

CFRR

Centre for Financial
Reporting Reform



WORLD BANK GROUP



THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

Report on the Observance of Standards
and Codes on Accounting and Auditing



Update

Albania

July 2019

Report No:

This report was prepared for the Albanian Government, Ministry of Finance and Economy by the World Bank Governance Global Practice under the Enhancing Quality of Financial Reporting (EQFinRep) project funded by the Swiss State Secretariat for Economic Affairs (SECO).

Standard Disclaimer:

This volume is a product of the staff of the International Bank for Reconstruction and Development/ The World Bank. The findings, interpretations, and conclusions expressed in this paper do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Copyright Statement:

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The International Bank for Reconstruction and Development/ The World Bank encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

For permission to photocopy or reprint any part of this work, please send a request with complete information to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, USA, telephone 978-750-8400, fax 978-750-4470, <http://www.copyright.com/>.

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, The World Bank, 1818 H Street NW, Washington, DC 20433, USA, fax 202-522-2422, e-mail pubrights@worldbank.org.

CONTENTS

Abbreviations and Acronyms	iii
Executive Summary	1
Background	1
Development of the Corporate Financial Reporting Framework since the Last Report	2
Key Policy and Institutional Recommendations	4
 I. INTRODUCTION	 10
Country Background	10
Linkage of this Report to Albania's Country Agenda	11
 II. ASSESSMENT	 13
Accounting & Auditing Standards	13
 III. INSTITUTIONAL FRAMEWORK FOR CORPORATE FINANCIAL REPORTING	 16
General Financial Reporting Requirements	16
Listed companies	20
Banking sector	20
Insurance sector	29
Investment Funds sector	34
Micro, Small, and Medium-sized Enterprises	41
State-owned Enterprises	44
The Accountancy Profession	50
Professional Education and Training	54
Setting Accounting Standards	57
Setting Auditing Standards	60
Audit regulation, quality assurance, and public oversight	61
 IV. OBSERVED FINANCIAL REPORTING PRACTICES AND PERCEPTIONS	 69
Financial statements review	69
Perceptions	72

Compliance with auditing standards	73
V. POLICY AND INSTITUTIONAL RECOMMENDATIONS.....	76
Finalize and Adopt the Updated Country Action Plan	76
Alignment of Legislative and Regulatory Framework.....	76
Improve Institutional Arrangements	78
Strengthen Alignment with International Standards	78
Strengthen the Professional Associations	79
Strengthen Accountancy Education and Training	80
Strengthen Audit Oversight and Quality Assurance	80
Strengthen Audit Profession	81
Strengthen Monitoring and Enforcement	82
Other Recommendation	83
Summary of progress on ROSC 2006 recommendations	87
Summary of progress on FSAP Technical Note 2014 recommendations	103
 Annex 1: Key Albanian Accounting and Auditing Legislation	 104

ABBREVIATIONS AND ACRONYMS

AAFEA	Association of Accountants and Finance Experts
ACA	Association of Certified Accountants
ACCA	Association of Chartered Certified Accountants
AFSA	Albania Financial Supervisory Authority
ALSE	Albanian Securities Exchange
BOA	Central Bank of Albania
CAP	Country Action Plan
CFREP	Corporate Financial Reporting Enhancement Project
CPA	Certified Public Accountant accredited by the American Institute of Certified Public Accountants
CPD	Continuous Professional Development
EQ FINREP	The World Bank Enhancing Quality of Financial Reporting Project
EU	European Union
FRM	Financial Reporting Manual
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IEKA	Albania Institute of Certified Public Accountants
IES	International Education Standards
IESBA	International Ethics Standard Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IKM	Albania Institute of Certified Accountants
ISA	International Standards on Auditing
ISQC	International Standard of Quality Control
LEK	Albanian lek (currency)
MSME	Micro, Small, and Medium-Sized Enterprises
NAC	National Accounting Council
NAS	National Accounting Standards

NBC	National Business Center
NGO	Nonprofit Organization
PAO	Professional Accountancy Organization
POB	Public Oversight Board
PIE	Public Interest Entities
ROSC A&A	Report on the Observance of Standards and Codes, Accounting & Auditing
SAI	State Audit Institution
SME	Small and Medium-Sized Enterprises
SMO	IFAC Statement of Membership Obligations
SOE	State-Owned Enterprise
SRU	Unified Reporting System used by the BOA
USD	US Dollars (currency)

EXECUTIVE SUMMARY

BACKGROUND

Albania's remarkable economic transformation has been affected by the global financial crisis. The country's main challenges include maintaining macro-fiscal and financial sector sustainability, improving the investment climate and unleashing private sector growth, removing barriers to employment for job creation, and improving governance and public service delivery¹. Improving the business climate and addressing gaps in infrastructure and labor force skills are necessary to reap the early benefits of European Union (EU) accession and make Albania attractive for foreign direct investments².

This Report on the Observance of Standards and Codes in Accounting and Auditing (ROSC A&A) seeks to assist with the further development of the financial reporting institutional framework in Albania. It aims to improve understanding of the importance of a high-quality system for corporate financial reporting and auditing. It highlights the direct linkages to enhanced corporate governance and accountability through increased transparency and disclosure. High quality financial reporting contributes to promoting private sector growth by allowing investors to evaluate corporate prospects and make informed investment decisions, thus contributing to attract foreign direct investment. The strengthening corporate financial reporting and auditing agenda is aligned with the National Strategy for Development and Integration 2015-2020 that is anchored on improving good governance as the foundation of the country's vision.

This assessment was conducted at the request of the Government of Albania³. The data and information used for the review were gathered from the ROSC A&A 2.0 diagnostic questionnaire completed by the stakeholders; by reviewing related documents; and through interviews with main stakeholders from the regulators, professional accountancy organizations, auditing firms, sole practitioners, banks, and academia. The report updates progress since the previous 2006 ROSC A&A and the 2014 Financial Sector Assessment Program (FSAP) Technical Note⁴. It summarizes key findings, identifies gaps, and makes recommendations for consideration by the authorities to improve alignment with international standards and good practice.

¹ The World Bank in Albania Country Snapshot,
<http://pubdocs.worldbank.org/en/555781555015319241/Albania-Snapshot-Apr2019.pdf>

² <https://www.worldbank.org/en/country/albania/overview>

³ This assessment and report were prepared in the period from November 2018 to May 2019. Some of the stated future actions or planned changes may have been achieved by publication date.

⁴ Albania FSAP Corporate Sector Financial Reporting Technical Note, February 2014
<https://openknowledge.worldbank.org/bitstream/handle/10986/19294/892470FSAP0P1400Box385275B00Public0.pdf?sequence=1&isAllowed=y>

DEVELOPMENT OF THE CORPORATE FINANCIAL REPORTING FRAMEWORK SINCE THE LAST REPORT

The Government of Albania formulated a Country Action Plan to Enhance Corporate Financial Reporting in Albania (CAP) in 2008. The CAP takes a three-phase approach; in the first two phases, there was a focus on the implementation of the 2006 ROSC A&A recommendations under the Corporate Financial Reporting Enhancement Project (CFREP), now complete, and Enhancing the Quality of Financial Reporting Project (EQ FINREP), ongoing, both funded by the Swiss State Secretariat for Economic Affairs (SECO). The third phase will seek to consolidate earlier achievements and to complete implementation of the remaining activities under the CAP focused on further institutional capacity development and strengthening risk based supervision. Some of the recommendations have been addressed, while others have only been partially addressed. The progress on ROSC recommendations is provided in the following paragraphs⁵.

The Government of Albania promulgated a new Law on Accounting and Financial Statements⁶ ("Accounting Law") in 2018 and amended the 2009 Law on Statutory Audit and Organization of the Accountancy Profession 10091/2009 in 2016⁷ ("Audit Law") which further advanced compliance with the EU Accounting Directive⁸, Audit Directive, and Audit Regulation⁹. These laws underpin the corporate financial reporting framework in the country and clearly defined financial reporting and audit requirements based on classification of entities¹⁰. The Albanian authorities are committed to full convergence with International Financial Reporting Standards (IFRS). The Accounting Law requires public interest entities (PIEs) and their regulators operating in the field of credit and insurance to prepare their financial statements following IFRS, while micro, small, and medium-sized enterprises (MSMEs) apply National Accounting Standards (NAS). The Law allows the voluntary application of IFRS. However, the Bank of Albania (BOA) has deferred implementation of IFRS by banks for regulatory purposes for at least another two years and still requires prudential reporting from the banking sector. Banking legislation requires banks to prepare their financial statements in accordance with the Financial Reporting Manual (FRM), which was based on the 1998 IFRS. Banks which are subsidiaries of international banks prepare an additional set of financial statements based on IFRS for their shareholders and public use.

⁵ Details are provided in Section V "Summary of progress on 2006 ROSC recommendations"

⁶ Law on Accounting and Financial Statements 25/2018

⁷ Law on Statutory Audit and Organization of the Accountancy Profession 10091/2009 as amended by law 47/2016

⁸ 2013/34/EU https://ec.europa.eu/info/law/accounting-rules-directive-2013-34-eu_en

⁹ 2014/56/EU & 537/2014/EU <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32014R0537>
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0056>

¹⁰ The criteria for the classification of enterprises and groups for financial reporting purposes will be increased every three years to fully achieved the criteria determined in the respective legislation of the EU by the year 2028.

The Albanian Financial Supervisory Authority (AFSA) has improved its prudential reporting framework and does not require a separate prudential report for insurance companies. AFSA has a five year strategy for the development of markets under its supervision, including the emerging investment funds sector, that will further strengthen its prudential reporting.

All state-owned enterprises (SOEs) are required to prepare financial statements in accordance with the Accounting Law either based on IFRS or NAS determined by their size. With Council of Ministers' decision 17/2019 on PIEs criteria, SOEs that were required to be audited are now classified as PIEs. Existing SOE monitoring and disclosure requirements are insufficiently developed and poorly integrated into the Government's overall budgeting and fiscal sustainability strategy and, even where already legally established, are often not enforced. Strengthened corporate governance arrangements and transparency are crucial elements to improve accountability of public funding utilized in SOEs.

The IFRS translation process has improved with the support of CFREP and the NAS is substantially aligned with 2009 IFRS for SMEs. The Audit Law stipulates use of International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB), but official translation and publication of ISAs have not been done systematically. Ethical requirements for accountants and auditors in Albania are based on 2015 International Ethics Standard Board for Accountants (IESBA) Code of Ethics. The translation of 2016 IESBA Code of Ethics has not been done.

The Public Oversight Body (POB) was established in 2009 following the enactment of the Audit Law as a regulatory authority and is responsible for accounting and auditing profession oversight. The amendment of the Audit Law in 2016 further strengthened the POB position and enhanced its investigation, disciplinary, and quality assurance functions of the audit profession, as well as ensuring that the POB is independent of the auditing and accounting profession. The POB is currently focused on conducting quality assurance to auditors of PIEs and strengthening its capacity to conduct more effective oversight. The POB aims to have active cooperation with relevant regulators and stakeholders to coordinate oversight activity and improve the quality of audits.

The Audit Law acknowledges the Albanian Institute of Certified Public Accountants (IEKA) as the only professional association of statutory auditors. This law also regulates the accountancy profession, which is not required by the EU Audit Directive. The Audit Law does not specify a professional accountancy organization (PAO) but defines the minimum criteria requirements of such organizations. There are three existing PAOs, the Institute of Certified Accountants (IKM), the Association of Accountants and Finance Experts of Albania (AAFEA), and the Association of Certified Accountants (ACA). Of these three, only IKM follows the International Federation of Accountants (IFAC) benchmark of obligations and standards and is on the path to becoming a full IFAC Member, after becoming an Associate Member in 2012. The POB recently issued a regulation concerning the certified accountant profession and its

associations as part of its PAO oversight strategy, to verify those designated as certified accountants and regulate their continuous professional development (CPD) arrangements.

With the support of the EQ FINREP, curricula in leading universities in Tirana, as well as the professional training program for aspiring accountants and auditors, are now following IFAC's International Education Standards (IES). The international standards are being included in university learning materials. Pathways to becoming accountants and practicing auditors are clear. The Professional Skills Examination Commission was established in March 2018 to organize the final examination to become a Certified Accountant or Statutory Auditor. The IEKA is responsible for developing curricula based on IES for the preparation and professional training of candidates seeking to enter the audit profession. It organizes and monitors the training process.

The revised legislation requires the publication of company financial information as required by EU legislation. With the support of EQ FINREP, the National Business Center (NBC) has improved its hardware technology, which allows its system to support the filing and publication of financial information.

KEY POLICY AND INSTITUTIONAL RECOMMENDATIONS

The following recommendations are discussed in more detail in Section V.

Finalize and Adopt the Updated CAP

The updated CAP is needed to complete Albania's compliance with the *acquis communautaire*¹¹ relating to company law, financial reporting, auditing, financial market, and financial institutions. It should contain an extended reform agenda until 2023, setting out an updated strategy and action plan with a clear program of further reforms to enhance Albania's legal framework, institutions, accounting and audit profession, and the corporate financial sector in general.

Align the Legislative and Regulatory Framework

Albania has made good progress in developing the statutory framework for corporate financial reporting in recent years with amendment of the Audit Law in 2016 and enactment of the new Accounting Law in 2018. The Government should continue to work to close the

¹¹ The entire body of European Union laws is known, collectively, as the *acquis communautaire*. The term is most often used in connection with preparations by accession countries to join the European Union. They must adopt, implement, and enforce all parts of the *acquis* to be allowed to join the European Union. The *acquis communautaire* includes all primary legislation (treaties), secondary legislation (Regulations, Directives etc.) and case law (judgments of the European Court of Justice and European Court of First Instance).

gaps and converge its corporate financial reporting statutory framework with the EU legislation. Some examples of existing gaps noted during this assessment are discussed below.

The Audit Law allows auditors to offer other services to their PIEs audit clients, to the extent that no third party perceives any independence breaches. It would be beneficial to ensure the independence of the auditors by including the prohibited non-audit services to PIEs audit clients in the law, as stipulated in the EU Audit Directive¹².

Commercial banks are required to prepare financial statements based on two different frameworks, i.e. IFRS for annual general financial statements as required by the new Accounting Law for PIEs and the FRM for prudential purposes as required by the Banking Law. The FRM is based on obsolete IFRS and needs to be updated in accordance with the latest IFRS. The BOA needs to establish a framework to reconcile the two for prudential reporting requirements. Reconciliation tools would be useful to assist with the BOA oversight function that required prudential reporting, while also supporting general-purpose financial reporting compliance with IFRS.

The legal framework on audit committee requirements needs to be further harmonized with the EU. The Companies Law and the Audit Law conform with the EU Audit Directive that the audit committee shall be independent of the audited entity. However, the Insurance Law seems to limit selection of audit committee members to members of the administrative/supervisory board with no requirement for independent members. Furthermore, the audit committee requirements in the Banking Law and Audit Law need to be aligned to ensure a balance of expertise among committee members. The Banking Law requires that all members of the audit committee have expertise in accounting and auditing, resulting in the committee lacking other expertise. The Audit Law requires at least one committee member with such knowledge.

The Government needs to reconsider the criteria for PIEs established in Council of Ministers Decision 17/2019 to focus on entities that have a significant impact on the economy. The Decision increased the number of entities that are considered PIEs, but these are not necessarily all significant to the economy. The Government needs to consider fully aligning the definition of PIEs with the EU Directives; in which PIEs mean listed companies, banks, insurance companies and other entities that have significant public relevant because of nature of their business, their size or the number of their employees.¹³ The entities considered as PIEs should apply IFRS.

The Income Tax Law requires amendment to improve harmonization of the tax framework with accounting, auditing, and financial reporting legislation. Non-PIEs should be encouraged to apply NAS to prepare their financial reports. Enhancing the financial reporting of non-PIEs leads to greater investor confidence, better decision making, and more accurate taxation

¹² Article 5(1)

¹³ EU Accounting Directive Article 2 (1) and EU Audit Directive Article 2 (13)

assessment. The Tax Law should be amended to allow the Tax Office to apply reconciliation tools developed under EQ FINREP to use financial reports prepared using NAS for taxation purposes.

Improve Institutional Arrangements

There is still confusion within the audit profession about the POB and the IEKA mandates and responsibilities related to quality assurance review and the statutory auditor registration process. Outreach to the profession will help improve understandings of their roles in accordance with the amended Audit Law. The flow of information between the audit profession and the POB and the IEKA needs to be improved. There should be a single channel through which audit information can be submitted for use by the POB and the IEKA in accordance with their mandates.

Align with International Standards

The official translation of the latest full sets of ISAs is not available. Although the law requires that the translation and publication of new and revised ISAs should be done on a timely basis, there is no process in place to ensure this happens in practice. The translation and publication of new and revised ISAs should be undertaken on a timely basis, in accordance with the law, and made widely available to stakeholders.

IEKA, as the leading organization responsible for the translation of IESBA Code of Ethics, should adopt and publish the revised and restructured IESBA Code, which became effective in June 2019. The new Code has introduced substantive changes. It is important that the latest standards of ethical conduct are applicable to all members of the profession.

Strengthen the Professional Associations

The amended Audit Law requires that PAOs comply with IFAC requirements. With EQ FINREP support, the POB has prepared an action plan and roadmap for the development of the PAOs. Merging the three accounting profession institutions may be considered as an option. A merger would facilitate the establishment of appropriate education, qualification, and CPD systems to support high quality service delivery by accountants. The revised IES (2015) should be fully incorporated into initial professional development (IPD) and CPD requirements for professional accountants in Albania. The accountant profession as members of the PAOs should comply with the profession Code of Ethics and fulfill CPD requirements.

