"THE ROLE OF INTERNAL AUDITING IN THE BANK OF ALBANIA"

Phd(c). Elfrida Taraku
Lecturer at University " Aleksandër Moisiu", Durrës
Business Faculty,
Finance- Accounting Department
itaraku@yahoo.com

Phd(c). Arba Taraku
Lecturer at University " Aleksandër Moisiu", Durrës
Business Faculty,
Department of Marketing,
Department of Tourism
arbataraku@live.com

ABSTRACT

Auditing has ancient origins and has developed in tandem with economic advancements, becoming a vital function in financial institutions. Internal auditing in banks is crucial, as it ensures information integrity, regulatory compliance, and enhances risk management. This study aims to explore the internal audit process specifically within the Bank of Albania, examining its organizational structure and the international standards that guide its practices. These standards, along with various operational manuals, provide a foundation that shapes the internal auditing function, ensuring it meets both national and global expectations for accountability and transparency.
This study delves into several aspects of internal auditing, including the distinct phases of the audit process, the annual audit plan, and the roles and responsibilities of the bank's primary functions. Additionally, it examines how these elements align with the overarching objectives and goals of the Bank of Albania. By investigating these factors, the study seeks to present a comprehensive view of how the Bank of Albania organizes its internal audit function and the extent to which it adheres to global best practices. Ultimately, the findings are expected to shed light on the critical importance of internal auditing in banking, illustrating its role not only in safeguarding the institution's assets but also in upholding the institution's commitment to robust risk management and regulatory adherence.

Keyword: *Internal audit, integrity, risk management.*

I. Introduction
1.1 Introduction

Auditing is a systematic process involving the collection and objective assessment of evidence to evaluate claims about economic activities and events, determining the degree of alignment between these claims and established criteria. This process aims to provide transparency and reliability for interested stakeholders, helping to identify and manage risks and enhancing the efficiency of financial structures.
Since the 1990s, Albania, as a country transitioning from a centralized economy to a free market economy, has undergone deep economic and institutional transformation. This shift created a new demand for independent auditing and advanced control systems to ensure a stable and reliable economic environment. Over the years, Albania has taken significant steps toward international auditing standards, improving its legal and regulatory framework to guarantee the integrity of the auditing process and to enhance the quality of financial reporting.
The objectives of this study are to analyze the historical developments in auditing in Albania, the changes in the legal framework, and how these developments have contributed to creating a stable financial system and a transparent, open market economy.

1.2 Internal Auditing

Internal auditing is a structured process that examines a company's internal controls, including governance and accounting processes. It ensures compliance with laws and regulations, aids in the accuracy of financial reporting, and facilitates timely data collection. Additionally, internal auditing provides management with tools to enhance operational efficiency by identifying and resolving issues before they are noted in an external audit. This function is an independent assurance and advisory activity designed to add value and improve an organization's operations. Internal audits are conducted for various reasons, depending on the organization's level of risk exposure. Some audits are mandated by regulations or policies, while others are requested by senior management. They may be carried out daily, weekly, monthly, or annually, depending on the needs of each department. Some processes, such as production, may require daily quality checks, whereas human resources may be audited annually. Audits may be scheduled, allowing for document preparation, or unannounced if there are suspicions of unethical or illegal behavior.

1.3 History of Internal Auditing

Internal auditing has a long history, dating back to ancient times when it was first used to monitor and verify public transactions and expenditures. However, modern internal auditing began to take shape in the early 20th century with the rise of corporations and the need for effective resource management. The Institute of Internal Auditors (IIA), established in 1941, marked a turning point in the development of internal auditing by setting standards and offering qualifications for professionals in this field.

In recent years, internal auditing has further evolved to include a more strategic approach, focusing not only on financial controls but also on risk management, governance, and organizational performance. Researchers like Mihret and Woldeyohannis (2008)[1] and Arena and Azzone (2009)[2] have contributed to the literature on internal auditing by examining its effects on organizational performance and its role in risk management. They emphasize that today's internal auditing plays a vital role in strengthening internal controls and enhancing transparency.

