that Albania's legislation needs to be revised, as there are some issues that are not fully covered by the law. Efforts to improve the internal audit activity are numerous, but much remains to be done. Although Romania has a more comprehensive and detailed internal audit law, both countries need to strengthen the enforcement of legislation. For a reasonable use of public funds, the authors advocate the imposition of "restrictive"/"blocking" mechanisms or procedures for entities that do not comply with the legal provisions on internal audit.*

**Keywords:** *internal audit, control, legal framework, public entities*

**JEL Classification:** *H83, M42, M48*

### To cite this article:

Xhani, N., Avram, M., Meçe, I., Çela, L. (2019), Comparative Study on the Organization of Internal Public Audit in Albania and Romania, *Audit Financiar*, vol. XVII, no. 3(155)/2019, pp. 473-485, DOI: 10.20869/AUDITF/2019/155/017

### To link this article:

<http://dx.doi.org/10.20869/AUDITF/2019/155/017>  
Received: 19.05.2019  
Revised: 27.05.2019  
Accepted: 5.06.2019

## Introduction

In a world that is evolving and ever-changing, an important place is held by the use of public funds. The economic, social and political changes of recent decades have increased awareness of population on the economic activity exerted by public institutions. The internal audit has now become a powerful profession, a tool that adds value in terms of efficient use of public funds. Promoting responsibility, in order to ensure the correct use of public funds, requires a legal framework in the field of internal audit activity. Legal provisions are the main element for the functioning of the rule of law. The lack or breach of the legal provisions regarding the exercise of internal audit activity has serious consequences in the activity of public institutions and in the sound management of public funds.

The aim of the paper is to develop the concept of internal audit and to study the main factors that influenced the legislation on the organization and conduct of the internal audit in Albania and Romania. In this study are specified the theoretical milestones on development of the internal audit process in the public sector, followed up a detailed analysis of the similarities and differences in legal regulations in the field of internal audit in Albania (EU candidate country) and in Romania (EU state). Both in Romania and Albania, any public institution, autonomous administrations and state-owned companies are subject to internal audit activity.

MacRae and Van Gils (2014, p.18) examined the situation of the public sector worldwide in terms of the elements needed to establish an effective internal audit activity and noted that the external regulatory environment may have an impact on the capacity of internal audit activity. The sample consisted of approximately 13,500 responses from internal auditors and other practitioners from 107 countries. Based on the questionnaire sponsored by the Institute of Internal Auditors (IIA), empirical results show that more than 3/4 of the public sector respondents (77%) indicated that auditing was required by law or regulation where their organizations were based. The largest percentage of respondents with legal mandates was from Europe-Central Asia (92%), and the lowest rate was in the United States and Canada (66%), followed closely by the Middle East and the Asia Pacific regions. Even in our case, both states that we will analyze have drafted and approved legal regulations on internal audit.

Regarding articles and studies on internal audit practice, we mention that there are numerous empirical researches in this field in the Romanian literature. Avram et al (2014) monitored the R&D expenditures made by the governmental, private and academic sectors and concluded that the government contributes with over 50% to the total R&D expenses. In Albania, scientific research on internal audit is incipient. Through this work, we intend to complete the current literature which exists in the current period with studies on internal audit, providing concrete suggestions for improving the legislation and the value of audit based on the views arising from this study. Also, this study can serve the government, politicians, heads of public institutions and stakeholders to improve the legal framework of internal audit.

## 1. Review of the specialized literature

In order to provide taxpayers with the guarantee that the government uses public funds in accordance with the principles of sound financial management, an adequate and efficient public internal financial control system is needed. Public internal financial control is based on three pillars:

- managerial accountability,
- functionally independent internal audit,
- central harmonization unit for developing methodologies and standards for the first two pillars.

For most of its history, internal auditing served as a simple administrative procedure comprised mainly of checking documents, counting assets, and reporting on past events in the activities of different entities. But in recent times, a combination of forces has led to a quiet revolution in the profession (Van Gansberghe, 2005, p.69). According to the IIA International Professional Practice Framework, internal audit is defined as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal public audit is undergoing an intense process of development and evolution, aimed not only at

discovering irregularities and infringements, but mostly at perfecting and optimizing processes in public institutions. (Dumitrescu, 2015, p.351). Internal audit is an exchange of ideas that leads to enriching the information available, and the management obtaining reasonable assurances of achieving the objectives set (Avram, 2011, p.4). The importance, place and visibility of the internal audit function within the organization are not a given but the result of dedicated, professional and objective work done year after year (Stanciu & Seria, 2019, p. 272). The quality of good practices is determined by the level in which the internal auditors correctly anticipate the evolution of the risks and requirements of the auditing committee and of the management, concentrating their attention on the areas that are the most exposed to risk, and offering recommendations for improving the processes and attaining the strategic objectives. In the activity of internal auditors, the priority remains the risk evaluation and the internal control (Fülöp & Szekely, 2017, p.449). Each internal control system has to be monitored as a regular process if it is to continue to be effective. Monitoring is usually an ongoing process with the internal audit function reviewing in turn all areas of the business regularly (Trenerry, 1999, p.14). Internal control contributes not only in achieving the management's targets but also to ensuring the entity's prestige and longevity by helping it continuously modernize itself through the implementation of systems and concepts that correspond to the present time and by distancing the entity from concepts such as: "if it's broken don't fix it" (Dragomir et al., 2016, p.502). Good governance within an organization reduces risks, increases performance, paves the way for financial markets, develops the capacity of marketing for goods and services, improves management, and shows transparency and social responsibility (Troi, 2018, p.706). A solid organizational culture and a more rigorous legal framework on governance issues will be able to improve the performance of public institutions, will increase their efficiency in fighting corruption, and adopt an antibribery behavior (Carataş and Spataru, 2018, p.569). Jones et al. (2017) conducted a study on the multidimensional aspects of the organizational change in the internal audit function in eight specific organizations, using the new two-tiered organizational change framework. Research results demonstrate that change can be evolutionary, episodic, continuous and/or teleological, and people, organisms and organizations