The PAOs should establish a system for the monitoring and recording of certified accountant candidates' fulfillment of professional experience requirements. The PAOs may need to develop a mechanism to have a list of "approved employers" who can provide the appropriate experience. Candidates should regularly submit written details to the PAOs of their practical

experience gained. These claims should be validated by the approved employers where the work experience was undertaken.

Strengthen Accountancy Education and Training

Maintaining a low teacher-student ratio may become an issue in the longer term due to a lack of people entering the teaching profession. This is mainly due to unattractive salary packages and lack of support in keeping knowledge and teaching materials updated. The Government might want to consider ensuring that the professional and personal conditions of teaching, remuneration, and additional incentives continue to encourage high-quality individuals to teach accountancy.

The Ministry of Finance and Economy may want to consider reducing the minimum education requirement of a candidate from a master's degree to a bachelor's degree, in accordance with EU legislation.

There is a need to create a database of teaching materials for lecturers through PAOs. Currently, lecturers often use their own resources to update the teaching materials to keep pace with international standards. PAOs can enter into agreements with leading providers of professional accounting and auditing education to use and translate high-quality textbooks and study materials. The database can also be used to prepare study materials and mock exams for the candidates. The IEKA has a contract with one of the foreign training providers to use Association of Chartered Certified Accountants (ACCA) study materials with support from EQ FINREP. The IEKA needs to expedite the translation process to make the materials available for students.

Strengthen the Audit Oversight and Quality Assurance

The POB should continue to strengthen its role as the audit regulator, maintaining its independence from the profession, ensuring an adequate legal framework and authority to supervise the profession, adequate staffing, and sufficient and stable funding. In accordance with the Audit Law, the POB is established with the status of an independent regulatory authority and therefore should be independent from undue influence.

The requirement that practicing auditors must have a three year cooling off period before performing quality assurance for a statutory auditor/audit firm that they previously associated with may limit the recruitment of staff with senior level audit experience and expertise. One option is to hire external expertise for some reviews and in order to gain specific industry knowledge and experience. For the longer term, the POB needs to provide adequate training to enrich inspectors' knowledge and maintain good quality review.

As the POB is still at an early stage it may not be able to generate adequate funds itself and may instead have to rely on some public funding. If the funding is not readily available,

activities like training for inspectors may be delayed. There is a need for effective planning on the use of the funding available for the POB to attract and retain an adequate number of experienced and knowledgeable inspectors and deliver regular training for them.

The POB needs to take measures to improve wider perceptions of the benefit of high quality audit to address auditors' concerns about the trend of low audit fees in the country. The POB can conduct stakeholder workshops and information sessions, including attendance by companies' audit committees, to build awareness of the risk of low audit fees. Through its inspections, the POB has started to identify issues with audit quality. When the POB is fully functional, its rigorous inspections will help further identify underlying issues with the audit quality that can be linked to low audit fees and less time spent by auditors. Despite quality issues with audit reports noted from perception surveys and POB findings, there were only two cases investigated by the POB in 2018. The POB needs to enhance enforcement of its investigative and disciplinary function.

Strengthen Audit Profession

Although the Audit Law requires that statutory auditors or audit firms must have professional indemnity insurance, the legal framework does not indicate the minimum coverage value of the insurance. There is no aggregate data available on how this requirement is being implemented. Despite no reports of any claims in the past, it is important to ensure that any potential claims against auditors will be adequately covered. The POB needs to assess and determine a minimum coverage and request periodic reporting of such data from statutory auditors and audit firms.

The quality of auditing standards implementation in Albania is uneven for a variety of reasons, including smaller audit practice's limited resources and some out of date methodologies. Some sole practitioners and audit firms have limited capacity to develop and maintain an audit methodology, and this can create difficulties in achieving full compliance with auditing standards. Smaller audit practices should be supported to use up-to-date audit methodologies and to have access to translated new and revised standards.

Smaller practices are responsible for most cases of non-compliance with auditing standards. They are not part of the current quality assurance system unless their client is a PIE. The POB already issued regulation no. 7/2018 concerning "Procedures and Methodology of Quality Assurance of Statutory Audits" which includes a quality assurance review system for non-PIE auditors. The POB should review quality assurance of non-PIE auditors either in cooperation with IEKA or by hiring external expertise. The review will help the POB to understand areas of concern in the implementation of audit standards by sole practitioners/non-PIE auditors and allow them to strategize to close the gaps.

The stakeholder survey revealed a conflict of interest issue where auditors are preparing and then auditing the financial statements that they prepared. This is happening because of the

poor quality of financial statements prepared by the entities. The POB strategy to regulate certified accountant practices and strengthen oversight of the profession is expected to help improve the financial statements' quality prepared by entities and maintain the independence of the statutory auditors.

Strengthen Monitoring and Enforcement

The overall quality of financial reporting needs improvement due to likely non-compliance with the financial reporting standards and auditing standards. The issue with financial accounting and auditing standards reflected that quality assurance activities are not adequate. The lack of a robust system of monitoring compliance and enforcement of the implementation of the standards is contributing to compliance gaps with financial reporting and auditing standards requirements. The new Accounting Law requires the National Accounting Council (NAC) to review the implementation of the standards regularly, but it lacks adequate capacity and may need support to build the capacity for monitoring and research. The NAC review results and identified systematic issues should be shared with regulators such as the BOA, the AFSA, and the POB to follow up compliance issues.

The POB has approached the BOA and the AFSA to establish a systematic way to work together within their mandated oversight role. A memorandum of understanding between the POB and the BOA is in progress. This will outline the roles and responsibilities of the two regulators in audit oversight of the financial sector. The POB is expected to agree on a similar memorandum with the Albania Financial Supervisory Authority (AFSA).

EQ FINREP follow up will potentially include a focus on further strengthening AFSA's risk-based supervision, including developing prudential reporting in line with good international practices. In this regard, it is critical to enhance AFSA supervisory staff's technical skills on IFRS and their ability to review IFRS financial statements of companies under their supervision, including investment fund firms.

Other Recommendation

The opportunity for university students majoring in accountancy to gain practical experience through an internship has become limited as they are offered by only a few audit firms. A network of internship opportunities for students, involving practitioners, private sector, SOEs, academia, and PAOs should be developed to help students gain practical experience. Academia and the PAOs can take a lead as they have access to alumni and members.

I. INTRODUCTION

COUNTRY BACKGROUND

1. **The Government of Albania has embarked on a broad-based reform program focused on, among others, macroeconomic and fiscal sustainability, and financial sector stabilization.** Structural reforms are being implemented to raise productivity and competitiveness in the economy, create more jobs, and improve governance and public service delivery. Maintaining this reform momentum and implementation will be critical to Albania's continued economic growth and aspirations of EU integration. The gross domestic product (GDP) growth was increased to 4.2 percent in 2018. There was an increase of household consumption and investment and a rise in job creation, particularly in industry and services. Foreign direct investment grew by 6.4 percent.¹⁴ The strongest growth areas are expected to be net exports, supported by rising foreign demand and expanding market access, and public and private investments, as the Government continues to invest in infrastructure and the business environment improves.¹⁵ Albania is ranked 63rd in the ease of doing business.¹⁶
2. **The banking system is well-capitalized and liquid, but credit to the private sector continues to contract.** The BOA has continued its efforts to reduce nonperforming loans which had fallen to 11.1 percent of total loans by December 2018. Despite monetary easing, credit to the private sector, mostly to households and small and medium-sized enterprises (SMEs), decreased.
3. **The SOE sector has a significant impact on the Government's fiscal performance in Albania.** SOE annual revenues amount to close to one-fourth of the general government budget revenue (excludes SOEs) or 8 percent of GDP. The SOE sector receives considerable direct budget subsidies, guaranteed debt, and budget support in the form of loans for financing of investment projects and coverage of negative operating cash flows. It also receives various kinds of indirect support that generate significant direct and contingent liabilities to the budget.

¹⁴ <https://www.worldbank.org/en/country/albania/overview>

¹⁵ Performance and Learning Review of the Country Partnership Framework for the Republic of Albania for the period FY15-19, World Bank, January 2019

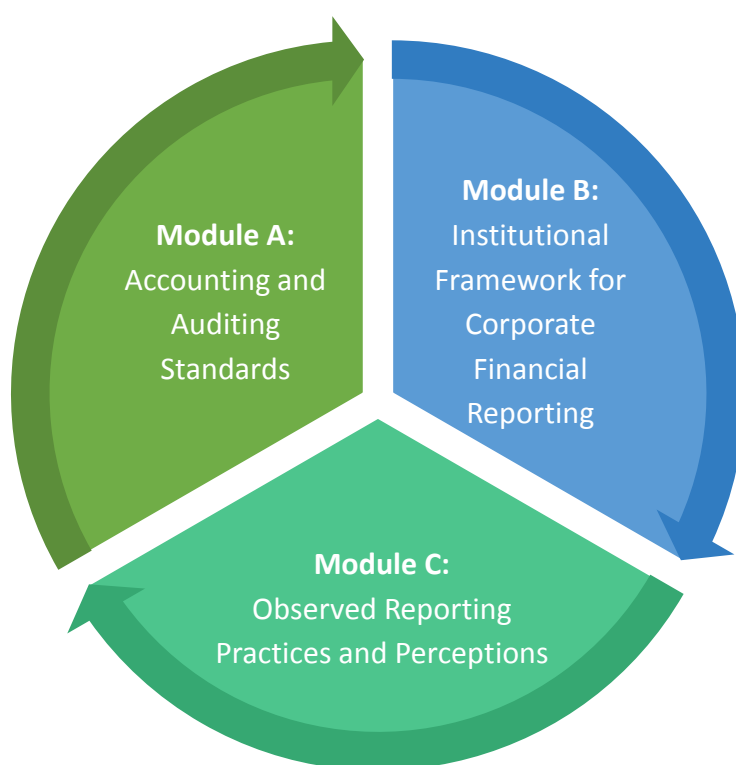
¹⁶ Doing Business 2019, the World Bank. Albania made enforcing contracts easier by amending the code of civil procedure to establish a simplified procedure for small claims and introduce time standards for certain court events. Previously Albania improved access to electricity and strengthened access to credit by amending the laws.

LINKAGE OF THIS REPORT TO ALBANIA'S COUNTRY AGENDA

4. **The ROSC A&A directly supports Albania's country agenda and complements other World Bank assessments and programs.** Benchmarking against international standards and good practices provides the basis for the policy recommendations included in Section V "Key Findings and Areas for Consideration". The recommendations are intended to help create the conditions for accelerated private sector growth and improve the accountability and transparency of entities.
5. **This assessment was conducted at the request of the Government of Albania and built on the previous ROSC A&A in 2006 and FSAP Technical Note on Corporate Sector Financial Reporting in 2014.** Following the ROSC A&A 2006 recommendations, a CAP to enhance corporate financial reporting in Albania was adopted in 2009. The CAP was conceived as a three-phase approach. The first phase was implemented through the CFREP (2011-14). The 2014 FSAP Technical Note captured progress since 2006. The second phase is being implemented through the EQ FINREP (2015 – ongoing). The third phase will seek to consolidate earlier achievements and to complete implementation of the remaining activities under the CAP focused on further institutional capacity development. See Section V for a summary of progress on ROSC A&A 2006 recommendations until July 2019.
6. **The World Bank's Country Partnership Framework with Albania refers to improving corporate financial reporting.** The objective "Establishing a high-quality business environment to spur growth and jobs", includes corporate financial reporting as one of the areas that contribute to a better business environment and increased investment. The need to improve corporate financial reporting is also included under the objective "Supporting improved financial stability".¹⁷
7. **This report focuses on the institutional framework underpinning accounting and auditing practices in Albania.** It outlines the current roles and responsibilities of regulated entities, the private sector, including MSMEs and SOEs in relation to corporate financial reporting. It then benchmarks the current framework through comparison with international standards and good practice, as outlined in Figure 1.
8. **Increasing the degree of alignment with international standards and good practices for corporate financial reporting is a key driver of improvement of the overall standard of corporate governance.** Publicly available high quality corporate financial reporting that is reliable, accurate, and comparable will promote increased confidence and trust by investors, lenders, and creditors.

¹⁷ <http://documents.worldbank.org/curated/en/602151467991993190/Albania-Country-partnership-framework-for-the-period-FY15-FY19>

Figure 1. ROSC 2.0 Assessment Methodology



9. **High-quality financial reporting, audits, and disclosure help drive improved transparency and accountability, which are particularly important in creating a ‘level playing field’ for investors.** This helps to foster the environment necessary for both financial sector and capital market development by adding depth through increased involvement of institutional investors. It also helps to encourage enterprises to operate within the formal economy, thereby making it easier to ensure that they pay appropriate taxes and contribute to improved fiscal sustainability.

II. ASSESSMENT

ACCOUNTING & AUDITING STANDARDS

10. The quality of financial reporting depends to a great extent on the quality of the accounting and auditing standards on which the reporting is based. Countries that are seeking to improve their business environment, improve access to finance, and attract foreign direct investment need good national accounting standards that provide transparent and accurate financial information. The ROSC A&A assessment of accounting and auditing standards seeks to compare national financial reporting with good international practice to give a clear sense of key areas of divergence and identify potential or actual problems and issues.

Assessment – Accounting Standards Gap

11. **Accounting standards provide the basis on which entities prepare their general-purpose financial statements.** They include both general and specific requirements that should be followed by preparers of financial statements when establishing their accounting policies, deciding on the particular accounting treatments for different transaction types, and determining the scope and format of the financial statements including the extent of note disclosures that should be incorporated in the financial statements.
12. **This section assesses the extent to which the national accounting standards follow the international benchmarks IFRS and IFRS for SMEs.** The quality of national standards and how they are applied in practice impacts on the reliability and comparability of financial information for users, especially current or potential investors, lenders, and creditors. Application of national standards is reviewed in Section IV “Observed Financial Reporting Practices”. The national standard-setting process is discussed in Section III “Setting Accounting Standards”.
13. **Accounting and financial reporting are primarily regulated by the Accounting Law** to which references are made in other legislation including, for example, the Law on Banks and Law on Insurance and Reinsurance Activity. The Accounting Law specifies how entities should maintain their accounting books and records and defines the financial reporting standards that should be used in the preparation of financial statements. The financial reporting requirements for the reporting entity and groups depend on the category classification of the entities and group into micro, small, medium, and large based on total income, total assets and number of employees.
14. **PIEs, including banks and non-bank financial institutions and their regulators in the field of credit and insurance, must maintain their accounts and produce financial statements in accordance with IFRS. All other entities must maintain accounting and financial reporting in**

accordance with NAS. PIEs are defined based on the nature of the business, size of their activities, or number of their employees.¹⁸ SOEs, branches of listed companies, entities that operate in regulated markets, and companies that receive the majority of revenue from the state budget are included in the definition of PIEs when they fit the criteria for audit requirements.¹⁹

15. **IFRS in the context of Albanian law are those that are developed by the International Accounting Standards Board (IASB), translated, and adopted into the Albanian language under the authority of the National Accounting Council with no changes to the original English text.**²⁰ The IFRS translation process has improved with CFREP support and the most recent consolidated version of IFRS is translated into Albanian and published. Generally, there is no significant delay and new and revised standards are translated and published before becoming effective.
16. **The current version of NAS became effective on January 1, 2015 and is substantially aligned with IFRS for SMEs 2009, except for the requirements of assets measured at fair value which is aligned with IFRS for SMEs 2015.** Since 2015, the NAC has updated NAS 2 *Presentation of Financial Statements* and NAS 9 *Consolidation and Combination of Business* aiming to improve disclosure requirements using IFRS for SMES as a reference. The NAC is currently in the process of revising NAS 5 *Tangible and Non-Tangible Assets*, NAS 11 *Income Tax*, and NAS 13 *Biological Assets and Concessionary Agreements* aiming to further align with the EU by releasing small units from extensive requirements on revaluation of assets.
17. **The NAC has developed accounting standards specifically for use by nonprofit organizations (NGOs) and micro entities.** The improved version of NAS 15 *Accounting and Financial Reporting by Micro-Entities* (2016) is intended to provide a simplified and self-contained set of overarching accounting principles for use by micro entities (as defined in the Accounting Law). Similarly, NAS 16 *Accounting Standard for Non-profit organizations*, effective from January 1, 2016, provides simplified accounting principles and financial reporting requirements to be used by NGOs registered in Albania.

The IFRS translation process has been improved and the most recent consolidated version of IFRS is translated and published. The current version of NAS is substantially aligned with 2009 IFRS for SMEs.

¹⁸ Refer to “General Financial Reporting Requirements” for detailed criteria of PIE.

¹⁹ Audit Law, Article 41.