Over the past decade, scholars such as Abbott, Parker, and Peters (2012)[3] have highlighted the importance of independence and objectivity in internal auditing. Meanwhile, authors like Lenz and Hahn (2015)[4] have explored the role of internal auditing in improving corporate governance and adherence to international standards, noting that modern internal auditing has become a strategic tool that helps organizations improve sustainability and operational efficiency.

Recent studies, such as those by Sarens and De Beelde (2020)[5] and Nganga (2021)[6], indicate that internal auditing serves not only as a control mechanism but also as a means of enhancing organizational culture and resource management. These researchers suggest that internal auditing should integrate risk analysis and innovation to ensure compliance with evolving market and regulatory demands.

The history and development of internal auditing reflect a shift from a purely financial control approach toward a more comprehensive, strategic focus aimed at creating value and improving efficiency in managing modern organizations.

1.4 Types of Internal Audits

Internal audits encompass various types, each with specific purposes and scopes:

1. **Internal Control Audit**: This type assesses the effectiveness of controls implemented by the organization to ensure financial reporting accuracy and fraud prevention. According to COSO[7], internal control is a process created by management, boards, and employees to provide reasonable assurance of achieving organizational objectives. Wong (2013)[8] emphasizes that the effectiveness of internal control directly impacts the accuracy of financial reports and organizational credibility, especially in less regulated sectors. Effective internal control systems improve financial performance by ensuring transparency and accountability (Bedard & Graham, 2013)[9].

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[1] "Value-Added Role of Internal Audit: An Ethiopian Case Study"
[2] "Identifying Organizational Drivers of Internal Audit Effectiveness"
[3] **"The Role of Internal Audit in Corporate Governance: An Empirical Study"**
[4] "Sustainability of Internal Audit: The Impact of Governance and Control Mechanisms"
[5] "The Role of Internal Audit in Managing Organizational Change: An Empirical Study"
[6] "The Contribution of Internal Audit to Corporate Governance in Kenya: A Case of Selected Firms"

[7] COSO (Committee of Sponsoring Organizations of the Treadway Commission)"Framework for internal audit"
[8] "The Effectiveness of Internal Controls in the Nonprofit Sector"
[9] "The Influence of Internal Control on the Financial Performance of Non-Profit Organizations"

2. **Performance Audit**: This focuses on assessing the efficiency and effectiveness of an organization's operations, identifying opportunities for process improvement and optimization. Performance audits are crucial for ensuring that performance measurement systems support organizational strategies (Bourne & Neely, 2003)[10]. In the public sector, performance audits help ensure that taxpayer resources are used effectively and enhance transparency and accountability (Mason, 2014)[11].
3. **Risk Audit**: This type examines risks that could impact the achievement of strategic goals and assists in enhancing risk management practices. Risk audits are essential for identifying potential risks and developing strategies to manage them, serving as a crucial part of risk management in organizations (Arena & Azzone, 2009)[12].
4. **Ethics and Compliance Audit**: This audit evaluates adherence to ethical practices and policies within an organization. An ethics audit helps identify the influence of ethical climate on organizational behavior and overall outcomes (Mayer & Tolli, 2011)[13]. In the banking sector, this audit helps detect weaknesses in corporate culture and reinforces ethical practices (Stevens & Hogg, 2015)[14].
5. **Resource Utilization Audit**: This involves examining the use of financial, human, and material resources to ensure efficiency and appropriateness. Resource audits are critical for performance management, helping organizations understand how to maximize available resources (KPMG, 2016)[15].
6. **Regulatory Compliance Audit**: This audit evaluates whether the organization complies with laws and internal policies, identifying weaknesses and improving practices. Effective regulatory audits ensure the integrity of financial and operational information, supporting stakeholder trust (Pizzini & Raghunandan, 2012)[16]. This type of audit is essential for ensuring adherence to required standards and identifying areas for continuous improvement (Hossain & Hossain, 2019)[17].
7. **Information Technology (IT) Audit**: This audit assesses IT systems and controls to ensure their security, efficiency, and legal compliance. IT audits are essential for evaluating internal control effectiveness and identifying vulnerabilities in information systems (Huang & Ghosh, 2015)[18]. These audits help organizations understand the value of their technology investments and ensure positive outcomes (Kraemer & King, 2006)[19].
8. **Project Audit**: This type focuses on managing and implementing specific projects to ensure they meet objectives and that resources are used according to plan. Project audits provide insights into project performance, identifying risks and opportunities for improvement (Choudhury, 2013)[20].