that are the subject of these changes will react or respond to that change in a myriad of ways.

The development of information technology is one of the factors contributing to the evolution of internal audit process, but internal auditors do not have sufficient knowledge to develop IT audits. According to Stanciu and Seria (2019, p.272), a good mastering of IT techniques and technologies bring efficiency, superior quality of internal auditors' work and consequently, well-documented opinions and sound recommendations. A high performance public internal audit function creating new value cannot be realized without professionals with experience and a profound understanding and openness towards the new elements in profession and a good knowledge of the public sector (Stanciu, 2018, p.551). It is important to identify and study the main determinant factors influencing the sizing of internal audit departments, in order to set the internal auditors' number in the public sector (Dascălu, 2016, p.649). The audit should focus on assessing the managerial capacity to achieve organizational goals, so to determine the extent to which the managerial decisions are appropriate to achievement of their objectives and how they are achieved.

Stanciu (2018, p.551) concluded that the state of public internal audit in Romania still requires significant improvements in order to strengthen its role and increase its visibility. Internal Public Audit has a relatively recent history in Romania, and the perception that public managers have about the role of auditors is, in many instances misguided; for example, although Article 9 of Law no. 672/2002 imposes on the heads of public entities the obligation to organize internal audit activity and to refrain from using internal auditors for other organizational activities, tasks and needs (except auditing), most of the public sector leaders comply only formally while, in practice, they use internal auditors for other organizational tasks and activities (Macarie and Moldovan, 2018, p.283). Moreover, according to Dragan (2018, p.110) regardless of how the subject is treated, internal auditors need to have the courage to address such topics, which are far from being considered delicate or difficult to approach. It is preferable that the topic approached within the internal audit missions exceeds, in a constructive sense for the organization, the requirements imposed by the Law 672/2002, regarding the internal public audit, art. 3, (2), "The area of Internal Public Audit". In his opinion, the provisions of

art. 3, (2) of the abovementioned law cannot be interpreted restrictively.

In Albania is a need for multi-qualified specialists, with expertise in accounting but having also multidisciplinary skills, which seem to be lacking in the public sector, thus leading to traditional and limited audit activities performed with existing audit resources (Bello & Karapici, 2012, p.17). The audit process will not be able to fulfill its potential as a fair and competent catalyst until it becomes a true profession with a well-defined, unique role correctly appropriated by professionals and government (Angjeli, 2014, p.124). The results of Üç & Shehu's research (2017, p.93) show that private sector internal auditors are more independent than internal auditors in public sector in Albania. Internal audit is an important profession that need to be supported and developed.

From a formal point of view, the public sector audit function is defined from legal perspective and is generally provided by both external and internal audits. Regardless of the fact that the audit coverage is guaranteed by the constitutional, legislative and regulatory framework, it cannot be said that the dynamics of the interaction between these two forms of audit is exceeded in an effort to provide taxpayers with the assurance that funds are spent with economy, efficiency and effectiveness in accordance with legal provisions in effect (Xhani & Iliescu, 2018, p. 54). Avram et al. (2008) brought to the forefront the need for collaboration between the auditors and the audited entity's managers, based on its major importance for the prevention of frauds and errors concerning:

- the correction of the weak points in the control of the entity whenever they are identified by the auditor;
- the improvement of internal control system and accounting system;
- the elaboration of a set of proposes and recommendations for improving the activity in its assembly.

## 2. Research methodology

Research methodology of the study was based on quantitative data provided by the official websites of the Ministry of Finance and Economy of Albania and the Ministry of Public Finance of Romania. The paper presents a review of the scientific literature on the

importance and the internal audit process. This study consists of a comparative analysis of Albanian and Romanian legislation in the field of internal audit, following the institutional and legal changes necessary to increase the efficiency of public sector's activity. To accomplish the purpose of the study, its main objectives are:

- Exploring literature on internal audit;
- Comparing the internal audit legislations of Romania and Albania to identify key factors, analyzing at the same time the implementation of legal framework;
- Presentation of conclusions and recommendations on internal audit in the public sector.

The research addresses an important issue regarding the implementation of the legal framework for internal audit in Albania and Romania.

The paper has encountered some difficulties in collecting and processing data on the internal audit structures in Albania. In analyzing the implementation of internal audit legislation, the total number of entities that have the obligation to establish internal audit departments could not be included. Also, our analysis did not include the number of audit committees set up in public units because annual reports on internal audit activity in Albania do not contain this information.