²⁰ World Bank, Albania FSAP Report, Corporate Sector Financial Reporting, Technical Note, February 2014

Assessment – Auditing Standards Gap

18. **Auditing standards provide a basis for auditors to follow when they conduct their audits and provide their audit opinions.** The audit opinion confirms whether financial statements present a true and fair view of an entity's financial position and financial performance. This requires that auditors assess and express an opinion as to whether the financial statements fully comply with the requirements of accounting/financial reporting standards in all material respects.
19. **The Audit Law stipulates that all auditors, including statutory auditors, use ISAs as issued by the IAASB.** The appropriate implementation of ISAs is essential for the reliability of published financial statements. While many countries have adopted ISAs, successful application is often an issue as it requires changes in auditor behavior and the use of rigorous risk-based audit methodologies that ensure a deep understanding of an entity's business and the potential risks it faces. The way ISAs are applied in practice in Albania is reviewed in Section IV "Observed Financial Reporting Practices and Perceptions". The auditing standard-setting process is reviewed in Section III "Setting Auditing Standards".
20. **The IEKA is legally responsible for the official translation of ISAs into the Albanian language but is not systematically translating and publishing updates.** The Audit Law requires that ISAs are translated and published in Albanian by the IEKA in conformity with the translation policy of the IAASB. The initial official translation of ISAs in accordance with IFAC translation policy was based on the 2010 version of ISAs. A set of revised and new standards on auditor reporting published by the IAASB in January 2015 were translated and published by the IEKA in 2018, but no later standards updates have been translated.
21. **Ethical requirements for accountants and auditors in Albania are based on the 2015 IESBA Code of Ethics.** The IEKA leads on translation of the Code of Ethics and IKM adopts it as published by IEKA. Translation of the 2016 IESBA Code of Ethics has not been done. In April 2018, the IESBA issued a completely restructured, strengthened, and clarified *International Code of Ethics for Professional Accountants* that became effective in June 2019. Other than the enhanced conceptual framework, the new Code includes all substantive revisions related to professional accountants' responsibilities when they become aware of non-compliance with laws and regulations committed by clients or employers (effective since July 2017), and the revised independence provisions addressing long association of an auditor with clients (effective since December 2018).

The Audit Law stipulates the use of ISAs as issued by IAASB. However, unlike IFRS, official translation and publication of ISAs and the IESBA Code of Ethics has not been done systematically. The IESBA revised and restructured Code of Ethics that came into effect as of June 2019 has introduced substantive changes.

III. INSTITUTIONAL FRAMEWORK FOR CORPORATE FINANCIAL REPORTING

22. This section reports on accounting and auditing standards, the institutional framework for corporate financial reporting, and observed reporting of practices and perceptions in the following areas: general financial reporting requirements; listed companies; the banking sector; the insurance sector; the investment funds sector; MSMEs; SOEs; the accountancy profession; professional education and training; setting accounting standards; setting auditing standards; audit regulation, quality assurance, and public oversight.

GENERAL FINANCIAL REPORTING REQUIREMENTS

23. **The general financial reporting and auditing requirements for the corporate sector are contained in various laws and regulations.** Further detail on MSMEs financial reporting requirements is discussed in the “Micro, Small, and Medium-sized Entities” section.

Table 1. Summary of financial reporting requirements for the corporate sector

Entities	Accounting Standards	Audit Requirement	Public Disclosure
Limited liability companies	NAS/IFRS	Required for companies that fit the criteria ²¹	Required for medium and large sized companies and PIEs
Joint stock companies	NAS	Required	Required for medium and large sized companies and PIEs
PIEs	IFRS	Required	Required
State-owned enterprises	IFRS	Required	Required for medium and large sized companies and PIEs
Micro, small and medium-sized entities	NAS	Required for companies that fit the criteria (see footnote)	Required for companies considered as PIEs

²¹ Companies applying IFRS, companies applying NAS that for two consecutive years fit in two of the following criteria (i) total assets at the reporting date equals to/exceeds lek 50 million; (ii) total revenue during the year equals to/exceeds lek 100 million; and (iii) total employees is 30 people on average during the year.

24. **The new Accounting Law, that replaced Law 9228/2004, is further advanced in compliance with EU legislation.** It sets out new limits, among others, for a classification of entities category, a new definition for groups and provisions for the preparation of consolidated financial statements, and new rules for the development of additional non-financial reports. The criteria for the classification of entities will be increased every three years to fully achieve EU legislative requirements by 2028²².
25. **The Accounting Law states that the entity's executive management and supervisory body are responsible for ensuring that the annual financial statements and the management report are compiled and published.**²³ This is only partially in compliance with EU legislation, as the law does not include preparation and publication of corporate governance statements. The new law introduces a requirement for the financial statements to be signed off by the legal representative of the entity and the person responsible for the preparation of the financial statements.
26. **PIEs and their regulators in the field of credit and insurance should prepare their financial statements following IFRS.** All other enterprises should apply NAS. The NAC has published the specific format that entities should follow to prepare their financial statements using NAS. Items to be included in financial statements are detailed in NAS 2 *Presentation of Financial Statements*. Entities using NAS must follow the required format.²⁴ Article 12 of the Accounting Law allows non-PIEs to prepare their financial statements based on IFRS. The new Accounting Law introduces specific provisions about the preparation of consolidated financial statements. Small groups are not required to prepare consolidated financial statements, unless any of the group entities is a PIE.
27. **For statutory audit purposes, the amended Audit Law definition of PIEs complies with EU legislation.** Article 41 of the amended law requires that PIEs meet the statutory audit requirement. PIEs are listed companies, banks, insurance and financial sector entities, and other companies that are considered of public interest because of their business nature, size, or number of employees.
28. **The specific applicable criteria set out in Council of Ministers Decision 17/2019, results in an increase in the number of PIEs.** The Decision classifies an entity as a PIE (and therefore required to be audited in accordance with Article 41 of Audit Law) based on the nature of the business, the business size, or the number of employees (see Table 2 below).²⁵ The business size and number of employees' criteria are in accordance with criteria of a large entity in the

²² Directive 2013/34/EU Article 3

²³ Law 25/2018 regarding Accounting and Financial Statements Article 23.1

²⁴ Law 25/2018 regarding Accounting and Financial Statements Article 3.5

²⁵ Companies preparing financial statements based on IFRS, JSCs preparing financial statements based on NAS, and limited liability companies preparing financial statements based on IFRS that for two consecutive accounting periods exceed two of the following criteria: (i) Total assets at the end of the accounting period at least lek 50 million, (ii) Total turnover in the accounting period at least lek 100 million, or (iii) 30 employees during the accounting period on average.

Accounting Law. However, while the Law requires the company to meet at least two of the three criteria of size of business and number of employees (turnover, total assets, or number of employees), according to the Council Decision an entity meeting any of the criteria, nature or size of business, or number of employees, and required to be audited in accordance with Audit Law article 41, is considered a PIE. This has resulted in an increase in the number of PIEs in Albania. All of these must now comply with the financial reporting, audit, and publication requirements of PIEs including, in accordance with the amended Audit Law, the obligation to have an audit committee with at least one independent member who has knowledge in accounting or auditing. This new classification will burden smaller businesses with an insignificant impact on the economy.

Table 2. Criteria of state-owned or private entity considered a PIE according to Council of Ministers Decision 17/2019

Category	Criteria
Nature of business	<ul style="list-style-type: none"> • The entity is partly state-owned; or • More than 50 percent of revenue is generated from public funds; or • Operates as a branch office of a company that is listed on the stock exchange; or • Provides public goods through their commercial activity and is subject to sector regulators.
Size of business	<ul style="list-style-type: none"> • Total turnover in the accounting period of at least lek 1.5 billion; or • Total assets in the statement of financial position at the end of the accounting period of at least lek 750 million. <p><i>(The criteria based on size apply for two consecutive accounting periods. Otherwise, the entity is not considered as PIE)</i></p>
Number of employees	<ul style="list-style-type: none"> • More than 250 employees either at the end of the accounting period or on average throughout the accounting period.

29. **Entities are required to submit their financial statements to the NBC no later than seven months after the reporting date for publication.** In accordance with the Accounting Law Article 22.1, the complete set may include annual financial statements, management report, and audit report, as mandated by relevant law/regulations. Currently, entities required to submit financial statements are those with turnover equal to or greater than lek 5 million in one accounting period. The number of entities submitting their financial statements to the NBC is about 22,000 (including individuals). NBC discontinues the provision of its commercial

registry services to those entities who fail to pay the service fee or submit their annual financial report until the fee is paid or annual financial reports filed accordingly.²⁶

30. **The new electronic filing system enhances the filing process by ensuring the validation and processing of financial statement data submitted by the business entities online via the e-Albania portal.** The system standardizes the documents that business entities can upload when submitting annual financial statements to the NBC. There are controls in place to determine which entities must apply and file IFRS or NAS based financial statements, to detect entities that do not file financial statements, to determine which entities have audit requirements, and to check that the auditor is registered in the Statutory Audit Register.

Box 1. The National Business Center

The NBC was established in December 2015 with the merger of the National Registration Center and National Licensing Center.²⁷ The NBC is responsible for all business registration and licensing processes, including tax registration. The NBC is a “one-stop shop” which has reduced the administrative burden to open and operate a business in Albania.

NBC is a beneficiary of the electronic modernization system for filing and publication of financial statements (a component of the EQ FINREP). The component aims to provide support on policymaking, hardware, and software. With the new system, it is expected that financial information will be accessible to all stakeholders and the general public. Entities complete an online form with all information, including details of the statutory auditor if an audit is required. Documents are submitted using a predetermined format and attaching full PDF sets of financial statements (including audited financial statements if an audit is required). The process cannot be completed without submission of all required information and documents. The new system launched in November 2018, and entities will begin submitting their financial statements and audit report to the NBC online using an electronic service window later in 2019.

31. **Minimum disclosure requirements are determined in the Law of Commercial Companies and the Accounting Law.** All PIEs, medium, and large companies are required to publish information submitted to the NBC, including annual financial statements, on their own websites.²⁸ In practice, compliance with such requirements is poor. The financial statements review conducted revealed that the quality of financial information presented in financial statements needs improvement.²⁹

²⁶ Economic and commercial entities in Albania are required to register with NBC. NBC publishes the business registration data and the commercial registry is freely accessible to the public at the NBC's official website.

²⁷ Law regarding the National Business Center 131/2015

²⁸ Article 1 of the Law on Commercial Companies and Article 22 of the Accounting Law.

²⁹ Refer to Section IV “Observed Financial Reporting Practices and Perceptions”

There have been many improvements to the general financial reporting requirements since the last ROSC A&A. Accounting and audit legislation has been enacted and is being implemented, but discrepancies in the criteria for PIEs needs to be resolved. With the assistance of EQ FINREP, the filing and publication of financial statements will be done through NBC using a modern electronic system. This should ensure financial information is accessible to all stakeholders and the general public.

LISTED COMPANIES

Overview of the securities and exchange market

32. **In 2017, the AFSA licensed a privately-owned securities exchange platform³⁰ after previous attempts to establish an operational state-owned stock exchange in Albania failed.** The Albanian Securities Exchange (ALSE) is trying to develop a centralized market to address the demand and supply for securities in the country through securities listing, trading services, clearing, and settlement services. There are no companies currently traded on the Albania stock exchange. The ALSE has so far constructed a regulatory framework and built the necessary technical infrastructure (software) to enable full trading and a clearing-settlement process of government securities transactions traded in ALSE. The 2018 European Commission Albania progress report³¹ indicates that there is significant scope for expanding equity and corporate bond finance provided the supervision capacity is strengthened, and transparency and governance in the private sector are improved.

BANKING SECTOR

Overview of the Banking Sector

33. **Albania's banking sector is small and dominated by foreign banks.** Fourteen banks are operating in Albania as of April 2019.³² This number is expected to decrease to 13 by the end of 2019, as one bank is in the process of acquisition by another bank in the system. Banks account for the bulk of financial sector assets, and the majority are foreign owned. The concentration of the three largest banks, in terms of assets in 2018, was 55.8 percent, slightly

³⁰ Pursuant to Decision no. 88, dated 03.07.2017, the AFSA Board licensed the Albanian Securities Exchange sh.a.

³¹ European Commission, Albania 2018 Report, dated April 17, 2018.

³² As officially reported in the web page of the BOA.

below the regional median but higher than other economies in the region such as Bosnia and Herzegovina (41.8 percent) and Serbia (44.9 percent).³³

34. **The banking sector dominates the market while non-bank financial lending institutions are small in terms of their assets.** In June 2018, banks' assets stood at 97.1 percent of GDP. There were 31 registered non-bank financial lending institutions, namely microfinance institutions, leasing, factoring companies, and savings and loan associations: their total assets amounted to lek 47 billion, accounting for 3.1 percent of total banking system assets. The recent consolidation of savings and loan associations has reduced their number from over 120 down to 13. In December 2017, the total assets of all savings and loan associations amounted to lek 8.8 billion, accounting for only 0.5 percent of the banking system.

Banking sector regulation

35. **Banking legislation still requires banks to prepare their individual and consolidated financial statements in accordance with the FRM, which was based on the 1998 IFRS.** The commercial banks currently compile financial statements for regulatory purposes in accordance with the FRM approved by the Supervisory Council of the BOA on December 24, 2008, replacing the previous Bank Accounting Manual. The FRM was adopted for regulatory purposes under Article 47 of the 2006 Banking Law³⁴. The FRM has not been updated since publication and omits important financial disclosures related to financial instruments. Financial institutions are also subject to BOA Regulation 69/2014 "On the Bank's Regulatory Capital" for their capital management. The latter indicates that banks may refer to IFRS whenever an item referred to in the regulation is not described in the FRM. Regulation 48/2013 "On capital adequacy ratio" is based on the Basel II requirements.
36. **When a banking group is identified, the Banking Law requires superordinate banks to prepare consolidated financial statements in accordance with the Accounting Law and IFRS³⁵.** However, in other cases it is left to the BOA to decide if consolidation requirements are necessary for complete and objective presentation of the bank's financial position and operating results. The definitions of "controlling entity" in the Banking Law fall short of IFRS or EU Accounting Directive requirements, resulting in consolidated financial statements that do not include all the entities within a group and which present incomplete financial information.
37. **The commercial banks prepare periodic financial reports for regulatory purposes in accordance with BOA requirements³⁶.** The reporting is carried out monthly, quarterly, semi-

³³ Finstats 2018.

³⁴ Law 9662 "On Banks in the Republic of Albania" dated December 18, 2006, as subsequently amended by the Law Nr.10 481, dated November 17, 2011, and Law Nr.131, dated December 2, 2016.

³⁵ Banking Law, Article 85

³⁶ Regulation 45/2009 "On the reports at the Bank of Albania according to the Unified Reporting System" approved by the Supervisory Council of BOA on June 10, 2009 and subsequently amended.

annually, and annually, and submitted electronically through the Electronic Regulatory Reporting System within ten days from the end of the reporting period. Three groups of reporting forms are required: the first group consists of the asset form, the liability form, profit and loss statement, and off-balance-sheet items form; the second group comprises information to assess the fulfillment of the regulatory requirements; and the third group contains statistics and other indicators.

38. **Unless the FRM is updated and aligned with IFRS, banks will continue to face different requirements for general purpose (statutory) and prudential financial reporting.** Furthermore, the reporting burden for commercial banks would increase when Albania becomes a full EU-member, as commercial banks would additionally be expected to comply with EU directives on bank prudential requirements having adopted IFRS and Basel III requirements. In recent years, the BOA has sought technical advice in aligning the regulatory framework for prudential reporting with IFRS and Basel III, by taking into consideration possible qualitative and quantitative effects on the regulatory capital of the commercial banks. There is a general concern that the adoption of IFRS for prudential reporting and regulatory capital calculation could jeopardize regulatory criteria of own funds and introduce volatility in the financial statements, since significant balance sheet items are based on management assumptions and estimations (e.g. impairment for loans), therefore increased costs for setting up the systems and monitoring would be expected.

Box 2. Significant differences between financial statements prepared based on IFRS or FRM

- **Impairment for loans and advances to customers:** IFRS 9 (effective from January 1, 2018) has set the framework for impairment on loans, which is based on credit risk considerations; FRM sets criteria for the classification of loans into types and specific provision rates in accordance with BOA Regulation 62/2011 “On Credit Risk Management from Banks and Branches of Foreign Banks”.
- **Revaluation reserve for Available for Sale portfolio:** Unrealized gains and losses are recognized in the Available for Sale reserve category in IFRS; in regulatory reporting unrealized losses are recognized in the income statement, and unrealized gains are not recognized.
- **Foreclosure assets:** In accordance with IFRS, initial recognition is at fair value and subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. As per FRM, such assets are amortized within a period of seven years from the acquisition date.

Box 2. Significant differences between financial statements prepared based on IFRS or FRM

- **Interest income:** IFRS permits accrual of interest on a non-performing loan portfolio. As per FRM, the banks must not accrue interest on a non-performing loan portfolio.
- **Treatment of initial commissions and expenses:** These are amortized during the life of the instrument in accordance with IFRS; they are expensed immediately in accordance with FRM.
- **Fixed assets:** Straight-line method is used in IFRS; in regulatory reporting the reducing line method is used.
- **Deferred tax:** IFRS requires an entity to consider tax implications in the future through deferred tax; FRM does not require measurement for deferred tax.
- **Start-up costs and pre-pay expenses:** regarding FRM, those are capitalized and accounted for as "intangible assets", they are amortized over a five-year period; start-up costs are expensed for IFRS.
- **Write-offs of loans and advances:** Several banks write off the credit portfolio based on FRM requirements; other banks apply different write off criteria when preparing their IFRS financial statements.
- **Presentation of financial statements:** IFRS framework follows the International Accounting Standard (IAS) 1: *Presentation of Financial Statements* rules for presentation; regulatory reporting follows FRM. There are various differences in items of financial statements.
- **Consolidated financial statements.** The banking law requires preparation of consolidated financial statements of banking groups. A banking group definition includes (a) a bank in Albania that owns a qualified holding or controls one or more banks, or other financial institutions regardless where they operate and (b) a non-bank financial institution in Albania, that owns at least a qualified holding or controls a bank with legal seat in Albania and the total bank balance is larger than any other investment undertaken. Pursuant to the Accounting Law, the consolidated financial statements are prepared by the parent company for groups (small groups are exempted) regardless of subsidiaries activities and the place of incorporation.
- **Treatment for capital:** In the Unified Reporting System³⁷, capital is stated at the closing exchange rate, and the translation effect is shown within equity. For IFRS, capital must not be treated as a monetary item in accordance with IAS 21: *The Effects of Changes in Foreign Exchange Rates*.