These internal audit types illustrate how auditing can address various organizational areas, contributing to better risk management, compliance, and overall efficiency across different domains

II. Internal Audit at the Bank of Albania

Internal audit at the Bank of Albania (BoA) is an essential function that ensures compliance with laws and regulatory acts within its operations. This function is carried out by the Control Department, which is responsible for verifying and evaluating the bank's internal control systems by assessing the effectiveness of established controls and procedures[21]. The department's duties include issuing opinions on the adequacy of internal controls in the audited functions and processes, including supporting applications used for operational activities.

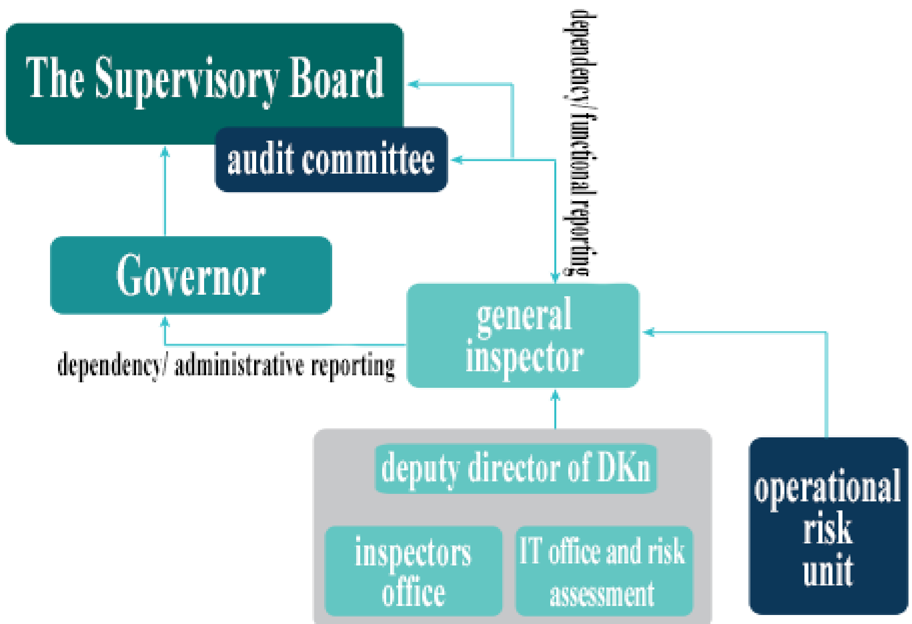
In 2023, the Control Department addressed 28 recommendations arising from 11 audit engagements, focusing on improving internal controls and enhancing operational effectiveness.

2.1 Compliance with International Standards

[10] "Implementing Performance Measurement Systems"
[11] "The Role of Performance Auditing in Enhancing Public Sector Accountability"
[12] "Identifying Risk in the Internal Audit Process".
[13] "The Role of Ethical Climate in the Relationship Between Individual and Organizational Outcomes"
[14] "The Relationship Between Organizational Culture and Ethical Behavior: A Study of the Banking Sector".
[15] "The Future of Performance Management: Building a Better Organization"

[16] "The Role of Internal Auditing in Corporate Governance: A Study of Internal Audit Effectiveness".
[17] "The Impact of Internal Auditing on Compliance with Regulatory Frameworks"
[18] "A Framework for Information Technology Audit and Its Implementation"
[19] "Information Technology and Organizational Performance: An Integrative Model of IT Business Value"
[20] "The Role of Project Auditing in Project Management: An Empirical Study"
[21] Bank of Albania

The Bank of Albania is committed to aligning its internal audit activity with the International Standards for the Professional Practice of Internal Auditing. In 2022, the Control Department revised the Internal Audit Policy to address quality assessment recommendations and align with the latest international standards.
Through these mechanisms, internal audit at the Bank of Albania plays a key role in ensuring the integrity and effectiveness of the bank's operations, contributing to achieving strategic objectives and continuous improvement in internal processes[22]. The figure below illustrates the positioning of internal audit within BoA's structure.
The internal audit function thereby enhances governance, ensures regulatory compliance, and supports risk management, helping the bank achieve its mission and maintain trust with stakeholders.