## 3. Historical stages of the internal audit framework organization

### 3.1. Albania

The internal audit during the communist dictatorship was carried out by the control - revision structures, which, according to the Council of Ministers Decision no. 237 of 13.06.1983, were part of the structure of the Finance Directorates and the object of their activity was defined by Order no. 1 of the Council of Ministers of 10.02.1984, "On financial control - revision". The most important deficiency in organizing these structures was related to their independence.

At the beginning of 2000, the European Union started to support Albania in introducing the new

concept and elements of Public Internal Financial Control. In each ministry, financial control units were established. In the Ministry of Finance, a central institution, the General Directorate of Financial Control, was created in order to harmonize financial control activities in the public sector Halili et al, 2017, p.47).

The first normative act that introduced the internal audit in Albania was Law no. 9009 of February 13, 2003 "On internal auditing in the public sector", eliminating definitively the concept of "financial control - revision". In order to strengthen the legal framework for auditing, the Law on Internal Audit in the Public Sector was revised in 2007 and 2010, giving importance to the regulation of internal audit activities and the precise definition of the main components such as the purpose, objectives, principles, organization, and responsibilities (Law 9720 of 23.4.2007 "On Internal Audit in the Public Sector", as amended by Law no. 10318 of 16.09.2010). In order to achieve international best practice, in 2015 the need to revise the legislative acts regulating the internal audit activity was identified. Compared to Law no. 9720, dated 23.04.2007, as subsequently amended and supplemented, Law no. 114/2015 defines the internal audit mission, the responsibilities of public units managers, heads of audit structures and internal auditors, the changing of employment criteria, the obligation to set up internal audit committees in public entities and improve the relationship with external public audit. Internal audit, referred to in Law no. 114/2015, is defined as an independent activity that provides objective safety and advises on the planned management to increase the value and improve the performance of public entities. Internal audit helps public entity to achieve its objectives through disciplined and systematic work, to assess and improve risk management as well as the control and governance processes. One of the issues worth mentioning is to avoid overstressing internal audit, external audit, control and financial inspection functions. Overlaps between external audit, internal audit and financial inspection are regulated by legal improvements in internal and external audit, as well

as cooperation agreements between internal and external audit.

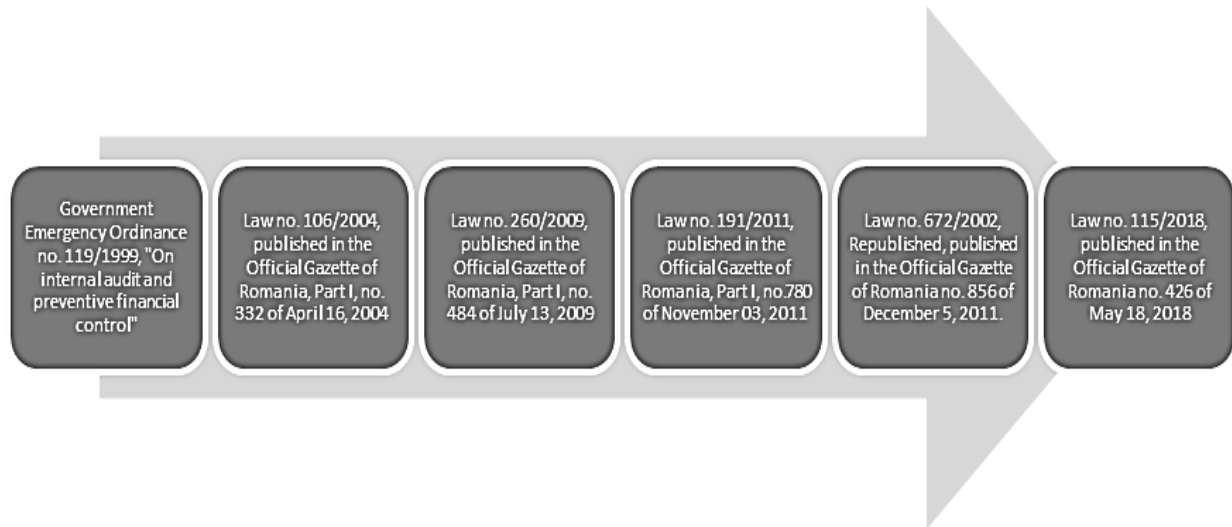
As regards the institutions responsible for internal audit in Albania, there is an institutional framework where the Ministry of Finance and Economy is the main coordinator and monitor of this activity, supported by the General Directorate of Harmonization of Public Internal Financial Control, the Internal Audit Harmonization Directorate, the Internal Audit Committees in public entities in which internal audit structures are established, and internal audit structures.

In line with its statutory obligations, the Ministry of Finance and Economy published the Internal Audit Manual in 2016 and the International Standards on Professional Practice of Internal Auditing and the Methodology for Quality External Assessment were published in 2017.

### 3.2. Romania

The term of internal audit was used as a concept for the first time in Government Emergency Ordinance no. 119, dated 31.08.1999, "On internal audit and preventive financial control", modified by Ordinance no. 72/2001. During the period 1999-2003, based on the normative framework set up through the Governmental Emergency Ordinance no. 119/1990, the internal audit inspections were set up and they became responsible with control actions/inspections reported as internal audit activities. This period of time was a stage of confusions in this respect. There were many problems related to the understanding of the concepts and to the internal control and internal audit prerogatives, but it has also been a stage that has helped to the clarifying of their role, position and orientation towards European standards (Munteanu et al, 2010). The fact that the above-mentioned Ordinance regulated the activity of two different structures, led to the necessity of drafting Law no. 672 of December 19, 2002 "On Public Internal Audit". *Figure no. 1* provides a framework for the evolution of the law on public internal audit, which has been amended and supplemented by other legal regulations.