³⁷ SRU, used by the BOA to generate prudential reporting in accordance with the FRM

Box 2. Significant differences between financial statements prepared based on IFRS or FRM

- **Other assets:** Receivables for bailiff fees related to a non-performing loan portfolio requires specific provision rates in accordance with FRM, while IFRS requires different impairment treatment.

Financial Reporting Requirements for Commercial Banks

39. **Commercial banks are required to comply with IFRS when preparing their general-purpose financial statements.** Article 47 of the Banking Law indicates that commercial banks are compelled to maintain their accounts and produce financial reports in accordance with the Accounting Law and IFRS. According to Article 12 of the Accounting Law, consolidated financial statements are required for banks that are parent companies of economic groups with one or more subsidiaries, regardless of their activities or the country where the subsidiaries operate. In contrast, the Banking Law requires obligatory consolidation only in the cases of banking groups³⁸. When the banks are owned by foreign banks, the BOA's Regulation 60/2008 "On the Minimum Requirements of Disclosing Information from Banks and Foreign Bank Branches" requires the banks to publish regular information on the parent company including its annual audited financial statements.

Statutory audit and other forms of independent assurance

40. **All commercial banks are required to have their annual general-purpose financial statements audited.** Also, audits of commercial banks' financial statements and reports prepared in accordance with the stipulations of reporting and content methodology set out in the FRM of the BOA are required³⁹. Commercial banks are required to submit the annual report, including the statutory auditor's opinion, to the BOA not later than six months from the end of the year. Article 48 of the Banking Law provides that a statutory auditor is a legal person licensed in the Republic of Albania. Furthermore, the BOA Regulation on the Statutory Auditor requires that the statutory auditor must be registered with the Public Registry of Registered Statutory Auditors.
41. **The appointment/termination of an audit firm must be approved at the general meeting/shareholder assembly of commercial banks.** The audit committee is required to

³⁸ A banking group definition includes (a) a bank in Albania that owns a qualified holding or controls one or more banks, or other financial institutions regardless where they operate and (b) a non-bank financial institution in Albania, that owns at least a qualified holding or controls a bank with legal seat in Albania and the total bank balance is larger than any other investment undertaken.

³⁹ BOA, Regulation on Statutory Auditor of Banks and Branches of Foreign Banks, 42/2011, Article 10-11.

evaluate and recommend the appointment to the supervisory board⁴⁰. The supervisory board then proposes the appointment to the shareholder's assembly based on the audit committee's recommendation.

42. **The BOA must approve the appointment and any subsequent changes of commercial banks' statutory auditor.** The BOA has established criteria in a separate regulation⁴¹ for the selection of the statutory auditor, including professional experience and ethical requirements for the audit firm, its partners, and professional staff. The same regulation defines the procedure and documentation for the approval of the statutory auditor by BOA. The banks should notify the BOA when they seek to replace their statutory auditor, and the auditor must officially inform the BOA when resigning from the audit assignment⁴². Non-assurance services from the statutory auditor are not explicitly regulated. However, the statutory auditor abides by independence requirements prescribed in the Audit Law.
43. **The statutory auditor or audit partners and quality assurance partners can be involved in the audit of the same commercial bank for a maximum of seven consecutive years.** After the seven-year term, there is a two-year 'cooling off' period. The audit firm is not allowed to audit more than five commercial banks in the same financial year.

Audit committees

44. **Commercial banks are required to establish an audit committee composed of three members.** The members of the audit committee are appointed by the shareholders' assembly for a period of 4 years⁴³. The law states that the role of the audit committee is to perform monitoring and evaluation of audit planning and implementation as well as monitoring the result of follow-up actions to assess the adequacy of internal audit and the adequacy of the financial reporting process. The audit committee approves the financial reports and financial statements that the commercial banks intend to publish.
45. **The audit committee members must be independent.** Senior management members and employees are prohibited from being members of the audit committee. However, members of the audit committee may be members of the supervisory board. In contrast to the Audit Law, that requires at least one of the audit committee to have expertise in accounting and auditing, the Banking Law requires that all audit committee members should have such expertise (more than three years)⁴⁴. The members may be assisted by external experts in exercising their functions. The audit committee reports to the supervisory board and assists the latter in the decision making and supervision process.

⁴⁰ Terminology used in the Banking Law is "Steering Council".

⁴¹ BOA, Regulation on Statutory Auditor of Banks and Branches of Foreign Banks, 42/2011, Article 5.

⁴² Banking Law, Article 48.4

⁴³ This requirement is included in Article 38 of the Banking Law.

⁴⁴ Banking Law, Article 38.

Filing/publication of financial statements

46. **Commercial banks are required to publish and submit their annual general-purpose financial statements to the BOA within six months of the end of the fiscal year (by June 30 of each year)**⁴⁵. The commercial banks are required to publish periodic financial reports on their financial position and performance, including risk position, on a quarterly basis⁴⁶ not later than 30 days from the end of the quarter, except for the last quarter of the fiscal year for which the deadline for publication is the end of April of the succeeding year. Reports must be published as follows:
- Quarterly condensed financial statements (as of end-March, end-June, end-September, and end-December): on the bank's website, in the bank's head offices or branches, as informative brochures, electronic forms, or posted on a notification table.
 - Annual financial statements: on the bank's website, in the bank's head offices or branches, as informative brochures, electronic forms, or posted on a notification table.

Monitoring and Enforcement – Financial Reporting

47. **The BOA has responsibility for the licensing, regulation, and supervision of commercial banks in Albania.** The BOA sets the prudential regulation standards and regularly conducts oversight supervision activities. Annual consolidated supervision reports are prepared and published.
48. **The BOA's Department of Banking Supervision completes risk-based on-site and off-site supervision of all commercial banks.** The department consists of two units responsible for supervision: Individual Banks Supervision Sector and Risk Supervision Sector. The former reviews annual financial statements, other prudential returns, audit reports, management letter, and other relevant documents; while the latter reviews prudential returns and monitors the compliance with disclosure requirements. The review has a mainly prudential reporting focus and covers timeliness of reporting and publication as well as the content. Any material discrepancies are investigated through communication with the bank. The BOA may issue an order asking a bank to take corrective measures if, during an inspection, it finds that the bank is not in compliance with the obligations on reporting and notifications.⁴⁷ However, the report published does not contain detailed findings of the review performed on the financial statements.
49. **Sanctions for noncompliance with the commercial banks' disclosure requirements are available and described in the Banking Law.**⁴⁸ These are:

⁴⁵ Banking Law, Article 52.

⁴⁶ BOA Regulation on the minimum requirement of disclosing information.

⁴⁷ Banking Law, Article 76

⁴⁸ Banking Law, Article 89 and Article 76.

- Issue written notices to the administrators of the banks, and
- Fine the administrators of the commercial banks⁴⁹.

50. **If the issue remains unresolved, administrative sanctions may be applied.**⁵⁰ There have been only a few cases of breaches of financial reporting and disclosure requirements. In 2017, the BOA took extra measures to ensure that 11 commercial banks became fully compliant with minimum disclosure requirements established by the specific regulation No.60/2008 as amended.⁵¹
51. **A regulation empowers the BOA to influence the scope of the external audit.** BOA Regulation 42/2011 outlines other assurance service requirements, beyond the scope of the statutory audit of the individual and consolidated general-purpose financial statements. Such requirements include audit and reviews of financial statements and reports prepared in accordance with FRM, evaluation of compliance with risk management regulations, evaluation of internal audit system, and evaluation of the situation and adequacy of the management information systems in use.
52. **Auditors are required to inform the BOA if they become aware during the course of the audit of any event such as** any significant breach of the law, significant inadequacy in internal control, significant inadequacy in financial reporting, or going concern issues⁵². No significant breaches of financial reporting requirements have been detected.
53. **There is a protocol for communication between the banking supervisor and the auditor.** It is mandatory that the auditor's management letter is submitted to the BOA. The banking supervisor has the authority to request meetings and any additional information from the auditor whenever the BOA deems necessary, even after the audit assignment has been completed.⁵³ As stipulated in the Banking Law, the BOA reserves the right to request re-auditing by a different statutory auditor. The BOA can only exercise this when the statutory auditor of the bank has carried out the auditing or has submitted a report which is inconsistent with the requirements of the Banking Law or the auditing standards and does not reflect the true and accurate financial situation of the bank.⁵⁴
54. **The BOA is in the process of establishing a memorandum of understanding with the Board of Public Oversight.** The memorandum will outline the roles and responsibilities of the two

⁴⁹ In accordance with the Banking Law, Article 89, the fine that may be applied for non-compliance with reporting and disclosure requirements varies from lek 500,000-800,000.

⁵⁰ In accordance with Banking Law Article 89.4, these sanctions can include: Suspend the administrators for a period up to 12 months; Request the removal of one or more administrators; Order the suspension of the remuneration for the administrators; Revoke the license; and/or Place the bank in liquidation.

⁵¹ Regulation 60/2008 "On the Minimum Requirements of Disclosing Information from Banks and Foreign Bank Branches"

⁵² Banking Law, Article 50.

⁵³ Regulation 42/2011, Article 16.

⁵⁴ Banking Law, Article 51.

organizations in the audit oversight roles concerning the financial sector, and the format and frequency of communication between the parties.

Corporate Governance

55. **Commercial banks are required to comply with the corporate governance requirements established by the BOA.**⁵⁵ Articles 30 to 39 of the Banking Law define the corporate governance structure of commercial banks. BOA Regulation 63/2012 sets out the core principles and regulations for responsible and efficient governance of banks (including branches of foreign banks); the requirements for an effective system of risk management, the minimum requirements for drafting, implementing, and publishing the remuneration policy and scheme; and the pre-requisites for the administrators of banks and branches of foreign banks. The regulation requires commercial banks to establish separate structures for risk management and compliance. Each bank is required to publish as part of their annual reports a clear statement of the main rules and procedures that the bank implements regarding core principles of responsibility and efficiency, as well as a risk appetite/tolerance statement.
56. **The Regulation does not prescribe consequences in case of non-compliance.** However, the Banking Law prescribes consequences of noncompliance with risk management, internal control and accounting, and financial reporting rules. Compliance with corporate governance requirements is monitored through the supervision function, and findings and corrective measures are followed up in a timely manner.
57. **Under the Accounting Law, the annual report of commercial banks needs to include a non-financial report and corporate governance report.** The non-financial report must contain the information required for a better understanding of the development of the bank, its performance, position, and the social and environmental impact of its operation, including anti-corruption and bribery. The corporate governance report must contain information concerning the management of the bank, including its corporate governance code, management practices that are adopted beyond legal requirements, composition and functions of management and oversight bodies, and a description of policies and procedures for the appointment of management and oversight bodies.

The BOA is in the process of establishing a memorandum of understanding with the POB to coordinate more effective oversight. Although IFRS based reporting is required by the new Accounting Law, the BOA is planning to wait another two years before transitioning to full IFRS and therefore still requires prudential reporting based on FRM. Unless the FRM

⁵⁵ Good corporate governance implementation is outline in BOA regulation “On Core Management Principles of Banks and Branches of Foreign Banks and Criteria on the Approval of their Administrators”, adopted with Decision 63, dated 14.11.2012 and amended by Decision 73, dated 6.12.2017 of the Supervisory Council of the BOA.

is updated and aligned with IFRS, banks will continue to face different requirements for general purpose and prudential financial reporting and the associated burdens of having two separate audits for each report.

INSURANCE SECTOR

Overview of the Insurance Sector

58. **The insurance sector in Albania remains small and underdeveloped with gross written premiums of about 1.05 percent of GDP⁵⁶.** There are currently 11 insurance companies operating in Albania. The sector overall has the lowest level of insurance penetration compared to the countries of the region, with premiums per capita at €38.9 in 2016, compared to €45.6 in Kosovo, €68.4 in Macedonia, and €985 in Slovenia. The market is dominated by non-life insurance, which share was 93 percent of the total premium volume, while life insurance share accounted for around 7 percent of gross written premium, as of December 2017. The non-life insurance sector continues to be mainly driven by compulsory third party motor liability at 67% of total written premiums. The life insurance sector features a plodding development pace and primarily consists of bank-driven products. Gross premium levels and the trend is shown in the following table.

Table 3. Insurance premium levels⁵⁷

Year	Gross Premiums	Premium Growth
2015	lek 14.09 billion	21.19 percent
2016	lek 15.37 billion	9.09 percent
2017	lek 16.19 billion	5.38 percent

59. **The development of the sector has been hindered by patchy insurance regulation, lax enforcement of existing law, lack of product innovation by the insurance industry, low disposable incomes, poor industry record of claims performance, and the lack of trust in insurance among the public.** Capital adequacy of the non-life insurance sector has weakened significantly in the last couple of years falling below minimum requirements. The industry has been suffering from the ongoing reputational risk of weak claims performance, including

⁵⁶ Albania FSAP Report, February 2014

⁵⁷ Insurance Statistics 2017

claims from the uninsured or unidentified vehicles' part of the compensation fund. Insurance companies have been aggressively competing on price for the most common insurance products without regard to their solvency or profitability.⁵⁸

Insurance Sector Regulation

60. **The AFSA is empowered by law to define how insurance company financial reports are to be prepared for regulatory purposes.**⁵⁹ Such financial reports are prepared based on IFRS. In recent years, the AFSA has improved its prudential reporting framework and installed an electronic reporting platform, which among other benefits, ensures consistency in reporting by insurers.⁶⁰
61. **The insurance and reinsurance companies prepare periodic financial reports for regulatory purposes.**⁶¹ Quarterly financial reports must be submitted to the AFSA, using a standardized format, not later than 30 calendar days after the end of the quarter. Other types of reporting include quarterly report on assets for the coverage of technical losses; quarterly report on the capital adequacy; monthly, quarterly, and annual statistics; and other technical reports. The reporting is submitted electronically using predefined formats through the information system "AMF In-Reg".

Financial Reporting Requirements for Insurance Companies

62. **According to Article 5 of the Accounting Law, insurance companies are required to comply with IFRS when preparing general-purpose financial statements.** Article 126 of the Insurance Law indicates that insurance companies are compelled to produce financial statements prepared in accordance with the Accounting Law and IFRS for statutory audit purposes. According to Article 111 of the same law, consolidated financial statements are required to be prepared for insurance companies with one or more subsidiaries.⁶²

Statutory Audit and Other Forms of Independent Assurance

63. **All insurance companies are required to have their annual financial statements audited.** According to the Insurance Law, both standalone and consolidated financial statements are required to be audited. AFSA regulation 38/2015 establishes key terms of reference for the statutory auditor. The auditor is required to report in its management recommendation letter an evaluation of the compliance with risk management rules, adequacy of internal control

⁵⁸ Albania FSAP Report, February 2014

⁵⁹ In accordance with Insurance Law Article 111.5, AFSA has issued the Regulation 34 dated 05/2015 as subsequently amended, defining regulatory periodic reporting of the insurance/reinsurance companies.

⁶⁰ Albania FSAP, Corporate Sector Financial Report, Technical Note, February 2014

⁶¹ in accordance with the requirements of BOA Regulation 34/2015 as subsequently amended.

⁶² This requirement also established Law 25/2018 on Accounting and Financial Statements, Article 12.

framework, adequacy of the information systems, and evaluation on the timeliness and quality of periodic financial reports. Also, an actuarial report on the adequacy of the technical provisions is required. The audit committee is required to nominate the external auditor and review and monitor the independence of the audit firm⁶³. The final decision on the appointment/termination of an audit firm is taken at the general meeting/shareholder assembly of insurance companies.

64. **The AFSA must approve the appointment and any changes of the statutory auditor of insurance and reinsurance companies.** The AFSA has established criteria⁶⁴ for the selection of the statutory auditor, including professional experience and ethical requirements for the audit firm, its partners, and professional staff, in a separate regulation. The same regulation defines the procedure and the documentation for the approval of the statutory auditor by the AFSA. The companies should notify and get prior approval from the AFSA when they seek to replace their statutory auditor⁶⁵. The AFSA requires insurance companies to appoint an audit firm/audit partners that have sufficient competency and experience of financial sector companies that apply IFRS.⁶⁶ The audit firm should have skills that are proven by the certification of competencies in actuary services.⁶⁷ According to the law, a 4-year rotation is required for either audit firms or the assigned audit partners, and a cooling off period of two years applies.⁶⁸
65. **Non-assurance services from the statutory auditor are not specifically regulated.** However, the statutory auditor abides by independence requirements prescribed in the Audit Law. The law specifically indicates that if an audit firm has received audit fees equal to more than 50% of its total revenues from an insurance company, the same audit firm cannot be engaged for the statutory audit of the coming year.⁶⁹

Audit and Risk Monitoring Committees

66. **The insurance companies are required to establish an audit committee composed of at least three members.** AFSA regulation 153/2014 regulates the appointment and functioning of the committee. The audit committee reports to the board of directors/supervisory board and assists the latter in the decision making and supervision process. The audit committee monitors the financial reporting processes, evaluates the integrity of financial statements, monitors the adequacy and effectiveness of the internal controls, compliance processes, and work of internal audit, and it nominates the audit firm.

⁶³ Insurance Law 52/2014 Article 26.

⁶⁴ AFSA Regulation 37/2015 as amended in 2018.

⁶⁵ AFSA Regulation 37/2015 as amended in 2018, Article 8.

⁶⁶ AFSA Regulation 37/2015 as amended in 2018.

⁶⁷ AFSA Regulation 37/2015 as amended in 2018.

⁶⁸ Insurance Law 52/2014 Article 123.

⁶⁹ Insurance Law 52/2014 Article 124.