"Figure 1. Organizational Structure Led by the Inspector General"

2.1 Tasks and Responsibilities of the Internal Audit Unit in the Bank of Albania

1. Director of the Internal Audit Unit: Responsible for ensuring and supervising the application of professional internal auditing principles and standards and evaluating the efficiency of the unit's operations. The director approves the audit tasks programs and the implementation of the unit's annual activity plan. If a decision from management poses a risk to the bank or does not comply with laws, regulations, or internal acts, the director is required to immediately notify the Executive Board and Audit Committee in writing, ensuring that potential issues are addressed in time and supporting the integrity of the bank's operations.
2. Audit Group Manager: In charge of several essential tasks to ensure the efficiency and effectiveness of the internal auditing process at the Bank of Albania, including:
   - Audit Supervision
   - Audit Planning and Management
   - Reporting
   - Performance Evaluation
   -Training and Professional Development
   - Risk Addressing
3. Internal Audit Unit Employees: Play a critical role in ensuring the efficiency and effectiveness of financial and administrative processes. Key responsibilities include:
   - Conducting Audits
   - Reporting
   - Monitoring the Implementation of Recommendations

[22] Woods, M. (2019) "Internal Audit and Risk Management in the Financial Services Sector: A Practical Guide"

- Participation in Training
- Risk Assessment

2.2 Legal Framework for Internal Audit in the Bank of Albania

Regulatory authorities and legislation often establish specific terminology to create local-level laws. The International Professional Practices Framework (IPPF) relies on principles that make it globally applicable and sustainable. The Institute of Internal Auditors (IIA) advocates for legislation and regulations to avoid overly rigid stipulations on the scope or specific agendas of internal audits. Founded in 1941, the IIA is an internationally recognized organization promoting best practices and professional development in internal auditing. It currently serves over 190,000 members from 170+ countries, defining standards for the internal audit profession and supporting certifications and guidelines.

2.3 Legislation for the Bank of Albania

The Bank of Albania operates according to several laws essential for ensuring financial stability and developing the banking system in Albania:

1. Law No. 8269, dated 23.12.1997 "On the Bank of Albania": Establishes the independence of the Bank of Albania as the central bank, defining its objectives and competencies.
2. Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania": Governs the establishment, licensing, organization, and supervision of banks in alignment with European Union directives and Basel Core Principles.
3. Law No. 133, dated 29.04.2013 "On the Payment System": Ensures the stability and efficiency of the national payment system and regulates financial collateral arrangements.
4. Law No. 52, dated 19.05.2016 "On Savings and Loan Associations and Their Unions": Sets out the rules for establishing and supervising savings and loan associations.
5.Law No. 133/2016 "On Bank Recovery and Resolution": Provides the Bank of Albania with legal tools to intervene in banks facing financial difficulties, ensuring their continued operation and minimizing economic impact.

2.4 International Professional Practices Framework (IPPF)

2.4.1 Independence and Objectivity in Internal Auditing

Independence and objectivity are fundamental principles in internal auditing, as emphasized by the International Professional Practices Framework (IPPF). The Institute of Internal Auditors (IIA) recommends that legislation specify that audit activities must be independent and objective to ensure the integrity of the process.

2.4.2 Independence

Independence refers to auditors' ability to perform their duties without external influence. This is best achieved when auditors have a direct reporting line to governance bodies and are sufficiently resourced. This ensures that they can operate free from conflicts of interest and undue pressure.

2.4.3 Objectivity

Objectivity means the absence of bias and involves collecting and evaluating information impartially. Auditors must maintain a neutral stance and ensure that personal interests do not affect their decision-making processes. This impartiality is crucial for maintaining the trust of stakeholders in the audit process.

2.4.4 Compliance with IPPF

The IIA recommends that internal audit activities align with the mandatory elements of the IPPF to ensure a high level of professionalism. This includes applying practices and rules that aid in risk management and enhance the effectiveness of the audit process.