**Figure no. 1. Evolution of legislation on public internal audit in Romania**



Source: Own projection, based on the internal audit framework in Romania

Internal Public Audit, by Law no. 672/2002, republished, is defined as the functional independent and objective activity provides assurance and consulting, conceived to improve the activity of the public institution; it helps the public entity to accomplish its objectives by a systematic and methodical approach meant to assess and improve the effectiveness, and efficiency of risk management, of control and governance processes.

Public internal audit includes some organizational structures:

- Central Harmonisation Unit for Internal Public Audit within the Ministry of Public Finance;
- Public Internal Audit Committee;
- Internal Audit Committees;
- Internal Audit Departments.

Compared to Albania, the Internal Public Audit Committee is functioning in Romania, alongside the Central Harmonization Unit for Internal Public Audit, consisting of 11 members, as a consultative body, to act in defining the strategy and improving the internal public audit activity in the public sector. In Albania, this Committee has been organized with nine members, having the same functions as those stipulated in Romanian law. After the entry into force of Law no.

114/2015, the functioning of this committee was not foreseen in the legal provisions.

The Romanian Central Harmonisation Unit for Internal Public Audit has developed and published 44 procedural and practical guides, manuals and methodologies for each type of audit.

Thus, we note the guidelines and methodologies elaborated in Romania are more detailed and complete. Albania's Internal Audit Harmonization Directorate should elaborate more comprehensive manuals, procedures and guidelines on how to conduct different types of internal audit missions in order to assist internal auditors in their work.

#### **4. 4. Comparative analysis of legislation and challenges in its implementation**

Before analyzing the legislation in the two countries, we need to take into account country-specific factors such as economic, social and cultural factors. It is estimated that the Albanian economy undergoes presently a stable stage, just like Romania, although it is worth pointing out that Romania is affected by European factors since it is part of the EU. In this respect, Albania is trying to make progress on the objectives to be fulfilled in order to become a member of the EU.

Firstly, the development of audit process in Albania and Romania took place around the same time, in the early 2000s. While Albania was in the early stages of organizing its internal audit activity, Romania signed the EU accession and the European Commission has exerted its influence and pressure on strengthening internal audit functions for years. This is noted in the elaboration of the Internal Audit Law in Romania, which is more complete and more detailed compared to Albania.

Secondly, both legislations ensure the independence of public sector auditors. Audit structures report directly to the entity's manager, auditors perform the audit function independently and have access to all technical, economic, financial, and managerial data of the audited entity.

Thirdly, both laws define the role, principles, organization, scope, mission, conflict of interest, functioning and responsibilities.

Fourthly, the Finance Ministry plays the leading role in both countries. The obligation to set up an internal audit service is stipulated in laws regulating the internal audit activity in the public sector.

The analysis of legislation in both countries shows that there are some similarities but also differences, grouped on two levels, namely:

#### 1. Regarding employment and certification of internal auditors

In Albania, according to Law no. 114/2015, in addition to the general conditions of public servant legislation and the Labor Code, auditors should have:

- a. A second level university diploma in the legal sciences, economic and other sciences, depending on the needs of the audited sector;
- b. the manager of internal audit unit must be certified as "internal auditor" and must have 5 years of experience as an internal or external auditor;
- c. the internal auditor must be certified as "internal auditor" and have a 5-year work experience in the profession or as an internal or external auditor;
- d. an employee who does not hold the certificate of "internal auditor" but has 3 years of experience in that profession, is employed in the internal audit unit and during the first 2 years he works under the supervision of the direct superior. During this period, this employee must necessarily undergo the certification

procedure as an "internal auditor". If the employee is not certified as "internal auditor" during this period, his employee terminates the employment relationship and is deemed to be interrupted by this law.

In order to benefit from the internal auditor certificate in the public sector, in addition to completing the above criteria, the auditor must participate in the 6 modules of the certification program and be subjected to the preliminary tests for each module. At the end of the certification program, the auditors are enrolled in written and oral exams for all the modules developed during the process, which lasts for almost a year. The fee for registration and participation in the certification process is 40,000 ALL<sup>1</sup>. Deregistration from the National Internal Auditor Register is performed when:

- the internal auditor has not participated in continuous professional training,
- he or she has been involved in one or more audits presenting a conflict of interests,
- or there is a court order by which it is forbidden for him/her to exercise public functions.

In Romania, according to Law 672/2002, with subsequent amendments, the appointment or dismissal of internal auditors is done by the head of the public entity audited, with the approval of the internal audit department manager. The internal public audit department manager is appointed/ dismissed by the head of the entity/institution and for the subordinated institutions the appointment/dismissal is done with the approval of hierarchically superior public body. The CHUIPA coordinates the recruitment system in the field of internal public audit, the national certification system for internal auditors in public entities and the continuing professional training system. Interestingly, among the functions of CHUIPA is the approval of the appointment/dismissal of heads of internal audit departments within public entities. In Albania, the Internal Audit Harmonization Directorate does not have this statutory function.