67. **The Insurance Law does not specifically exclude executive members of administrative/supervisory boards from being part of the audit committee, which is not in compliance with the EU Audit Directive.**⁷⁰ While members independent of the audited entity may be appointed, this is not a requirement under the Law. Not only are board executives allowed to be members of the audit committee, but the Law also does not explicitly rule out the audit committee being comprised entirely of members of the administrative/supervisory board. The members of the audit committee not on administrative/supervisory boards are appointed by the administrative/supervisory board for a period of 3 years, with the possibility of reappointment. The term of members that are also on the administrative/supervisory board should not exceed three years, with the right to be re-elected. At least one member of the audit committee should have expertise in accounting and auditing (with more than three years of experience). The audit committee may be assisted by external experts in exercising their functions. AFSA is planning to review the Insurance Law to bring the Law in line with the EU Audit Directive.

Filing/Publication of Financial Statements

68. **Insurance companies are required to submit their annual general purpose audited financial statements to the AFSA within four months of the end of the fiscal year (by April 30 each year).** A copy of the audit report and management letter should be submitted within 15 calendar days from the date of receiving them, but not later than April 30. Unaudited annual financial statements of insurance and reinsurance companies are required to be submitted to the AFSA not later than three months and four months, respectively, from the end of the year. If an insurance company prepares consolidated accounts, the abovementioned report shall be filed by May 31 of the following year.
69. **Insurance companies are required to publish a full annual report including financial statements, the audit opinion, management report, and analysis of performance.** Article 128 of the Insurance Law requires that the annual report is included on the insurance company's website not later than six months from the end of the fiscal year. The minimum requirements of the annual report are set out in AFSA Regulation 110/2017. The ROSC A&A review of a selected insurance company's financial statements noted that the annual reports were lacking the full disclosures of financial statements prepared in accordance with IFRS.

Monitoring and Enforcement – Financial Reporting

70. **The AFSA is responsible for the regulation and supervision of insurance companies.** The AFSA sets the prudential regulation standards and regularly conducts oversight supervision activities. Supervision activities on the insurance sector are summarized in the insurance chapter of the AFSA's annual supervision report, published on the AFSA website. The report

⁷⁰ Insurance Law 52/2014 Article 26.1 requires that majority of the members should be non-executive member.

published does not contain detailed findings of the review performed on the financial statements.

71. **The AFSA's Directorate of Insurance Supervision completes on-site and off-site supervision of all insurance companies and insurance groups.** Regulatory monitoring is performed via the e-reporting platform (AMF In-Reg reporting system) and focuses on solvency criteria, capital adequacy, and indicator of assets covering technical provisions. The review of the quality of the IFRS financial statements is not a norm yet, but rather AFSA relies on the findings of the auditors and actuaries. Where a breach of solvency requirements is detected, sanctions are imposed. These may include a requirement to implement an action plan that ensures the guarantee fund level, a prohibition to sign new insurance contracts under one or several insurance classes, a prohibition to make specific types of transactions, including related parties, statutory supervision, or ultimately revocation of the operating license.

Corporate Governance

72. **Insurance and reinsurance companies and groups are required to comply with the corporate governance requirements established by the AFSA.**⁷¹ The Insurance Law, Section II, on the management of insurance companies defines the corporate governance structure, and Article 17, defines the fit and proper requirements for the shareholders, members of the supervisory board, managing director, controller, or any other key functionary. In this regard, the AFSA regulates the appointment and reappointment of the members of the management and supervisory board. Also, AFSA regulation 135/2014 determines the core principles and requirements of the internal control framework for responsible and efficient management, the requirements for an effective system of risk management, and requirements for information systems. A separate document regulates the internal audit function.
73. **The Insurance Law prescribes the consequences of noncompliance with risk management, internal control and accounting, and financial reporting rules.** Compliance with corporate governance requirements is monitored through the supervision function, and findings and corrective measures are followed up in a timely manner.
74. **According to the Accounting Law, the annual report of insurance companies needs to include a non-financial report and corporate governance report.** The non-financial report must contain information necessary for a better understanding of the development of the company, its performance, position, and the social and environmental impact of its operation, including anti-corruption and bribery. The corporate governance report must contain information concerning the management of insurance companies, including corporate governance code, management practices that are adopted beyond legal requirements, composition and functions of management and oversight bodies, a description of policies, and procedures for the appointment of management and oversight bodies.

⁷¹ Regulation 137/2015.

Insurance companies' financial reports are prepared based on IFRS, but their financial statements may not provide the required full disclosure. The AFSA has improved its prudential reporting framework which ensures consistency in reporting by insurers. It is good practice to have adequate financial and prudential information in a single report. The Insurance Law does not specifically exclude executive members of administrative/supervisory boards from being part of the audit committee.

INVESTMENT FUNDS SECTOR

75. **While the relatively newly established investment funds helped to diversify holdings of government securities in the financial system, their fast growth gives rise to potentially higher systemic risk in the country.** The investment funds sector, emerging in 2012, has grown remarkably fast, reaching lek 66 billion in net asset value at the end of December 2018. The number of investors in this market increased by 7 percent in 2017 but decreased 7.5 percent during 2018 to about 29,000 investors (only 6 are legal entities). There are currently five investment funds operating in the market with the largest accounting for 71 percent of market share. The market is mainly dominated by investments in government bonds (61.3 percent) inside and outside of Albania. Two licensed fund management companies manage both voluntary pension funds and investment funds, and one manages voluntary pension funds only. A new fund management company was licensed recently by the AFSA. The lack of an established secondary market for government securities represents a key liquidity risk to the investment fund sector in the event that many unit-holders simultaneously exercise their right to redeem their units. This liquidity risk could also be an issue for the banking sector, as the market is majority dominated by banks.
76. The investment fund market structure as of December 31, 2018 consists of five investment funds, which are listed in Table 4.

Table 4. Albania Investment Fund Companies as of December 31, 2018

#	Investment fund	Total net assets (in million lek)	License	Fund manager	Depository
1	Raiffeisen Prestige Investment Fund	47,624	AFSA Board Decision no. 180, dated 13.12.2011	Raiffeisen Invest sh.a.	First Investment Bank sh.a

Table 4. Albania Investment Fund Companies as of December 31, 2018

#	Investment fund	Total net assets (in million lek)	License	Fund manager	Depository
2	Raiffeisen Invest Euro Investment Fund	10,309	AFSA Board Decision no. 135, dated 26.09.2012	Raiffeisen Invest sh.a.	First Investment Bank sh.a
3	Raiffeisen Vizion	6,118	AFSA Board decision no. 143, date 30.07.2018	Raiffeisen Invest sh.a.	First Investment Bank sh.a
4	Credins Premium Investment Fund	1,956.5	AFSA Board Decision no. 86, dated 30.05.2016	Credins Invest sh.a	American Bank of Investments sh.a.
5	WVP Top Invest	77.9	AFSA Board Decision no. 14, dated 31.01.2018	WVP Fund Management Tirana sh.a	First Investment Bank sh.a
	Total	66,086.5			

Investment funds sector regulation

77. **The AFSA is empowered by law to define how investment funds' financial reports are to be prepared for regulatory purposes.** Supervision of the investment fund market is exercised by the AFSA under Law 9572/2006 "On the Financial Supervisory Authority", as amended, and Law 10198/2009 "On Collective Investment Undertakings", as well as implementing by-laws. The AFSA has been working on developing new core legislation on investment funds, expected to be approved during 2019, including establishing new enhanced requirements for prudential reporting and supervision activities. The following sections describe the requirements under the existing legislation.
78. **Fund management companies prepare periodic financial reports for regulatory purposes in accordance with the requirements of AFSA Regulation 127/2011 (as subsequently amended from 2015 through 2018).** The financial reports are prepared based on the IFRS. Quarterly financial reports for (i) the fund management companies, and (ii) each investment fund they manage, must be submitted to the AFSA, using a standard format, not later than 15 calendar

days after the end of the quarter. There is no electronic reporting platform in place; spreadsheet-based reporting is used instead, and filing is through e-mails accompanied by a pdf version. Other types of reporting include supervision reports, such as assets and liabilities valuation, units in issue and financial statement indicators for investment funds (collective investment undertakings), original capital and capital adequacy for fund management companies, and statistical reports on the activity of investment funds and annual transactions with related parties as part of financial statements. AFSA has started to set up an electronic reporting platform for voluntary pension funds and investment funds.

Financial Reporting Requirements for Investment Funds

79. **Article 20 of the Law on Collective Investment Undertakings compels management companies to maintain accounting records and produce financial statements prepared in accordance with the Accounting Law and IFRS for statutory audit purposes.** The same Article indicates that consolidated financial statements are required to be prepared for companies with one or more subsidiaries. This requirement aligns with Article 12 of the Accounting Law, and Article 5 requiring the management of companies that fall under the definition of PIE in accordance with Article 2 Point 23 of Audit Law, to comply with IFRS when preparing general-purpose financial statements. However, the Accounting Law does not require preparation of general-purpose financial statements for investment funds, since they are not considered economic units under the definition of the same law. AFSA Regulation 127/2011 (as amended in 2015, 2017, and 2018) defines the financial reporting requirements of management companies and investment funds in section III and section IV respectively. Based on the Regulation, two sets of annual financial statements are prepared: (i) general purpose financial statements based on IFRS for the management companies (individual and consolidated) and (ii) annual financial statements of the investment funds in accordance with IFRS (for individual funds and consolidated). The Regulation determines the minimum required content of annual financial statements and provides financial statement templates to be used for such reporting. The management companies are required to prepare the cash flow statement using the indirect method for investment funds. However, they have a choice between the direct and indirect method for their own financial statements.

Statutory audit and other forms of independent assurance

80. **All fund management companies are required to have their annual financial statements audited.** According to the Accounting Law, both standalone and consolidated financial statements are required to be audited. AFSA Regulation 89/2016⁷² establishes key terms of reference for the statutory auditor. The auditor is required to report in the management

⁷² AFSA regulation 89 dated June 27, 2016 and subsequently amended on July 30, 2018 on criteria and requirements for the selection of the auditors of Investment Fund and Pension Fund Management companies.

recommendation letter on the adequacy of the internal control framework, adequacy of the information systems, evaluation of quality and adequacy of the internal procedures and their implementation, and evaluation on the timeliness and quality of periodic financial reports. The decision on the appointment/termination of an audit firm is taken at the general meeting/shareholder assembly of management companies.

81. **The AFSA must approve the appointment and any changes to the statutory auditor of management companies.** AFSA Regulation 89/2016 (as amended in 2018) establishes the criteria for the selection of the statutory auditor, including professional experience and ethical requirements for the audit firm, its partners, and professional staff in a separate regulation. Article 7 of the same Regulation defines the procedure and the documentation for the approval of the statutory auditor by the AFSA. The companies should notify and get prior approval from the AFSA when they seek to replace their statutory auditor. The AFSA requires fund management companies to appoint an audit firm/audit partners that have sufficient competency with financial sector companies that apply IFRS. According to the Regulation, a 4-year rotation is required for either audit firms or the assigned audit partners, and a cooling off period of two years applies. The Law on Collective Investment Undertakings (Article (22.4) requires the auditor to inform the AFSA of the reasons for the termination of the audit contract and any non-compliance matters that come to the attention of the auditor, if any.
82. **Non-assurance services from the statutory auditor are not specifically regulated.** However, the statutory auditor abides by the independence requirements prescribed in the Audit Law.

Audit and risk monitoring committees

83. **The current legal framework on investment funds has not established specific audit committee requirements for fund management companies.** The fund management companies are required to be established as joint stock companies and the majority of shares to be owned by banks or financial institutions (Article 10, Law on Collective Investment Undertaking). These entities shall have a one-tier management structure, consisting of the administrative board that also comprises executive members. Article 46 of the amended Audit Law mandates all the PIEs, including fund management companies, to establish an audit committee. However, the audit committee requirement for investment fund companies has not been enforced to date.

Filing/publication of financial statements

84. **Fund management companies are required to submit their annual general purpose audited financial statements and annual audited financial statements of the investment funds to the AFSA within four months of the end of the fiscal year.** Under the requirements of AFSA Regulation 127/2011 (as subsequently amended from 2015 through 2018) on the obligatory

content, form and deadlines, the filing requirements for annual financial statements with the AFSA are as follows:

Table 5. Management companies filing and publications requirements				
#	Item	Institution	Form	Deadline
1	Unaudited annual financial statements	AFSA	Excel spreadsheet and pdf	Not later than January 15 of the following year
2	Audited financial statements, audit opinion and management letter	AFSA	Official letter, hard copy Excel spreadsheet and pdf, if changes from (1) above	Not later than April 30 of the following year
3	Annual Report	AFSA	Official letter, hard copy	Not later than April 30 of the following year
4	Audited consolidated financial statements, if required	AFSA	Official letter, hard copy	Not specified
5	Audited financial statements (individual)	Tax authority	Electronic submission and pdf filing	Not later than March 30 of the following year
6	Audited financial statements (consolidated if required)	NBC	Electronic submission and pdf filing	Not later than July 31 of the following year

Table 6. Filing and publication requirements for investment funds				
#	Item	Institution	Form	Deadline
1	Unaudited annual financial statements	AFSA	Excel spreadsheet and pdf	Not later than January 15 of the following year

Table 6. Filing and publication requirements for investment funds

#	Item	Institution	Form	Deadline
2	Audited financial statements, audit opinion and management letter	AFSA	Official letter, hard copy Excel spreadsheet and pdf, if changes from (1) above	Not later than April 30 of the following year
3	Annual Report	AFSA	Official letter, hard copy	Not later than April 30 of the following year
4	Audited consolidated financial statements, if required	AFSA	Official letter, hard copy	Not later than June 30 of the following year

85. **Management companies are required to publish the annual audited financial statements for each investment fund and the annual consolidated financial statements.** These reports should be published not later than the deadlines indicated above: April 30 for individual investment funds financial statements and June 30 for consolidated financial statements.

Monitoring and Enforcement – Financial Reporting

86. **The AFSA is responsible for the regulation and supervision of collective investment undertakings, fund management companies, and depositories.** The AFSA sets the prudential regulation standards and is responsible for conducting oversight supervision activities.
87. **The AFSA, with support from donor-funded technical assistance, has been working on strengthening its legal and regulatory framework and implementation capacity.** The largest technical assistance project “Strengthening Supervision Capacities of the AFSA with focus on capital market development” closed on March 31, 2019. Funded by the Swiss State Secretariat for Economic Affairs, one aspect of the project was supporting the AFSA to strengthen the capacity to supervise the investment funds sector. The project was essential in improving strategic thinking at the AFSA about market development, shaping its institutional organization, enhancing the technical capacities of staff, drafting new core legislation for investment funds and capital markets, as well as developing a new risk-based investment funds supervisory approach. The AFSA has now prepared a five year strategy for the

development of markets under its supervision, including the investment funds sector, and requires ongoing support in particular in i) the implementation of its legal framework, ii) further enhancements of its operational and professional capacities, iii) upgrading its supervisory capabilities, and iv) in supporting the development of markets under its supervision. A follow-up project will focus on further strengthening the AFSA's risk-based supervision, including developing prudential reporting in line with good international practices.

Corporate Governance

88. **Investment fund management companies are required to comply with the corporate governance requirements established in law and outlined by the AFSA.** Section II of the Law on Collective Investment Undertaking defines the corporate governance structure of fund management companies. Article 18 of the Law defines the fit and proper requirements for shareholders, members of the board of directors, auditor, or any other key functionary and Article 17 determines the minimum requirements of the members of the board of directors. However, unlike in the case of insurance companies, the AFSA has not issued a separate regulation that outlines the requirements for the appointment of the board members. The Law dictates minimum requirements for board members, such as at least two executive members of the board who have at least three years of professional experience in a financial institution, have been members of governing bodies, or are licensed investment advisors. AFSA Regulation 110/2016 on the risk management of the management company of collective undertakings determines the core principles and requirements on the internal control framework for responsible and efficient management, the requirements for an effective system of risk management, and requirements for information systems. Management companies are required to comply with the Code of Conduct outlined in AFSA regulation 131/2011 (updated in 2015). Under the Regulation, management companies should establish a compliance unit in charge of monitoring and evaluation of the compliance of business operations with the laws and regulations in force.
89. **The Law on Collective Investment Undertaking prescribes consequences of noncompliance with risk management, internal control and accounting, and financial reporting rules.** Compliance with corporate governance requirements is monitored through the supervision function, and findings and corrective measures are followed up in a timely manner. No self-assessment reporting on compliance is required by the management companies under the existing regulations. However, it is understood that such a requirement will be introduced with the new legal framework. Depending on the significance of the breach, sanctions may range from a warning letter to revocation of the business license⁷³.

⁷³ Article 130, Law on Collective Investment Undertaking.

An electronic reporting platform is not yet available for investment funds companies, unlike insurance companies. Although the general purpose of financial reporting for such companies is not defined in the Accounting Law, it is specified in the Law on Collective Investment Undertakings and AFSA Regulation that the companies should prepare general purpose financial statements based on IFRS. The legal framework on investment funds has not established specific audit committee requirements. Although the Audit Law requires that all PIEs, including fund management companies, establish an audit committee this has not been enforced. With support from donor funded technical assistance, the AFSA is preparing a five year strategy for the development of markets under its supervision (including the investment funds sector), that will further strengthen its developing prudential reporting in line with good international practice.

MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES

Financial Reporting Requirements

90. **All companies, regardless of legal form, are required to prepare annual financial statements in accordance with the Law on Accounting and Financial Reporting.** Companies considered as non-PIEs can choose to prepare their financial statements in accordance with either IFRS or NAS as set out in the Accounting Law. The financial reporting requirements for the reporting entity and groups depend on the category classification of the entities and group into micro, small, medium, and large based on total income, total assets, and number of employees⁷⁴, as presented in the following table. The statutory audit is required to audit and report on compliance of annual financial statements as defined based on the Accounting Law.