2.4.5 Role of Audit Committees

A designated audit committee oversees internal audit activities, ensuring they are independent and effective. This committee is responsible for approving the audit charter, the audit plan, and the necessary budget. Their oversight is vital for maintaining the integrity and effectiveness of the internal audit function.

2.4.6 Code of Ethics

The Code of Ethics outlines principles and rules of conduct for internal auditors, including integrity, objectivity, confidentiality, and competence. This code is essential for fostering an ethical culture within the auditing profession and ensuring that auditors adhere to high ethical standards in their work.

For more detailed information, you can refer to resources provided by the Institute of Internal Auditors (IIA).

2.5 Key Stages in Developing the Strategic Plan

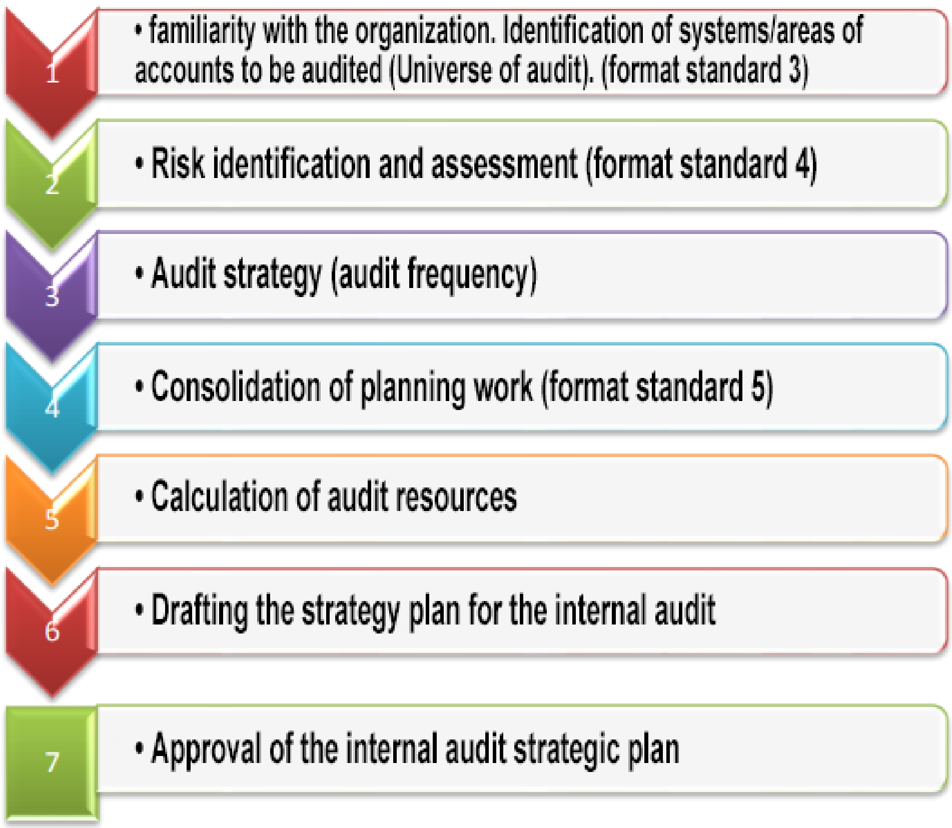


Figure 2: Phases of Strategic Plan Development

2.5.1 Understanding the Organization

Understanding the organization is a crucial step in the strategic planning process for internal auditing, especially in the context of the Bank of Albania. This understanding encompasses several phases:

1. Analysis of Organizational Structure: Familiarizing oneself with the organization's structure, including key positions and the functions of each department, is essential for understanding the flow of information and the division of responsibilities. This helps auditors identify potential risks and prioritize their auditing activities.
2. Assessment of the Work Environment: Understanding the organizational culture and work environment aids in identifying factors that influence control effectiveness and employee behavior. A robust environment fosters integrity and accountability.
3. Identification of Core Processes: Auditors need to understand the bank's core processes, such as risk management, procurement, and financial reporting. This is necessary to determine which areas require special attention during audits.
4. Risk Assessment: Knowing the potential risks associated with the bank's activities assists in strategically planning audits. This includes financial, operational, and compliance risks.
5. Improvement of Communication: Familiarity with the organization helps auditors build strong relationships with management and ensure effective communication, which is critical for successful audits.