The internal auditor's certificate in the public sector, which certifies that the necessary conditions for an internal auditor to perform internal public audit activities in public entities are fulfilled, is issued if:

- auditor has a professional experience of at least one year,

<sup>1</sup> Albania's currency (Lek), 100 ALL ≈ 0,8 Euro, 100 ALL ≈ 3,9 RON

- professional honesty is confirmed by two recommendations from internal auditors or specialists in the field who have a 5-year experience in public activity,
- the recognition of professional skills of internal auditor was verified by the multiple choice test. The test is organized by the Ministry of Public Finance/CHUIPA in at least the following areas: internal audit, public finance, accounting, law, management, information technology, risk management, internal control and governance.

The certificate shall become invalid when the internal auditor did not carry out internal audits for five years and did not participate in the continuing professional training due to his fault. Internal auditors are required to submit to the body that issued the certificate, every 5 years, reports on how he/she implemented the continuous professional training programs, approved by the public entity's head, on the basis of which the validity of the

auditor's certificate will be maintained/lost. Annual plans for professional training should therefore ensure the systematic, consistent and purposeful development of professional competence through training programs, which upgrade the knowledge and skills that internal auditors have already acquired, on the basis of an objective appraisal of demands (Ivanova, 2019, p.79).

An audit in line with IIA standards involves a more professional, fair, efficient and capable audit staff to respond to ongoing challenges. For the period 2005-2018, 1960 internal auditors were certified in Albania. On basis of the approved and published documents, the number of employees planned decreased between 2009 and 2014, with 42 posts, but after 2014 till 2017, it increased from one year to another by 54 posts (Table no. 1). In public sector audit structures during 2009-2017, there is a difference between the number of auditors planned in the organization chart and the number of auditors involved in internal audit structures.

**Table no. 1. Evolution of the number of internal auditors in Albania**

Year	Planned number of posts	Real number of posts	Number of vacancies
2009	416	402	14
2010	416	406	10
2011	403	392	11
2012	406	391	15
2013	407	387	20
2014	374	351	23
2015	395	363	32
2016	416	386	30
2017	428	400	28

Source: Authors' projection, based on Annual Reports of the General Directorate of Harmonization of Public Internal Financial Control

## 2. On offences and sanctions

Even if both legislations need to be improved, the biggest challenge is the law enforcement in both countries. In Romania, the legal basis for offences and sanctions is complete due to Law no. 672/2002, republished. Responsibility for the detection of offenses and the enforcement of sanctions belongs to the authorized representatives of the Ministry of Public Finance, and at the level of the subordinated public entity belongs to the authorized representatives of the hierarchically superior body. Sanctions, according to legislation, refer to:

- Non-compliance with the obligation of ensuring the organizational and functional framework necessary for the performance of the internal public audit activity;
- Non-compliance with the obligation to design the norms of internal public audit, specific to the public entity, as well as to submit them for endorsement;
- Non-compliance with the provisions on the elaboration of the draft internal audit plan;
- The refusal of the execution or management staff involved in the audited activity to present any



- required documentation to those who are responsible for the internal audit,
- Failure to observe the provisions on the appointment/dismissal of the Head of the internal

audit department, respectively of the internal auditors.

**Table no. 2** shows the number of public institutions in Romania bound to set up the public internal audit function.

<b>Table no. 2. Public institutions in Romania required to set up the internal public audit function</b>			
	2015	2016	2017
Number of entities that were required to organize the public internal audit activity.	9.977	11.031	11.937
Number of public institutions that did not set up the internal audit, out of which:	1.817	2.364	2.512
- public entities of central public administration	186	81	103
- public entities of local public administration	1.631	2.283	2.409
Number of public institutions that did set up the internal audit, out of which:	8.160	8.667	9.425
- are truly functional	7.512	6.715	7.447
- Are not functional	648	1.952	1.978
Number of public institutions that have set up the internal public audit function by their own structure	1.345	1.365	1.641
Number of public institutions that have established the public internal audit function through the hierarchical superior body	4.443	4.410	4.409
Number of public institutions that have established the public internal audit function through service contracts	-	182	138
Number of public institutions that have established internal audit function by cooperation system	2.372	2.707	3.237
Number of public internal audit structures in co-operation system	42	42	46

Source: Authors' projections, based on CHUIPA Annual Reports

Based on the results presented in **Table no. 2**, we noticed that there is a relatively large number of audit structures in the internal public sector. According to the CHUIPA annual Reports this occurs because the heads of public entities have yet to understand the role and need for public internal audit and, on the other hand, the existing financial resources are insufficient. There are also legislative restrictions regarding the maximum number of posts that can be created within the institutions. Contrary to the legal provisions, the sanctions provided by the law (Article 24) have never been applied, because the main creditors have to empower representatives who will identify the contraventions and apply the sanctions. The lack of

implementation of these provisions in the 17 years since the issuance of the Internal Public Audit Law (2002), combined with budgetary and personnel restrictions applied in the public administration, have generated the existing situation in the field of internal public audit.

Under Law 114/2015, in Albania, the Internal Audit Unit Director is responsible for preparing the annual report, approved by the Head of the Public Entity, who is required to send this report to the structure responsible for harmonizing internal audit. **Table no. 3** provides information on fulfilling the obligation to draw up the Annual Report on Internal Audit, based on the standard reporting template set out in the *Internal Audit Manual*.