Table 7. Summary of financial reporting requirements for the MSMEs

Criteria ⁷⁵	Micro	Small	Medium	NGOs
Total assets	≤ lek 15 million	≤ lek 150 million	≤ lek 750 million	-
Total revenues	≤ lek 30 million	≤ lek 300 million	≤ lek 1,500 million	-

⁷⁴ Article 4, Accounting Law

⁷⁵ Pursuant to Article 4, Accounting Law, if two out of three following criteria are less than the amounts indicated.

Table 7. Summary of financial reporting requirements for the MSMEs

Criteria⁷⁵	Micro	Small	Medium	NGOs
Employees	≤10	≤50	≤250	-
CONTENT OF FINANCIAL REPORTS				
Statement of financial position	*Condensed	Yes	Yes	Yes
Statement of performance	*Condensed	Yes	Yes	Activity Statement
Cash flows statement	No	No	Yes	Yes
Comprehensive income statement	No	No	Yes	No
Changes in shareholder(s') equity	No	No	Yes	N/a
Notes to the financial statements	*Condensed	Yes	Yes	Yes
Management report ⁷⁶	No	No	Yes	No ⁷⁷
Corporate governance report ⁷⁸	No	No	No	No
Report of payments executed toward the public sector ⁷⁹	No	No*	No*	No

Statutory Audit Requirements

91. **While all companies registered as joint stock companies must undergo an annual statutory audit of their financial statements, those registered as limited liability companies must do so only if they apply IFRS when preparing their financial statements or exceed certain thresholds.** Based on Article 41 of the Audit Law, annual statutory audit is required for all limited liability companies preparing financial statements based on NAS that during two

⁷⁶ Article 17, Accounting Law.

⁷⁷ Pursuant to Article 17, Accounting Law, NGOs are required to prepare management report if either total assets or total revenue exceeds lek 30 million.

⁷⁸ Pursuant to Article 19, Accounting Law, PIEs (not small and medium sized) are required to prepare a corporate governance report.

⁷⁹ Pursuant to Article 21 of Accounting Law, all PIEs and large entities are required to prepare an annual payment report to public sector.

consecutive years exceed two out of the following three thresholds: (i) total assets above lek 50 million, (ii) total revenue above lek 100 million; (iii) number of employees 30. The full set of financial statements, as described above, including the audit report when required, must be filed with the tax authorities and NBC respectively by March 31 and July 31 of the consecutive year. Under Article 81 (1) of the Companies Law, the appointment of auditors is the responsibility of the general assembly/ shareholder.

Audit Committee and Risk Monitoring Committees

92. **The amended Audit Law mandates all PIEs, regardless of their size⁸⁰, to establish an audit committee.** The Companies Law does not specifically require an audit committee to be a sub-committee of the supervisory board and leaves it as an option at the discretion of the supervisory board. The PIE criteria, established through Council of Ministers Decision 17/2019, has led to an increase in the number of entities considered as PIEs. As a result, entities considered as PIE may include MSMEs that fall under the criteria because of the nature of the business and are required to be audited even if they are solely managed by the owner or their size does not justify the need to establish an audit committee.

Monitoring and Enforcement – Financial Reporting

93. **The Accounting Law requires the company's management and supervisory boards to ensure that annual financial statements and management reports are prepared in accordance with the legislation and standards in force.** However, the current preparation and presentation of financial statements for MSMEs are more orientated toward compliance with tax legislation rather than the accounting standards. Furthermore, without an operational stock exchange, there is little incentive for good quality financial reporting as an instrument to attract investors.
94. **Compliance with the deadlines for submission of audited financial statements is checked by the bodies responsible for the supervision of the entities, such as tax authorities and the NBC.** Both tax authorities and the NBC apply penalties for delays beyond the legal filing deadlines. Companies must file audited financial statements separately to the tax authorities and the NBC as their systems are not linked, although they maintain regular communication with each other. The current filing format (using PDF documents) does not allow for efficient monitoring of compliance with reporting requirements. The data and information provided through the document file format cannot be easily captured and elaborated for risk and trend analysis. Tax authorities review individual financial statements for those entities that are selected for inspection based on the assessed risk. The tax department, with the support of EQ FINREP, has developed tools and tables for reconciling general purpose financial reporting (NAS and IFRS) to tax reporting. However, such tools have not been adopted in day to day

⁸⁰ Article 46

controls activities; tax inspectors must follow legal requirements in conducting their work so the tax authorities believe an amendment to the Income Tax Law⁸¹ would first be required. Therefore, any harmonization initiative on the tax framework with accounting, financial reporting, and auditing legislation would require amendment in the Tax Law.

95. **There are minimum disclosure requirements determined in the Companies Law and Accounting Law.** MSMEs considered as PIEs are required to publish on their own website the information that is submitted to the NBC, including annual financial statements. In practice, compliance with such requirements is poor.

The Accounting and Audit Laws define whether non-PIEs should prepare financial statements with either IFRS or NAS, and whether an audit is required. The Council of Ministers Decision 17/2019 may cause MSMEs to be considered as PIE because of the nature of the business and having an audit requirement. Currently, the preparation of MSME financial statements is more oriented toward compliance with tax legislation rather than the accounting standards. Reconciliation tools to help bridge the tax report and financial report prepared based on NAS have not been utilized and may first require amendment of the Income Tax Law.

STATE-OWNED ENTERPRISES

Overview of SOEs

96. **SOEs are established under the Companies Law, either as joint stock companies (or Sh.a.) or limited liability companies (or Sh.p.k.).** There are 99 active SOEs⁸², whose majority of shares are owned by either central government (34) or local government (65) that take the legal form of “corporatized SOEs” (1 limited liability company and 98 joint stock companies). Also, there are 30 football/soccer clubs incorporated as companies and mainly owned by the municipal governments. Some public enterprises are regulated by their own special laws such as the National Radio Television and Durres Port Authority. These entities are established as a public legal entity and not registered in the register of companies.
97. **The corporatized SOEs are governed by both the Companies Law and the Law on Corporatization of State Enterprises (The Corporatization Law)⁸³.** The Corporatization Law, adopted in 1995, promulgated all state enterprises to be transformed into either a joint stock

⁸¹ Income Tax Law Nr. 8438/1998 as subsequently amended.

⁸² Excluding the 30 football clubs owned by municipal government and the football federation.

⁸³ The Law on the Corporatization of State Enterprises adopted in 1995, succeeded by several government decisions establishing the criteria for the capital, statute and governing bodies for the corporatized State-Owned Companies.

or a limited liability company following the requirements of the Companies Law and set forth a number of provisions and exceptions that apply to SOEs. The Corporatization Law sets forth the Ministry of Finance and Economy as the representative of the ownership rights of the state property, while assigning an administrative role to the respective line ministries in the relevant sectors. However, the Corporatization Law does not clearly define the difference and responsibilities assigned to each of the roles. The Council of Ministers may reassign the ownership role to other ministries or local governments. The Corporatization Law determines the governance structure of the SOEs and designates the Council of Ministers as the responsible body to define board remuneration, the model statute, and articles. Since then, there has not been a new law regulating the SOEs, and hence the provisions of the 1995 Corporatization Law, as amended from time to time, are still followed by new and existing SOEs. Several government decisions and bylaws have followed that determine the model statute, supervisory boards arrangement, and reassign the owner representative responsibilities to other government bodies. SOEs are also required in theory to comply with other relevant private sector business laws such as the Accounting Law, Audit Law, and Business Register⁸⁴. SOEs are also subject to relevant public sector laws, such as the Organic Budget Law⁸⁵, Public Sector Remuneration Law⁸⁶, Public Sector Internal Audit Law⁸⁷, Financial Management and Control Law, and Public Procurement Law.

98. **Currently, the ownership of SOEs in Albania is spread between the Ministry of Finance and Economy, Ministry of Infrastructure and Energy, and local governments.** Government involvement and monitoring take place at the company level, through government-appointed members on the supervisory board, regular reporting, and the shareholder assembly.

Financial Reporting Requirements for SOEs

99. **The reporting and monitoring mechanism for SOEs is prescribed in the regulations.** It centers around (a) annual economic development programs, which include financial and operational projections for the upcoming year, (b) quarterly reports on program execution to the SOE monitoring units in central and local government, and (c) annual financial statements and audit reports. The financial statements and audit reports are submitted to the SOE monitoring units for approval and decision on the distribution of profits or coverage of losses.
100. **All SOEs, regardless of legal form, are required to prepare annual financial statements in accordance with the Law on Accounting and Financial Reporting.** Companies – including SOEs – prepare their financial statements in accordance with either IFRS or the National

⁸⁴ The Law Nr. 9723 dated May 3, 2007 (and subsequently amended) on the Business Register.

⁸⁵ Organic Budget Law (On the management of the budget system) Nr 9936, dated June 26, 2008 (amended 2012 and 2016)

⁸⁶ Law Nr.10 405, dated March 24, 2011 On the competences for the determination of the salaries and other benefits.

⁸⁷ Law on the Internal Audit in Public Sector (Nr. 114/2015), October 2015.

Accounting Standards based on the criteria established in the Accounting Law. For SOEs, as PIEs, IFRS application is determined based on their size.⁸⁸ With the Council of Ministers Decision 17/2019 on PIEs' criteria, SOEs that are required to be audited are considered as PIEs.

Statutory Audit Requirements for SOEs

101. **All registered joint stock companies, including SOEs, must undergo an annual statutory audit of their financial statements, those registered as limited liability must do so only if they apply IFRS when preparing their financial statements or exceed certain thresholds⁸⁹.** The full set of financial statements, including the audit report when required, must be filed with the tax authorities and the NBC respectively by March 31 and July 31 of the subsequent year.
102. **According to the Companies Law, the appointment of the auditors is the responsibility of the assembly⁹⁰, and such provision is further articulated in the SOE's articles and/or incorporation act. However, the process of selection and appointment of the auditors is not a transparent one.** The auditors are nominated by the SOE monitoring unit (in the Ministry of Finance and Economy and the Ministry of Infrastructure and Energy) based on the public register of statutory auditors, maintained by the IEKA, with little consideration, if any, to technical expertise and capacity. The auditor is then appointed by the Minister acting in the capacity of the sole shareholder. Further, the practice of appointing sole practitioner auditors or consortium of several auditors in almost all the SOEs owned by central government raises concerns about the implementation of the International Standard on Quality Control (ISQC) 1 requirement for a system of quality control for the audits, especially of large and medium-sized SOEs. As a consequence, this practice raises doubts about the quality of the audit in general.
103. **There are cases where the auditor is selected through public procurement procedure (mainly in SOEs owned by the local government).** There is an excessive focus on price competition in the selection of auditors with little consideration, if any, to the technical expertise of the audit firms. The process can lead to questionable quality and frequent (sometimes annual) audit firm rotation limiting the development of auditor expertise on the SOE.

⁸⁸ Article 5 of the Accounting Law requires application of the IFRS for large SOEs that exceeds two out of the following: (i) Reported total assets is above lek 750 million, (ii) total revenue above lek 1.5 billion; or (iii) Number of employees 250. Otherwise National Accounting Standards are applied.

⁸⁹ Based on Article 41 of the Audit Law, annual statutory audit is required for all limited liability companies preparing FS based on NAS, that during two consecutive years exceed 2 out of three thresholds: (i) total assets is above lek 50 million, (ii) total revenue above lek 100 million; (iii) total employee nr 30.

⁹⁰ Article 81 (1) of the Companies Law.

104. **The State Audit Institution (SAI) is the only public institution that performs special audits of SOEs in line with the scope prescribed by legislation, but the institution's capacity limits the number of companies audited each year and the type of the audits conducted.** The legislation⁹¹ stipulates that SOEs fall under the mandate of the SAI. There is a separate department responsible for audits of SOEs at both central and local level. The SAI performs mainly compliance audits in line with ISA and International Standards of Supreme Audit Institutions. No financial audits are conducted. SAI's 2019 audit plan includes nine compliance audits and three IT audits in the major SOEs.

Audit Committee and Risk Monitoring Committee

105. **Audit committees, which have a central role in ensuring adequate financial controls and quality of the external audit, are non-existent.** The amended Audit Law requires all PIEs, including SOEs, to establish an audit committee. Council of Ministers Decision 17/2019 defines SOEs required to be audited as PIE, but the audit committee requirement has not yet been enforced.
106. **Article 13 of the Law on Public Sector Internal Audit (114/2015) requires all public sector entities to establish an internal audit committee.** However, due to the lack of clear implementation guidelines and follow up, this requirement has not been enforced in SOEs. Harmonization of the Internal Audit Law with the Audit Law is needed, especially as since January 2019 SOEs are required to establish an audit committee.
107. **The statutes/bylaws of SOEs do not require the establishment of audit committees.** Boards, especially of corporatized SOEs, should have an oversight role over external auditors, internal audit, and internal controls of the entity. Council of Ministers Decision 17/2019 (see paragraph 105 above) requires SOEs that fit the audit requirements to have audit committees, but this has not yet been included in SOEs statutes/bylaws.

Monitoring and Enforcement – Financial Reporting

108. **Annually, the SOE's supervisory board submits the audited financial statements to the respective SOE monitoring units in central and local government for adoption of the financial statements by the owner, and decision on the distribution of profits or coverage of losses.** The SOE monitoring unit reviews and conducts basic financial statement analysis. No comparison is made between audited and non-audited figures in the quarterly financial reports as part of the monitoring that takes place. Likewise, no action is taken to address qualifications in audit reports, with some SOEs having the same qualifications recurring each year. There are exceptions, however, especially for those SOEs that are implementing investments financed by international finance institutions whose requirements for quality

⁹¹ Law on the organization and functioning of SAI (154/2014), November 2014

audits and corrective measures on the audit findings are binding for the management. The underlying reasons for weak monitoring and enforcement are a combined effect of the gaps in the legal framework with respect to regular monitoring of the financial performance in SOE sector (at the aggregate and company level) as well as a lack of the required skill set to review the quality of financial statements in the SOE monitoring units.

109. **There are minimum disclosure requirements for SOEs at the entity level determined in the Companies Law and Law on Accounting and Financial Reporting.** All SOEs and private companies (medium, large, and public interest) are required to publish on their own website the information that is submitted to the NBC, including annual financial statements, annual activity progress report, and audit report when required. The annual report should include a good governance and management statement that includes biographies of management and members of the boards. In practice, compliance with such requirements is poor. Generally, SOEs do not regularly submit their annual reports to the NBC. Larger SOEs do not always regularly publish the required information on their websites, while smaller SOEs do not even have company websites.
110. **Disclosure requirements at the entity level are regulated by the Law on Right to Information (119/2014).** This provides for the rules that guarantee the right of the public to information produced and maintained by public authorities, including SOEs. There are several types of documents that the entities should disclose comprising information on the entity, applicable legislation and policy documents, information on the management, annual budgets and financial reports, management oversight mechanisms, and reports. However, the Law does not establish specific requirements for SOEs. Furthermore, the respective bodies that monitor compliance have limited expertise in the SOEs and how the specific requirements translate into the company governance framework, contributing to the low implementation of the requirements of the law. The Government is preparing the updated CAP which includes enhancement of accounting and auditing for the SOE sector that is consistent with the requirements of the *acquis communautaire* and international good practice on financial management and governance of SOEs and in line with the SOE reform agenda in the country.

Corporate Governance

111. **SOEs' corporate structure, depending on their legal form, is defined by the Companies Law. However, provisions of the Corporatization Law and relevant regulations also apply.** The SOE, regardless of legal form, has an assembly of shareholders, which functions as the company's supreme decision-making body. The assembly has the role of owner, exercising its role mainly through voting on important decisions, including in modifying the statutes, changing the capital, voting dividends, or adopting financial statements; and the boards being appointed by shareholders to oversee management and ensure shareholder interests are legally protected. The governing bodies are the supervisory board (comprising only non-executive directors) or the administrative board and the general manager.

112. **All SOEs, regardless of their legal form, must elect a supervisory or administrative board.** Strategic⁹² SOEs must form a supervisory board comprising six members, while non-strategic, small and medium-sized SOEs require only three members.⁹³ The members of the board are appointed by the representative of the owner, usually for a period of three to four years (period determined in the statute). Two-thirds of board members are nominated by the owner representative and one third by the sector line ministry. No member should have any conflict of interest⁹⁴ and should not be part of more than two supervisory boards.
113. **In contrast, for the water utilities the general assembly appoints an administrative board.**⁹⁵ Three members are appointed for a term of three years, two of the members are independent. The board requirements are determined through the model of statute approved for the water utilities.
114. **Setting the number of supervisory board members (six for strategic and three for non-strategic) regardless of the size or complexity of the company is not considered to be good practice.** Instead, providing an acceptable range (for example, three to nine) is preferable, allowing the board size and composition to better adapt to the business needs of the company. Board members are remunerated for their work, and remuneration is defined by the Government. Generally, there are significant areas for improvement concerning board composition, independence, competence, and appointment process.

All SOEs are required to prepare financial statements in accordance with the Accounting Law either based on IFRS or NAS determined by their size. Following Council of Ministers decision 17/2019 on PIEs criteria, SOEs required to be audited fall under PIEs classification. For SOEs owned by the central government, the process of selection and appointment of the auditors may not be happening in a transparent way with nomination and appointment by central government. Even for those conducted through a public procurement process, selection criteria are more focused on the lowest audit fee rather than technical expertise. Although all SOEs now might be considered as PIEs, the requirement for establishment of an audit committee has not been enforced.