2.5.2 Risk Identification and Assessment

The purpose of risk assessment in internal auditing is to identify and prioritize the highest risks facing the organization. The risk assessment methodology serves as the foundation for auditing activities and should include:

- Definition of Risk Categories: Identifying the types of risks to be assessed.
- Risk Criteria: Determining the impact and likelihood of each risk.
- Risk Classification: Classifying risks as high, medium, or low based on specific situations.

Risk categories should be identified, and results from other assessments within the organization should be considered. Engaging senior management is also necessary, preferably through interviews or workshops. In conclusion, risks will be ranked by priority to form the basis of the annual audit plan.

Types of Risks

- Institutional Risk: Affects the institution's activities and includes factors such as economic climate, technology changes, transaction complexity, and geographical location.
- Financial Reporting Risk: Relates to transaction recording and involves factors such as transaction complexity, management competency, response to errors, human error, and inadequate internal controls.
- Audit Risk: The risk that auditors may produce inaccurate reports or fail to identify errors in financial statements.

2.5.3 Audit Strategy

The Chief Audit Executive is responsible for creating a long-term strategic plan for internal auditing, typically spanning 3 to 5 years. This plan should include strategic objectives closely tied to the organization's goals, while also considering senior management's priorities. A good practice is to ensure that achievements in these objectives can be measured. It is necessary to obtain approval of these objectives from senior management and the audit committee. The strategic plan will be updated annually to reflect changes and organizational needs.

2.5.4 Consolidation of Planning Efforts

The results of the second phase should be discussed with unit management to help determine priorities in other areas of the audit field. Collaboration with other audit service providers is essential for internal auditors to evaluate control systems and plan their work to manage risks, avoiding overlaps in planning. After these discussions, auditors should connect and consolidate their planning efforts by building an overview of the topics and areas of account that will be audited and prioritized in the strategic plan.

2.5.5 Calculation of Audit Resources

The planned time for conducting audit activities and achieving established objectives each year is limited by the available resources of the Internal Audit Unit (IAU). The IAU leader determines the necessary days for each year based on these resources and assesses personnel requirements for auditing. Additionally, the complexity of the area or system must be considered, as simpler systems require less time than more complex ones. After this analysis, the audit unit leader calculates the necessary days to implement the strategic plan and drafts a request for the human resources needed to carry out the audit activities.

2.5.6 Drafting the Internal Audit Strategic Plan

This phase involves gathering information about the unit and its accounting systems to prepare the strategic plan. During strategic level planning, auditors have the opportunity to review each system at least once every three years. Alternatively, they may choose to audit different aspects of an accounting area over a multi-year period. This approach helps identify risks and opportunities for improvement, ensuring comprehensive and effective coverage of audit activities.

2.5.7 Approval of the Internal Audit Strategic Plan

The approval of the Internal Audit Strategic Plan of the Bank of Albania involves several important steps:

1. Discussion with Management: The plan should be discussed in advance with the management of the public unit to ensure a shared understanding of objectives and priorities.
2. Evaluation by the Audit Committee: In units where an Internal Audit Committee has been established, the strategic plan must undergo an evaluation process by this committee to ensure that the unit's resources are sufficient to support audit activities.
3. Approval by the Unit Director: In cases where there is no established Audit Committee, the unit director is responsible for approving the strategic plan.

This process helps ensure good coordination between management and internal auditing, as well as ensures that the audit plan reflects the organization’s priorities.

2.6 Annual Audit Plan

The annual audit plan of the Bank of Albania specifies the details of the Internal Audit activities for the fiscal year. The drafting of this plan occurs after the completion of the strategic audit plan, and the Chief Audit Executive is responsible for developing it in accordance with the risk assessment.

Key Aspects of the Annual Plan:

- Assessment of Required Days: The necessary days for auditing each object will be calculated, taking into account the availability of resources to prioritize activities.
- Unplanned Audits: A certain number of days will be reserved for unplanned audits based on past experiences.

- Costs: Additional costs for travel and external resources will be evaluated to prepare the budget.

This structured approach ensures that the internal audit function is effectively aligned with the organization's objectives and risk landscape, allowing for responsive and proactive auditing practices.