<b>Table no. 3. Situation of public entities that have drawn up the Annual Report on Internal Audit</b>				
	2014	2015	2016	2017
Number of structures that have submitted annual reports	82	98	110	115
Number of internal audit structures	100	103	112	119

Source: Authors' projection, based on Annual Reports of the General Directorate of Harmonization of Public Internal Financial Control

According to the data reported to the Harmonization Directorate for Internal Audit, the number of structures that did not prepare and submit the Annual Report was significantly reduced from 18 structures in 2014 to 4 structures in 2017. Also, the number of internal audit structures is increasing. Until 2017, 119 internal audit structures are registered as functional, with 19 structures more than in 2014. A considerable number of internal audit structures operate in violation of applicable legal regulations. For the year 2017 there were some deficiencies, namely, there was a staff shortage in 40 structures, 10 heads of audit structures are not certified as "internal auditors for public sector" and 4 structures have more than 1/3 uncertified employees in the field of auditing.

## Conclusions

Albania has taken important steps on the implementation of the internal audit function in the public sector due to coordination of auditing activity and the support of the Harmonization Directorate for Internal Audit, but there is still need of improvement. This paper highlights a lack of scientific studies in the field of internal audit in Albania. Internal audit researches in Albania, as a developing country, are interesting and have an important contribution to Albanian scientific literature.

Our study concludes that there are some deficiencies in the conduct of the internal audit process in Albania, which have already been highlighted in our study. In our opinion, Romania has a more complete and crystallized legislation compared to Albania. A law is effective to the extent that it is applicable, and in this sense both countries suffer from lack of enforcement of relevant legislation in force. Even if Romania has a stronger law in the field, both states need, in addition to the creation of audit structures and internal audit committees in those entities of public interest, to strengthen the role of the internal auditor.

The Romanian legislation provides for sanctions for non-compliance with the legal provisions regulating the internal audit activity, which have never been applied since the entry into force of the law on public internal audit (2002), while the Internal Audit Law in Albania does not provide for measures and/or sanctions for breach of the legal provisions. In the context of the implementation of a modern internal audit system, given

the problems faced by the structure responsible for the harmonization of internal audit, we suggest the implementation of legislative measures that would imply an efficient inspection of the use of public funds. In this regard, we propose imposing "restrictive" or "blocking" mechanisms for entities that do not comply with the legal provisions regulating the internal audit activity in the public sector. When the responsible bodies (the government, the Prime Minister, the Department of Public Administration in Albania) find that the statutory provisions on the organization of internal audit by public institutions are not met, they could sanction such behavior in the following ways:

- reducing budget allocations;
- limiting expenditure to the respective public institutions up to a maximum of 30%;
- not to approve changes to the organizational structure of those institutions until the moment of compliance.

The functioning of a fair, successful, well-organized internal audit service in accordance with legal provisions is the responsibility of the management of public entities. The Government should intervene with concrete actions, develop appropriate mechanisms and procedures to underline the importance of the internal audit process. For efficient, economical and effective use of public funds and the achievement of entity objectives, management at the entity's top level should consider internal audit as an added value function.

The Albanian Supreme State Audit Institution, in accordance with Article 16 of the Law no. 154/2014, assesses the overall functioning of the systems of internal control and audit bodies subject to audit, giving, as appropriate, opinions and recommendations. In order to ensure the complementarity and efficiency of the Romanian audit activity, Law No.94/1992 on the organization and functioning of the Romanian Court of Accounts was adopted, and art. 42 requires that the Court of Accounts to assess the activity of its own financial control and the internal audit of controlled legal entities. Legal entities under the control of the Court of Accounts are required to submit a Report on the elaboration and implementation of the internal audit program by the end of the first quarter of the previous year. In this context, the Romanian Court of Accounts continues to evaluate the internal audit

system. Auditors of the Supreme Audit Institution in Albania, in the exercise of their competences, should be more involved in the effective functioning of the internal control and audit system, because they do not prepare each year a special report on the audit activity to assess points weaknesses and strengths of the system as a whole, as in the case of Romania.

Research findings indicate that the public sector should start by reviewing the legal framework for internal audit activity in line with the international standards and the best practices so that internal audit structures are developed and consolidated, which would ensure, in turn, the growth of entities' performance, but also of the economy in general.