⁹² Strategic SOEs consist of SOEs that fall under the Strategic Economic Sectors as defined by art 8 of the Law on Strategic Investments. The strategic economic sectors comprise: (a) energy and extractive industry, (b) transport, electronic communication, urban waste, (c) tourism, (d) agriculture and (e) technological and economic zones.

⁹³ CoMD 570 on Supervisory Boards of Joint Stock SOEs, dated 3.10.2018.

⁹⁴ The CoMD 570 on Supervisory Boards of Joint Stock SOEs, dated 3.10.2018 indicates that (i) executive directors of the commercial companies, (ii) executive directors of SOEs and (ii) audit professionals working the local and central government cannot be appointed as member of the SOEs supervisory boards if there is a conflict of interest as defined in the Law 9367, dated 7.4.2005, "On the Prevention of the Conflict of Interest in Exercising Public Functions".

⁹⁵ Council of Ministers Decision No. 63, dated 27.1.2016 "On the Reorganization of the Water Utilities".

THE ACCOUNTANCY PROFESSION

115. **The profession in Albania is segmented between certified accountants and auditors.** The two parts of the profession have separate requirements, membership bodies, as well as monitoring and enforcement mechanisms. The profession is regulated under the Audit Law, in which auditors are referred as “statutory auditors” and professional accountants as “certified accountants”.
116. **The statutory auditor should be registered in the public register of statutory auditors and audit firms to be able to practice.** The register is managed by the Registration Committee under the IEKA, comprising representatives from the IEKA and the Ministry of Finance and Economy. The Registration Committee is responsible for managing the public register of statutory auditors and audit firms, including foreign statutory auditors and audit firms. The Audit Law requires that auditors and audit firms should be members of the PAO to be able to practice as statutory auditors in Albania. Audit engagements may be conducted by a group of legal auditors or audit firms.
117. **The Audit Law stipulates that the professional organization of statutory auditors is the IEKA.** In addition to relevant provisions in the Audit Law, the IEKA established detailed rules in their own statute, which is approved by the Minister of Finance. The IEKA was established in 1997.⁹⁶ It has been an IFAC member since 2000 and is also a member of the International Federation of Francophone Accountants, Federation of Mediterranean Accountants and European Federation of Accountants and Auditors for SMEs.
118. **The IEKA’s governance consists of the General Assembly of Members, Steering Council, Internal Control Committee, and Executive Director.** The General Assembly has the ultimate decision making power and through secret ballots elects the members of the Steering Council and Internal Control Committee for a four-year term. The Council manages the organization following General Assembly decisions and has the responsibility to report to the General Assembly. The Chair and Deputy Chair can be re-elected for a maximum of two terms. Internal Control Committee members can also be re-elected for another term with four years grace period after completion of the first term. The Chair of the Steering Council represents the IEKA and has the power to convene the General Assembly. The day-to-day operation of the IEKA is carried out by administrative units led by the Executive Director.
119. **There are several permanent committees within the IEKA, i.e. Registration Committee, CPD Committee, Professional Education Committee, Quality Control Committee, and the Investigation and Discipline Committee.** In accordance with the Audit Law, the IEKA can conduct investigations in cases of non-compliance and failure with the application of technical

⁹⁶ Registered at the Court of the Judicial District, Tirana with Decision 3537/1998.

standards and professional ethics by auditors. The IEKA refers the result of the investigation to the POB for review and decisions on disciplinary measures.

120. **The IEKA is funded, according to the Audit Law, by revenues from members including fines and penalties, provision of training courses, publications, and services provided to third parties.** The IEKA also receives income from its investment assets, donation, grants, and other sources. The use of these funds is regulated in the IEKA statute.
121. **The IEKA annual membership fee is relatively high and comparable to reputable foreign PAOs.** The annual membership fee consists of a fixed fee plus a variable fee for practicing individuals and audit firms calculated based on audit fees received. The fixed fee is lek 70,000 (approximately USD 633) and the additional variable fee is between 0.3 to 0.5 percent of total annual turnover. Candidates and non-practicing auditor members pay a lower fixed annual fee of lek 12,000 and lek 7,000, respectively.
122. **There are concerns about the cost of membership and other outgoings in an audit market with fairly flat fees.** Some auditors raised concerns that they must pay for IEKA membership and also pay the POB for quality assurance activities, while the audit fee is not very competitive in Albania. As there is no capital market, audits are primarily conducted to meet the requirements of law and regulations or at the request of foreign investors. With the number of services providers available in the market, clients tend to shop for auditors with reasonable fees (and allegedly for those willing to give an agreeable audit opinion). The IEKA is also concerned that members are reluctant to pay membership fees due to marginal income.
123. **Members of the Professional Skill Exam Commission are entitled to fixed remuneration.** The fixed remuneration is approved by the POB.
124. **The IEKA has 222 active members practicing in the profession, consisting of 125 sole practitioners and 97 auditors as part of audit firms.** Members are mostly based in the capital city. Only 26 percent of auditors are located outside of Tirana. In early 2019, 15 potential statutory auditors were applying to register. 175 candidates are registered with the IEKA who are currently part of internship programs with sole practitioners or audit firms. The IEKA has no power to revoke a member's license in the case of misconduct by members. In such a case, the IEKA shall inform and make a recommendation to the POB, which takes the decision and applies sanctions.
125. **In accordance with the Audit Law, certified accountants are professionals registered as a member of a PAO, contracted by a legal person to perform external accounting services.** Certified accountants may perform other services if they do not contradict the applicable legislation requirements. There are three existing PAOs in Albania, the IKM, the AAFEA, and the ACA. The Law does not specify membership of which PAO. The POB Regulation No. 9/2019 regarding "Regulation and Supervision of Professional Accountants and the Professional

Organizations of Chartered Accountant” defined criteria required from PAOs in accordance with the IFAC requirements.⁹⁷

126. **The Audit Law requires PAOs to have at least 50 members (individuals or firms) that are actively providing accounting services.** As of December 31, 2016, the AAFEA claimed to have 4,804 members and 312 student members. The ACA did not provide any numbers, while the IKM had 937 full members⁹⁸. The AAFEA has a program for student members; the IKM has no program for student members but encourages students to enroll as a candidate until they receive the Certified Accountant designation.
127. **The IKM was established in 2000 and is an Associate Member of IFAC since 2012.** IKM is pursuing full IFAC membership with support from the POB, the NAC, and the IEKA to fulfill the IFAC Statement of Membership Obligations (SMO). The status of SMO fulfillment available on the IFAC website dated September 2016⁹⁹ showed that the IKM is executing *SMO 4: Code of Ethics*, reviewing and improving *SMO 1: Quality Assurance* and *SMO 2: IES*, and considering *SMO 6: Investigation and Discipline*.¹⁰⁰ IKM maintains a role in supporting the NAC and is involved in the adoption process of IPSAS (*SMO 5*) and IFRS (*SMO 7*).
128. **The IKM is governed by the Managing Council led by the President.** Managing Council members are elected by a vote in the General Assembly every four years with the possibility to be re-elected for another period consecutively. The Managing Council membership is on a voluntary basis. Daily operations are conducted by a full-time Chief Executive Officer, nominated by the Managing Council, supported by full time and part-time staff. To become a member of the IKM, individuals should have a university diploma with relevant background, three years of related professional experience, have attended the qualification training courses on IFRS and NAS by IKM, and have the certified accountant designation. The certified accountant license is issued by the POB.
129. **The number of new full members of the IKM has been low in the past three years¹⁰¹, while the number of new associate members has been steady at more than 170 associate members per year.** In addition to its 1,027 full members, the IKM has 1,727 associate members (Certified Accountant candidates). Based on the 2018 data, 232 of the full members are providing non-assurance services.
130. **IKM funding comes from membership fees, training and education activities, and other sources such as training materials.** The IKM is facing difficulties in collecting membership

⁹⁷ Following the POB scrutinizing the PAOs, IKM has been recognized based on criteria in the POB regulation.

⁹⁸ Assessment Report of the Accountancy Organization using the IFAC membership obligations and standards as Benchmark, EQ-FINREP, March 2018

⁹⁹ <https://www.ifac.org/about-ifac/membership/members/instituti-i-kontabilist-ve-t-miratuar>

¹⁰⁰ IKM submitted updated SMO progress information in September 2019 that was published on the IFAC website in October 2019. The status of updated SMO fulfillment showed that IKM is reviewing and improving SMO 1, and executing SMO 2, SMO 4, and SMO 6.

¹⁰¹ 13 new members in 2015 and 23 in 2017. No new members in 2016.

fees. For practitioners, the membership fee is around lek 10,000 annually, while for non-practitioners, the membership fee is around lek 5,000 per year.

131. **In 2018 an Investigative & Disciplinary Committee was established, with members elected by the Managing Council of IKM.** To help achieve *SMO 6*, the IKM has set up an Investigative and Disciplinary Committee responsible for investigating cases of potential misconduct and recommending disciplinary measures to the Council. Sanctions for misconduct may range from a reprimand, records of violation in the IKM registry, imposition of a penalty, to suspension or revocation of IKM membership. Enforcement is being taken seriously even before the establishment of the Investigative and Disciplinary Committee, demonstrated by the Managing Council revoking 64 full memberships in 2016 due to failure to fulfill the requirements.
132. **The POB is introducing greater oversight of the PAOs and tackling the issue of people falsely claiming to be certified accountants.** The POB recently issued a regulation¹⁰² concerning the certified accountant profession and its professional associations to implement the strategy of improved oversight of the PAOs, verification of holders of the certified accountant designation, and regulation of the CPD arrangements. The amended Audit Law requires the PAOs to comply with IFAC requirements. With the support of EQ-FINREP, the POB prepared an action plan and roadmap for the development of PAOs. Using IFAC membership obligations and standards as the benchmark, of the three PAOs only IKM is an IFAC Associate Member and has committed to complying with IFAC requirements. It has completed a revised CPD strategy that is aligned with IES and is planning to implement it. AAFEA and ACA have not submitted SMOs to IFAC and a high level assessment completed under EQ FINREP revealed that neither have complied with IFAC SMO requirements, in particular *SMO 1*, *SMO 2*, *SMO 4* and *SMO 6*¹⁰³.
133. **The POB is planning to publish the list of certified accountants' PAOs and registered certified accountants on its website.** The POB plan is expected to resolve the issue of people falsely claiming to be certified accountants when preparing financial statements for clients. Although the cost of verification would be paid by the accountants, implementation of this agenda will add to the POB workload and as they currently only have limited staff, they may need additional resources to conduct this verification process.

Statutory auditors and audit firms are required to be registered in the public register to be able to practice. The Audit Law requires them to be members of the IEKA. In the case of members' indiscipline, the IEKA informs and makes a recommendation to the POB who decides on the application of sanctions and may remove the auditors from the public

¹⁰² POB Regulation No. 9, dated 27.02.2019

¹⁰³ Albania EQ FINREP, Deliverable 20: Assessment Report of the Accountancy Organizations using as Benchmark the IFAC membership obligations and standards, March 2018

register. The profession raised concerns regarding their imposed costs for being a member of the PAO and for POB quality assurance activities while audit fee growth is fairly flat. The IKM is pursuing full IFAC membership, while the IEKA has been full member since 2000. The POB is introducing greater oversight of Certified Accountants and the PAOs.

PROFESSIONAL EDUCATION AND TRAINING

134. **The quality of accountancy tertiary education has improved, especially in the capital city.** There are 20 universities offering accountancy programs in Albania. The majority are located in Tirana. With the support of EQ FINREP, the curricula of leading universities in Tirana are aligned with IES and international standards have been incorporated into learning materials.
135. **Accountancy remains one of the most popular programs at university level due to high demand in the job market.** There is a perception that state university graduates are more market-ready than private university graduates. A notable good practice is how the University of Tirana maintains a low teacher-student ratio to ensure the quality of education, although this could be difficult to maintain in the future as recruitment of lecturers is not promising. Accounting lecturer positions can fail to attract many applicants, due to uncompetitive remuneration and the lack of updated teaching materials. IFRS, ISA, and the International Ethics Standards Board for Accountants Code of Ethics are continuously updated and many lecturers must rely on their personal resources to keep their teaching materials up to date. The absence of latest standards available in the local language is an additional barrier for some lecturers to update their teaching materials.
136. **Student internships with prominent employers, such as international network large audit firms, are ongoing although there are fewer opportunities than previously.** Employers perceive internship programs as a good way for students to prepare themselves for the job world. Employers felt that without an internship, students would not be ready for a real-world situation. For some high performing students, the internship was followed by permanent employment when they graduated.

Box 3. Good Practices in Professional Education and Training¹⁰⁴

Practical experience is an essential component of initial professional development, aiming to supplement formal education and reinforce learning through the application of knowledge in a real-world situation. The accountancy program of the Faculty of Economics

¹⁰⁴ Accountancy Education, A Collection of Good Practice, Albania, Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro and Serbia, Centre for Financial Reporting Reform, World Bank, 2017

Box 3. Good Practices in Professional Education and Training¹⁰⁴

of the University of Tirana has introduced a practical experience requirement for all accountancy students. All students in undergraduate or master's programs must complete a three-month internship requirement as a condition for graduation. Also, established practitioners are engaged on a part-time basis as lecturers. Part-time lecturers from foreign universities and from the profession and the private sector are invited frequently to deliver presentations, workshops, and seminars. This approach gives students valuable insights into real-world accountancy work practices.

A quality learning environment is central to achieving excellence in education. The Faculty of Economics at the University of Tirana maintains low teacher-student ratios. Lower lecturer-student ratios are a factor often cited as contributing towards the creation of a higher quality learning environment. The benefits include that lecturers have more manageable workloads, more time to work one-on-one with students, opportunity to develop an individual approach to each student, and lecturers can engage more with students during the teaching process and try out different activities that might not be feasible in larger classes.

Public confidence and trust in the profession are linked to the quality of the services that professional accountants can provide. They have an ethical obligation to clients, employers, and other stakeholders to undertake their work with due care and diligence. By engaging in CPD activities, professional accountants continue to learn throughout their career, therefore maintaining and upgrading their skills so the quality of their work can remain at a good quality level and keep pace with developments in the accountancy world. The IEKA Managing Council is mandated by the Audit Law¹⁰⁵ to conduct periodic tests of knowledge gained during CPD to assess the professional competence of its members. These assessments should be done on a cyclical basis between three and five years. The IEKA is required to make the results of the assessment available to the public and submit a copy to the audit oversight body. The IEKA Managing Council reviews the results and is required to take corrective measures where applicable, which may include revoking membership. The IEKA is also required to monitor to ensure that CPD records provided by auditors are accurate and complete. A false declaration would trigger the IEKA to revoke membership and inform the POB who would revoke the statutory auditor status from the Register.

137. **Requirements to be registered as a Statutory Auditor or Certified Accountant include holding a master's degree in accounting, finance, business administration, economics or**

¹⁰⁵ Article 25.5

equivalent; a minimum of three years practical experience; and passing the professional exam. EU legislation only requires a university degree, it does not specify that it should be a master's degree.

138. **Candidates for Statutory Auditor and Certified Accountant take an exam managed by the Professional Skill Exam Commission.** The Professional Skill Exam Commission is an independent commission responsible for organizing the final examination for Certified Accountant and Statutory Auditor candidates under the POB that replaced the previous Examination Commission appointed by the Minister of Economy and Finance. Following the enactment of the Accounting Law, the new Commission was established in March 2018. The POB has issued Regulation 2 concerning the "Professional Skill Exam Function and Oversight of the Statutory Auditor and Certified Accountant Professional Exam" and Regulation 6 concerning "Exam Procedures and Evaluation System of the Statutory Auditor and Certified Accountant Professional Exam". The Commission resumed the 2016 Professional Examination in June 2018 and organized the 2018 Professional Examination between July to December 2018.
139. **The average number of statutory auditor candidates enrolled in the final examination in the past four years was about 250 participants.** The number doubled in 2018 as no exam was conducted in 2017. The average percentage level of students who passed the exams between 2015 and 2018 are varied but low, from 18.5 percent to 31 percent. The main contributors to the low pass rate are the limited availability of training centers for candidates as well as limited availability of good study materials that align with international standards. It is understandable that such training is provided through PAOs in Albania, but more work needs to be done to help students prepare for the exams.
140. **The IEKA is responsible for developing curricula to prepare and professionally train candidates seeking to enter the audit profession and organizing and monitoring the training process.** The IEKA received support from EQ FINREP in developing the new curriculum modules, based on IES, using materials from the ACCA. It is expected that the next exam will be based on the new modules.
141. **Statutory auditor candidates should have a minimum three years of practical experience (internship) with a reputable statutory auditor or audit firm recognized by the IEKA with proper supervision from an active statutory auditor that has been practicing at least three years.** At least two-thirds of the practical experience should be completed with a statutory auditor or audit firm registered in Albania. During the three years of practical experience, the candidate must perform at least 600 hours of work in audit engagements. Reports from the employer on the candidate's progress are submitted to the IEKA every six months and at the end. Upon completion of the internship, the candidate prepares a professional paper, that includes theoretical and practical treatments in the audit profession, which they present before the Professional Skill Exam Commission.

142. **Certified accountant candidates must have at least three years of practical experience in accountancy, finance, financial reporting, or related fields.** Unlike for the statutory auditor, there is no existing system to monitor candidate compliance with the practical experience requirements. The candidate is required to bring documentation from the employer as evidence of practical experience when registering for the professional exam and is then assessed by the Professional Skill Exam Commission.
143. **There is a legal requirement of at least 40 hours compulsory CPD annually for statutory auditors, which is aligned with IFAC.** The IEKA is responsible for monitoring and evaluating the fulfillment of the CPD hours by the member and needs to approve any CPD hours it does not deliver. The POB reviews fulfillment of CPD requirements and takes necessary measures in case of non-compliance.
144. **Both the AAFFA and the IKM conduct a CPD program for their members, while ACA refers to the CPD program conducted by the IEKA and the IKM.** The IKM requires 40 hours of CPD annually of its members with the strategy of a combination of an internal and external program. Since becoming an IFAC Associate member, IKM is improving its CPD requirements to comply with IES, including increasing the CPD hours from 30 to 40 annually and starting to monitor its members' compliance on CPD fulfillment¹⁰⁶.