2.7 Annual Report of the Internal Audit Unit

Presentation: The director of the unit must present the report on the work carried out by relevant bodies, such as the Executive Board and the Audit Committee.

Report Elements:

- **Implementation of the Annual Plan**: An overview of how well the audit plan was executed.
- **List of Planned and Completed Activities**: Details on what was initially planned versus what was actually carried out.
- **Unplanned Activities and Reasons for Non-Completion**: Insights into activities that were not completed and the rationale behind them.
- **Key Findings from Audits**: Highlighting significant results and observations from the audits conducted.
- **Assessment of the Internal Control System and Risk Management**: Evaluating the effectiveness of existing control measures and risk management strategies.
- **Measures for Implementing Recommendations**: Strategies and actions taken to address the findings and recommendations made during audits.

Once prepared, the annual plan will be presented for approval by senior management and the audit committee. Revisions to the plan may occur throughout the year if priorities shift due to risk factors or urgent requirements.

2.8 Techniques of Internal Auditing

Various internal auditing techniques, including their strengths and weaknesses, should be briefly described in the internal audit manual. These techniques may include:

- **Verification**: Ensuring the accuracy of records and processes.
- **Recalculation**: Confirming numerical data through re-computation.
- **Observation**: Watching processes to ensure compliance and effectiveness.
- **Interviewing**: Engaging with staff to gain insights into processes and controls.
- **Questionnaires**: Gathering structured feedback from employees.
- **Checklists**: Using predefined lists to ensure all audit areas are covered.
- **Sampling**: Analyzing a subset of data to draw conclusions about the whole.
- **Control Testing**: Evaluating the effectiveness of control mechanisms.
- **Substantive Testing**: Directly testing transactions to verify validity.
- **Analytical Procedures**: Using data analysis to identify trends and anomalies.
- **Follow-Up Testing**: Verifying that previously identified issues have been resolved.

2.9 Reporting

2.9.1 Draft Report

The auditor will prepare a preliminary report for comments from the audited parties, following an agreed format between both sides. Accurate phrasing is crucial for the acceptance of the report, as audited parties aim to maintain a positive image within the organization. A good conclusion will enhance the acceptability of the draft report, and it is important that the right individuals attend the closing meeting. The negotiation process between the draft and the final report often delays auditing, so it is advisable to negotiate the delivery timeline with senior management, as outlined in the reporting manual.

In case of disagreements regarding the report:

- If the auditor is correct, the report should be revised.
- If the audited party has concerns, the auditor should address them.
- If disagreements persist, the audited party's comments should be included in the report, along with explanations of the disagreements.
- If the comments are not significant, the auditor should provide clarifications, even if this may not be favored by the audited party.

2.9.2 Final Report

The internal audit report should indicate that the findings are genuine issues requiring attention, presenting them as management concerns rather than merely audit problems. While auditors often focus on findings, it is important to provide a balanced view of the control processes within the organization. If the audit identifies issues and initiates corrective actions, this should be reflected in the report.

Using a scoring system can assist in assessing the state of controls, but auditors must be cautious not to concentrate solely on scores. If management requests a scoring system, it should consist of four levels (low, moderate, high, and significant). The key message should be whether the organization is under control.

The audit manual specifies the report's recipients, ensuring that those who can act on the findings receive the information. Reports will be read by various individuals, so an executive summary is recommended for senior management and the audit committee, along with detailed information for operational management.

Finally, reports should include practical recommendations for improvement, making them useful for management rather than merely theoretical. Attaching an action sheet with specific deadlines is a good practice to ensure the implementation of recommendations.

3. Analysis of the Annual Internal Audit Plans of the Bank of Albania

In this chapter, we will analyze the annual internal audit plans for the Bank of Albania, specifically focusing on the plan for the year 2023. The analysis is based on a review of the bank's activities during the year and the data related to internal auditing.