## REFERENCES

1. Angjeli, G. (2014), *Auditimi dhe qeverisja e mire*, Monografi, UMSH Press - KLSH, Classic Print, Tirana.
2. Avram, A., Avram C.D., Avram, V. (2014), Research and development expenditures between discretionary cost and source for economic growth, *Romanian Journal of Economics*, Institute of National Economy, Volume 39, p. 49-66.
3. Avram, M., Avram V., Avram A. (2008), The implications of the financial auditors' to detect the frauds, *Annals of the University of Oradea*, Economic Science Series, Vol. 17, Issue 3, p.928-934.
4. Avram, M. (2011), Considerations on the Practical Application of International Auditing Standards Regarding the Environment of Control, *Annals of University of Craiova - Economic Sciences Series*, vol. 3(39), pp. 1-7.
5. Bello, H., Karapici, V. (2012), The Risk-based Role of Internal Audit within Albania, Public Organizations, *International Journal of Business and Technology*: Vol. 1: Iss. 1, Article 2, DOI: 10.33107/ijbte.2012.1.1.02.
6. Carataş, M. A., Spătariu, E. C. (2018), The Role of Internal Audit in Fighting Corruption, "Ovidius" *University Annals, Economic Sciences Series*, Volume XVIII, Issue 2, pp. 566-569.
7. Dascălu, E.D. (2016), Factors supporting and adequate sizing of internal audit departments in the public sector, *Audit Financiar*, vol. XIV, no. 6(138)/2016, pp. 642-650, DOI: 10.20869/AUDITF/2016/138/642.
8. Drăgan, C. (2018), Internal audit and risk management, *Annals of Constanta Maritime University*, Vol 27 No 223, Section VI - Maritime Economics, Logistics and Social Sciences, pp. 107-110.
9. Dragomir, I.V., Avram M., Domnişoru S. (2016), Considerations Regarding the Contents of Internal Control, *Ovidius University Annals, Series Economic Sciences*. Vol. 16 Issue 1, p. 497-502.
10. Dumitrescu, P.A., (2015), The Romanian Internal Audit System - An X-Ray Analysis of Audit Compartment Activities, *Review of International Comparative Management*, vol. 16(3), pp. 343-353.
11. Fülöp, M.T., Szekely, S.V. (2017), The evolution of the internal auditing function in the context of corporate transparency, *Audit Financiar*, vol. XV, no. 3(147)/2017, pp. 440-450, DOI: 10.20869/AUDITF/2017/147/440.
12. Halili, K., Fino, D., Karapici, V. (2017): External Quality Assessment of Internal Audit in the Albanian Public Sector, Abstract Proceedings of MODAV *International Conferences on Accounting*, edited by Beyhan Marşap and Pınar Okan Gökten, Issue: 1/December 2017, pp.46 – 50, Tirana, Retrived from <http://www.modav.org.tr/images/abstratcs.pdf>
13. Imbrescu, C. M., Peţa C. (2017), Internal Audit: "A Necessary Evil" or A Creator of Added Value?, "Ovidius" *University Annals, Economic Sciences Series*, Volume XVII, Issue 2, pp. 571-575.
14. Ivanova, D., (2019), The professional competence of public sector internal auditors in Bulgaria – opportunities and challenges, *Business Management*, Issue 1, pp. 67-82
15. Jones, K. K., Baskerville R. L., Sriram R. S., Ramesh B., (2017), The impact of legislation on the internal audit function, *Journal of Accounting & Organizational Change*, Vol. 13 Issue: 4, pp.450-470, <https://doi.org/10.1108/JAOC-02-2015-0019>.
16. MacRae, E., Van Gils, D. (2014), Research report: Internal Audit Capabilities and Performance Levels

- in the Public Sector, A Global Assessment Based on IIA's 2010 Global Internal Audit Survey and Internal Audit Capability Model (IA-CM) for the Public Sector, *The Institute of Internal Auditors Research Foundation*, accessed on May 29 2019, available online at:  
<https://www.interniaudit.cz/download/novinky/Internal-Audit-Capabilities-and-Performance-Levels-in-the-Public-Sector.pdf>
17. Macarie C. F., Moldovan O. (2017) Evoluția auditului public intern în perioada 2006-2015. Introducere în IA-CM (Modelul de Măsurare a Capacității Auditului Public Intern, *Revista Transilvană de Științe Administrative* 2(41)/2017, pp.14-33.
  18. Munteanu, V., Zuca, M., Tinta A. (2010), Internal audit regulations in Romania and their convergence to European exigencies, *Annales Universitatis Apulensis Series Oeconomica*, No. 12 /2010, Issue 1, p. 267-273.
  19. Naska, K. et al. (2012), Historiku i Kontrollit të Lartë të Shtetit 1925-2012, *Seria: botime KLSH* - 09/2012.
  20. Stanciu, V. (2018), Public internal audit – the awareness and necessity assumption. An investigation of the Romanian reality, *Audit Financiar*, vol. XVI, no. 4(152)/2018, pp. 544-552, DOI: 10.20869/AUDITF/2018/152/023.
  21. Stanciu, V. and Seria, C. (2019), Insights on the New Coordinates in Internal Audit, *Audit Financiar*, vol. XVII, no. 2(154)/2019, pp. 261-273, DOI: 10.20869/AUDITF/2019/154/009.
  22. Trenerry A. (1999), Principles of Internal Control, Publisher: *University of New South Wales Press*.
  23. Troi, S. M. (2018), The Relation Between Culture, Corporate Governance and the Role of the Internal Auditor, "*Ovidius*" *University Annals, Economic Sciences Series*, Volume XVIII, Issue 2, pp. 702-706
  24. Van Gansberghe C.N. (2005), Internal Auditing in the public sector, Publisher: *Internal Auditor*. Aug 2005, Vol. 62 Issue 4, p. 69 - 73.
  25. Xhani, N., Iliescu, M. A. (2018), Coordination of audit work between the internal and external audit, *Annals of the University of Craiova, Economic Sciences Series*, Vol. 2, Issue 46, pp. 53-60.
  26. Xhani, N., Meçe, I. and Çela, L. (2019). The Necessity to Improve the Internal Audit Framework in Albania: A Comparative Analysis With the Romanian Legislation, edited by Kürşat Ç, Hilal A, İnanç K, *The Third InTraders International Conference on International Trade Abstract Book*, Sakarya, Turkey.
  27. Üç, M., Shehu, D. (2017), The Attitudes of Internal Auditors to Internal Audit Practice in Post-communist Countries - Case of Albania, *Accounting and Finance Research*, Vol. 6, No. 3; pp. 88-93.
  28. \*\*\* IIA, Definition of Internal Auditing, available online at: <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx> [Accessed May 19, 2019].
  29. \*\*\* Law No. 672/2002, on Public Internal Audit with Subsequent Amendments, republished in 2011, Romanian Official Gazette No. 856 from Dec.5, 2011, available online at: [http://discutii.mfinante.ro/static/10/Mfp/audit/lege672\\_mo856\\_en.pdf](http://discutii.mfinante.ro/static/10/Mfp/audit/lege672_mo856_en.pdf) [Accessed May 19, 2019].
  30. \*\*\* Law No. 115/2018, available online at, [accessed May 19, 2019]: [http://discutii.mfinante.ro/static/10/Mfp/audit/legea115\\_06062018.pdf](http://discutii.mfinante.ro/static/10/Mfp/audit/legea115_06062018.pdf)
  31. \*\*\* Internal audit framework in Romania, available online at, [accessed May 19, 2019]: <http://www.mfinante.gov.ro/pagina.html?categoriebunuri=cadru-normativ-ucaapi&pagina=domenii&menu=Ucaapi>
  32. \*\*\* Law No 114/2015, on internal auditing in the public sector, available online at: [https://financa.gov.al/wp-content/uploads/2018/06/Ligji\\_114\\_22.10.2015.pdf](https://financa.gov.al/wp-content/uploads/2018/06/Ligji_114_22.10.2015.pdf) [Accessed May 19, 2019].
  33. \*\*\* Law no. 9720 date 23.04.2007, on internal audit in the public sector
  34. \*\*\* CHUIPA/Ministry of Public Finance, Rapoartele privind activitatea de audit intern din sectorul public din România, available online at [accessed May 19, 2019]:
  35. [http://discutii.mfinante.ro/static/10/Mfp/audit/Rap\\_activ\\_audit\\_intern\\_sect\\_public\\_2017.pdf](http://discutii.mfinante.ro/static/10/Mfp/audit/Rap_activ_audit_intern_sect_public_2017.pdf)
  36. [http://discutii.mfinante.ro/static/10/Mfp/audit/Rap\\_activ\\_audit\\_intern\\_sect\\_public\\_2016.pdf](http://discutii.mfinante.ro/static/10/Mfp/audit/Rap_activ_audit_intern_sect_public_2016.pdf)

37. [http://discutii.mfinante.ro/static/10/Mfp/audit/Rap\\_activ\\_audit\\_intern\\_sect\\_public\\_2015.pdf](http://discutii.mfinante.ro/static/10/Mfp/audit/Rap_activ_audit_intern_sect_public_2015.pdf)
38. \*\*\* General Directorate of Harmonization of Public Internal Financial Control/Ministry of Finance and Economy, Albania, Joint reports for CHU/FMC and CHU/IA, Reports on the functioning of public internal control system in the general government units in Albania, 2010-2017, available online at, [accessed May 19]:
39. <https://financa.gov.al/en/raportet-vjetore/>
40. [https://financa.gov.al/wp-content/uploads/2018/07/Raporti\\_Vjetor\\_i\\_KBFP\\_2017.pdf](https://financa.gov.al/wp-content/uploads/2018/07/Raporti_Vjetor_i_KBFP_2017.pdf)
41. [https://financa.gov.al/wp-content/uploads/2018/06/Raporti\\_PIFC\\_-\\_30\\_05\\_2016-1.pdf](https://financa.gov.al/wp-content/uploads/2018/06/Raporti_PIFC_-_30_05_2016-1.pdf)
42. [https://financa.gov.al/wp-content/uploads/2018/03/Annual\\_PIFC\\_Report\\_2014\\_EN-1.pdf](https://financa.gov.al/wp-content/uploads/2018/03/Annual_PIFC_Report_2014_EN-1.pdf)
43. [https://financa.gov.al/wp-content/uploads/2018/03/Raporti\\_Vjetor\\_i\\_KBFP\\_2013.pdf](https://financa.gov.al/wp-content/uploads/2018/03/Raporti_Vjetor_i_KBFP_2013.pdf)
44. [https://financa.gov.al/wp-content/uploads/2018/03/Annual\\_Report\\_of\\_PIFC\\_2012.pdf](https://financa.gov.al/wp-content/uploads/2018/03/Annual_Report_of_PIFC_2012.pdf)
45. [https://financa.gov.al/wp-content/uploads/2018/03/Annual\\_Report\\_of\\_PIFC\\_2011.pdf](https://financa.gov.al/wp-content/uploads/2018/03/Annual_Report_of_PIFC_2011.pdf)
46. [https://financa.gov.al/wp-content/uploads/2018/03/Annual\\_Report\\_of\\_PIFC\\_2010.pdf](https://financa.gov.al/wp-content/uploads/2018/03/Annual_Report_of_PIFC_2010.pdf)
47. \*\*\* [http://ec.europa.eu/budget/library/biblio/documents/control/brochure\\_pifc\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/control/brochure_pifc_en.pdf)