Key Elements of the Annual Internal Audit Plan for 2023

1. **Focus on Risk**:
    - The annual plan is structured to concentrate on high-risk areas identified during previous risk assessments. This includes sectors related to financial management, operations, and information security.
2. **Audit Priorities**:
    - The audit activities encompass controls in internal control systems, risk management, and the evaluation of the effectiveness of internal policies. There is a strong emphasis on ensuring transparency and compliance with international standards.
3. **Reporting and Communication**:
    - A critical aspect of the plan is communication with management and other bank bodies. This includes preparing regular reports to inform management about findings and auditor recommendations.
4. **Skills and Training**:
    - Another focus is on developing the capacities of internal auditors through ongoing training and improvements to auditing practices.
5. **Response to Feedback**:
    - The plan includes provisions for considering comments and suggestions from audited parties to ensure that the audit process is constructive and contributes to the bank’s performance enhancement.

Evaluation of the Plan

- **Strengths**:
    - The focus on risk ensures that auditing resources are utilized effectively, addressing the most critical issues.
    - The clear reporting structure helps ensure transparency and accountability.
- **Weaknesses**:
    - Potential changes in audit priorities throughout the year could affect the plan's implementation. It is essential to review the plan according to emerging conditions.
    - There is a risk of overload for auditors due to the high number of planned activities.

Conclusion

The annual internal audit plan for the Bank of Albania for 2023 is an important document that assists in improving processes and managing risks. A structured and risk-focused approach is essential for ensuring sustainable and reliable performance of the bank.

4. Comparison with the Internal Audit of the Bank of Spain

This chapter provides an overview of internal auditing at the Bank of Spain and compares it with the Bank of Albania, including legislative and structural aspects.

4.1 Internal Audit at the Bank of Spain

Internal auditing at the Bank of Spain aims to assess the effectiveness and adequacy of systems and procedures for managing and controlling risks. The Internal Audit Department is responsible for this activity and reports directly to the Governor. It also supports the Audit Committee of the Board of Directors. Key audit activities include:

- Auditing the bank’s annual accounts.
- Evaluating security systems for automated information.

- Auditing the central credit register.
- Supporting the bank's operations in the TARGET2 systems.

The auditing principles include objectivity, impartiality, confidentiality, and avoidance of conflicts of interest, based on the approved Internal Audit Manual.

4.2 Legal Aspects

As a member of the European Union, the Bank of Spain adheres to the common laws and regulations established for central banks in the EU. It has the status of a public institution and operates autonomously from the administration, performing its functions in accordance with applicable legislation.

A significant part of the legislation includes Law 30/1992, which defines the legal status of public administration, helping to outline the structures and processes of auditing.

Comparison with the Bank of Albania

- **Organizational Structure**: Both banks have a dedicated department for internal auditing, but the Bank of Spain has a more direct connection with higher bodies such as the Governor and the Audit Committee.
- **Legislation**: The Bank of Spain operates under a clear European legal framework, while the Bank of Albania follows national legislation, which has some differences that influence the operation of internal auditing.

Conclusion

Internal auditing at the Bank of Spain is structured and supported by a strong legal framework, while the Bank of Albania is developing its processes amid various challenges. These differences provide opportunities for learning and improving auditing practices in Albania.

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5. Conclusions and Results

1. **Necessity of Internal Auditing**: Internal auditing is essential for any bank, providing reasonable assurance to the Audit Committee and the Board of Directors regarding the effectiveness of the internal control system and risk management.
2. **Compliance with Law**: The audit function assesses compliance with laws and regulations, preventing deviations from the legal framework and protecting the bank's reputation.
3. **Assessment of Capital and Risks**: Internal auditing aids in assessing capital adequacy and coverage of key risks, contributing to financial health and stability.
4. **Broad Focus**: Auditing encompasses all operational aspects within the bank.
5. **International Standards**: All international standards require auditors to possess sufficient knowledge to evaluate fraud risks and act in accordance with ethical standards.
6. **Compliance with International Standards**: The Bank of Albania follows international auditing standards and has manuals for IT and internal auditing standards.
7. **Continuous Improvement**: The Bank of Albania has shown improvement year-on-year by training staff and meeting external lending requirements.
8. **Risk Management**: From 2017 to 2024, a risk management group has been established to operate carefully.
9. **Compliance with International Standards**: The Bank of Albania operates in compliance with international standards, ensuring proper risk management and effective internal auditing.

This analysis underscores the importance of continuous improvement in internal auditing practices, as both banks strive for high-quality internal audits to effectively manage risks.

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