The curricula of leading universities in Tirana are aligned with IES. Accountancy is now one of the most popular programs due to high demand in the job market. The current good teacher-student ratio may hard to maintain in the future if the younger generation is not attracted to become lecturers. Fewer opportunities are available for student internships with prominent employers. The Professional Skill Exam Commission responsible for statutory auditor and certified accountant exams is established and fully functioning since March 2018. The exam pass rate is notably low, due to limited availability of training centers and study materials. EQ FINREP is supporting the IEKA with international study materials that are being translated. The IEKA and only one of the three PAOs, the IKM, has an appropriately structured system of education, exam, practical experience, and CPD requirements. The IEKA monitoring of students' fulfillment of practical experience requirements before becoming statutory auditor reflects good practice, none of the PAOs yet have a similar system in place for aspiring certified accountants.

SETTING ACCOUNTING STANDARDS

145. **Accounting standards are set by the NAC.** It is responsible for (i) translating IFRS into Albanian, and (ii) drafting and publishing NAS.

¹⁰⁶ <https://www.ifac.org/about-ifac/membership/members/instituti-i-kontabilist-ve-t-miratuar>

146. **The NAC is an independent public professional body with the status of a legal person.** Members of the NAC are mandated by order of the Minister of Finance for a 4-year term and can be re-elected for another term with the approval of the Minister. NAC members require a relevant background, i.e. have accounting and/or finance degree, expertise in accounting theory and methodology, or are accounting practitioners.
147. **The members of the NAC elect one member as chair and one member as deputy chair.** Under the new Accounting Law effective January 1, 2019, the size of the NAC has changed from nine to seven members. The new law has also changed its composition (see Table 8 below): economic faculties of universities no longer nominate members; the Chamber of Commerce or Banks Association nominates only one member; and one member is nominated by the POB. This means only one member can be nominated from PIEs regulators or PIEs (previously there were two representatives from the Chamber of Commerce or PIEs regulators).

Table 8. Membership of NAC

Institution	Members
The professional organization of statutory auditing (IEKA)	1
The professional associations of accounting	1
The Chamber of Commerce	1
Ministry of Finance and Economy	3
POB	1

148. **Standard setting activities are funded by the state budget.** The annual budget is about lek 12.5 million (approximately €100,000). All members of the NAC work on a part-time basis supported by an administrative team, currently comprising one Executive Director, three inspectors, and two support staff. The structure, appointments, staff salaries, and royalties for NAC members are approved by Council of Ministers Decision. With its new mandate to monitor the implementation of the accounting standards under the Accounting Law, the NAC will need at least five reviewers.
149. **The NAC approves an annual work program.** The staff report work program progress on a monthly and annual basis to the NAC. An annual NAC report is prepared and submitted to the Minister of Finance within the first quarter of the following year.

150. **The Accounting Law requires PIEs to apply IFRS for the preparation and presentation of financial statements, while MSMEs apply NAS.** PIEs with criteria not exceeding the limits of medium-sized entities can apply NAS. The Law allows the voluntary application of IFRS. In accordance with the Law, IFRS are the standards and interpretations developed and published by the IASB, translated into Albanian under the NAC. They are translated without any changes from the original English language text.
151. **There is an established process for endorsing new standards as issued by the IASB.** New standards are translated into Albanian and reviewed by the Reviewing Committee under the NAC. The Minister of Finance then issues a decree as approval and application of the standard becomes mandatory. The translation and endorsement processes take up to six months on average. Establishment of a transparent standards-setting process has been assisted by the CFREP and EQ-FINREP.
152. **A process to add and revise NAS has been put in place.** This is as follows:
- *Developing standards.* The NAC draft new or revised standards. No discussion papers are produced as part of the development process for new or revised standards.
 - *Circulating standards.* The draft or revised standards are published on the NAC website, sent to the PAOs and audit firms, and discussed in a focus group with interested stakeholders.
 - *Public consultation period.* A six month consultation period is opened for the public through the NAC official website. The public consultation is regulated under Regulation 672/2005. The NAC is not required to respond to comments received in the consultation process.
 - *Issuing new or revised standards.* Implementation guidelines are prepared where necessary. The Council discusses and approves the guidelines.
 - *Identifying any issues in the application of the standard.* Where issues are noted, a working group is established to revise the standard.
153. **The NAC disseminates the new and revised standards for both IFRS and NAS to the profession and wider stakeholders such as academia and the public.** The dissemination process includes publishing in the Official Gazette, and on the website of the Ministry of Finance and Economy and the NAC, and distributing at the NAC biennial conference, workshops, and seminars.
154. **The NAC has not been actively involved in the IASB standard setting process.** A representative of the NAC participates in the IASB Annual Conference although not regularly.

There is an established process for endorsing new and revised IFRS as issued by IASB. The process to develop and revise NAS has also been put in place. The NAC disseminates the new and revised standards of IFRS and NAS widely.

SETTING AUDITING STANDARDS

155. **ISA is adopted as issued by the IAASB.** The IEKA has responsibility for translating ISAs into the Albanian language but, unlike with IFRS, translation of the ISAs is not a condition for them being adopted in the country.
156. **The translation and publication of new and revised standards are not happening systematically.** The Audit Law stipulates that the translation and publication of new and revised ISAs should be done on a timely basis. The initial official translation of ISAs in accordance with IFAC translation policy was based on the 2010 version of ISAs¹⁰⁷. This activity was supported by the CFREP. Translation is carried out by two approved translators and validated by an independent quality reviewer. The translation is then approved by IEKA's Council. Subsequent translations include the set of revised and new standards on auditor reporting published by IAASB in January 2015, finalized and published in 2018. No subsequent updates have been translated. There is no process in place to ensure that amended and new standards as published by IAASB are translated and published on a timely basis.
157. **The IEKA disseminates the translated ISAs locally through various channels.** Dissemination of standards is achieved through various publications, conferences, workshops, and continuing professional education programs. However, apart from the 2015 updates, the translated ISAs are not published on the IEKA website or by any other electronic means that would make them easily accessible to various groups, including academia, students, and audit and accounting professionals.
158. **The IEKA has not been actively involved in the IAASB standard-setting process.** A representative of IEKA participates in the IASB Annual Conference although not regularly.

ISA is adopted as issued by the IAASB. The translation and publication of new and revised ISAs are not happening systematically. Apart from the 2015 updates, the IEKA has not published the translated ISAs on the IEKA website or any other channels to make them easily accessible to wider stakeholders.

¹⁰⁷ The translation process is facilitated by TRADOS software.

AUDIT REGULATION, QUALITY ASSURANCE, AND PUBLIC OVERSIGHT

Regulatory environment for auditors

159. **Statutory auditors and audit firms in Albania are regulated by the Audit Law.** The Law establishes the licensing requirements, rights, and obligations, and other rules governing the provision of the audit and other services. The Law also regulates the use of the title “statutory auditor”. Licenses are issued for a lifetime, but auditors need to comply with the legal requirements. All statutory auditors and audit firms must be members of the IEKA. For more details on qualification and licensing requirements see section III “The accountancy profession” and “Professional education and training” in this report.
160. **There are 222 statutory auditors and 65 audit firms registered in the Public Register of Statutory Auditors, which is publicly available on the IEKA website.** Auditors are either members of audit firms (97 auditors) or practice as sole practitioners (125 auditors). All audit firms are domestic firms registered with the NBC either as limited liability companies or as joint stock companies. In 2018, about 2,600 commercial enterprises met the criteria for audit requirements in accordance with the Audit Law.
161. **Audit firms must prepare an annual transparency report.** The amended Audit Law requires preparation and publication of an annual transparency report within three months from the close of the year by audit firms that carry out an audit of PIEs, including information on the basis of remuneration of partners/shareholders.
162. **There are no mutual recognition agreements to recognize other countries’ auditor licenses in Albania.** However, the law allows for applicants holding a foreign accountancy qualification (Albanian and other nationalities) not to have to undergo the full qualification process. Applicants who hold a foreign accountancy qualification equivalent to “Statutory Auditor”, are registered in a foreign professional organization of statutory auditors, and whose foreign professional program complies at least 75% with the Albanian professional program are exempted from the practical experience requirements and only required to take two subjects of professional exams on local tax and business law. This is partially in compliance with the EU Audit Directive, as the Audit Law includes any country, unlike the EU legislation which specifies only statutory auditors approved in other EU Member States.
163. **The amended Audit Law requires that the reviewing partner in an engagement who conducts the quality assurance review should be a designated “statutory auditor”.** It is noted that in the case of international network audit firms, the reviewing partner is often located in another country and may not hold a qualification equivalent to the Albanian “statutory auditor”. The POB plans to address this by issuing an explanatory note after pre-agreement with stakeholders, this may also require legal amendments.

164. **The Audit Law exempts Albanian citizens who are CPA¹⁰⁸ and ACCA holders and registered as full members of CPA and ACCA from the practical experience requirements.** There are two CPA and 14 ACCA registered auditors practicing in Albania.
165. **The Audit Law requires that to perform an audit the auditor or audit firm must have professional indemnity insurance, or agreement with the client to cap their liability recorded in the engagement letter.** The legal framework does not indicate the minimum coverage value of professional indemnity insurance. Several audit firms obtain professional indemnity insurance to cover audit risk. Audit firms that are part of international networks follow network policy. Professional indemnity is covered during the quality assurance review process. There is no aggregate data available on how this requirement is being implemented, but there have been no reported cases of claims in the past.
166. **Non-audit services provided by auditors, such as accounting services, quality assurance reviews, and other services, are subject to the independence and avoidance of conflict of interest provisions of the Audit Law.** Non-audit services must not be against the scope of the law, professional standards, or the code of ethics. In all cases, auditors and audit firms must follow the Law regarding independence and avoidance of conflict of interest. The Law does not introduce prohibited non-audit services to PIEs audit clients, as stipulated in the EU Audit Directive. The Law states that the auditor or audit firm of listed companies, banks, or insurance companies might offer, in addition to audit service, other services to the extent that the third party does not perceive any independence infringements¹⁰⁹. Any infringement cases should be reported to the POB. It seems to be a widespread practice in Albania that auditors extend their service by providing advice to improve the poor quality of financial statements before conducting the audit.

Quality assurance and audit oversight system

167. **The POB was established in 2009 as a regulatory authority and is responsible for oversight of the accounting and audit professions, firms, and their professional bodies, in accordance with the Audit Law and Council of Ministers Decree 874/2009.** The Law was substantially amended in 2016 to strengthen the POB in terms of human and financial resources, operations, and to enhance the investigation and discipline and quality assurance review. The amendment established that the quality assurance activity is performed by the POB, with the option to delegate to the IEKA for auditors/audit firms conducting audits of non-PIEs. Currently, only the POB carries out quality assurance which covers auditors and audit firms of PIEs. The regulation¹¹⁰ supporting the Audit Law was approved on March 29, 2018 regarding

¹⁰⁸ Certified public accountant accredited by the American Institute of Certified Public Accountants

¹⁰⁹ Audit Law, Article 33.5

¹¹⁰ Regulation No. 5 March 29, 2018 "On the Organization and Functioning of the Technical Secretariat of the POB"

POB organization structure and job descriptions of POB staff, including inspectors for statutory auditors, inspectors for certified accountants, and administrative staff.

168. **The POB's main activities are establishing its function as an independent regulatory authority.** This includes the appointment of its board members, approval of its statute, preparing regulations, hiring international and local experts, and preparing a POB strategy document and inspection manual. The POB comprises five non-practitioners; a chair and three members proposed by the Minister of Finance (of which one is selected by the higher education institutions) and one member proposed by the Parliamentary Commission responsible for Economy and Finance. Board members must have experience in legal, accounting, and audit matters and are appointed by the Minister of Finance for a four-year period, with the possibility of re-election for two more periods. The Council of Ministers approves the selection and dismissal of POB members, the organization and job descriptions of the POB, remuneration of POB members, and job descriptions and the salary of the technical secretariat staff.
169. **The POB is funded from its own sources and the annual state budget.** Own sources are (i) 3 percent commission of PIE's audit fees, (ii) contribution from the IEKA, (iii) disciplinary procedures costs imposed on transgressing auditors/audit firms by the POB, (iv) any surplus from the provision of candidates' professional exams, and (v) other resources independent from the profession, e.g. EQ FINREP support to the POB. The POB's funding allocation from the state budget may be deducted based on any surplus from the previous year. The POB annual budget in 2018 for quality assurance activities of audits of PIEs in Albania was € 40,522.
170. **The POB is independent of the profession.** The Board members are non-practitioners and should be independent of all IEKA bodies. In accordance with the Audit Law, the POB is established with the status of an independent regulatory authority and therefore should be independent from undue influence. When the POB contracts experts to carry out specific inspections, the Audit Law requires that they are independent of the audit profession. The experts should fulfill the inspector requirements as stated in the Audit Law in terms of background, experience, as well as independence from the profession. There is a minimum grace period of three years following their termination as a partner for an ex-auditor to become an expert or from employment or association with a statutory auditor or an audit firm.
171. **The POB is required to report annually on its activities.** The report is submitted to the Minister of Finance and published on the POB website no later than three months after the end of the year. POB annual reports are available on their website. The report contains information on inspection activities, findings from inspections along with recommendations, and the POB plan for the upcoming year. Although the POB role as oversight body covers both statutory auditors and certified accountants and their professional bodies, the Audit Law on

POB reporting requirements only refers to issues with the statutory auditors and their mitigation measures and solutions¹¹¹.

172. **The POB is focused on further strengthening its capacity to conduct more effective oversight.** In 2018 there was a focus on oversight of auditors and audit firms and improving the regulatory framework by drafting new regulations. The POB, assisted by international experts financed by EQ FINREP, has prepared a strategic document mapping POB responsibilities and priorities and including an annual work plan as part of the mid-term work plan (four-years period). The technical assistance is also helping the POB, the BOA, and the AFSA to establish effective cooperation to ensure the quality of audits in financial sector entities; and assisting the POB to carry out 15 inspections of audits of financial sector entities and other PIEs.
173. **The POB faced some challenges in conducting quality assurance in terms of getting access to information.** POB inspectors have had difficulties accessing information from auditors/audit firms in a timely manner to conduct quality assurance as defined in the amended Audit Law. They have received only partial disclosure regarding clients and services provided by the auditors (only for PIE clients) and have had difficulties getting comprehensive information on budgeted fees per hour, current spending, and relevant fees for all commitments. From the auditors/audit firms' side, especially those working within an international network, they needed some time to get clearances from their headquarters to provide the information. Furthermore, there is some confusion for the auditors as they are required to provide similar information regarding clients and services provided to both the POB and the IEKA, and they would prefer to provide the same information through one channel.
174. **POB is a member of the International Forum of Independent Audit Regulators since September 12, 2011.** The POB aims to exchange experience with other members and obtain better knowledge in conducting quality assurance inspections.

Box 4. POB agenda in 2019

The POB agenda for 2019 includes issuing a regulation to ensure the confidentiality of data reviewed.¹¹² Quality assurance activity has started since September 2019 to cover 14 audit engagements, oversight of certified accountants, accounting service firms, also 25 auditors with less than five years practicing experience. A list of certified accountant professional organizations and consolidated registered certified accountants will be published on the POB website. Staff training will continue to improve the inspectors' skills.

¹¹¹ Audit Law Article 6.1

¹¹² The POB regulation No. 8/2019 regarding "Protection, preservation processing and confidential information security".

The POB will maintain participation in IFIAR events to benefit from the membership. The POB will continue active cooperation with relevant stakeholders, such as the Tax Office, the NBC, the NAC, the Bankers Association, the Institute of Internal Auditors, and other regulatory institutions such as the BOA and the AFSA to coordinate oversight activity and improve quality of audits, in particular, of PIEs in the financial sector. The POB is recruiting more support staff to ensure successful completion of the professional exam in 2019.

Quality assurance review procedures, approach, and communication of findings

175. **The POB has adopted a mixed-approach to selecting audit engagements for review, which is a combination of risk-based and cyclical approach.** The cyclical approach is used based on the client type and auditors' experience. Auditors and audit firms engaged in PIE audits are subject to quality assurance review on a three-year inspection cycle, while auditors and audit firms engaged in non-PIE audits are subject to quality assurance review on a six-year inspection cycle. For auditors with less than five years practicing experience, quality assurance review is conducted every two years. It is expected that within the three-year cycle, all PIE audit engagements will be inspected. The POB will rank PIEs audit engagement annually using risk-based methodology. A PIE audit engagement inspection can be conducted regardless of the cycle when the risk is considered high.
176. **The POB developed its quality assurance manual in 2018, including questionnaires to be used by the inspectors during the review and self-assessment questionnaires to be completed by the auditors.** The review techniques include interviews with key staff, review of auditors' working papers, and inspections of the auditors' manuals and guidelines. The POB uses a grading system to ensure consistency in measuring quality assurance activity, as reflected in table 9 below. Based on the grading, the POB will decide if investigation is required. Grades D and F will directly trigger an investigation, while grades A to C will require further review of the findings prior to a POB decision on whether to progress to investigation or not. Investigation may result in sanctions to the auditors which vary from a fine of between lek 50,000 to lek 200,000 to having their practice license suspended for up to five years. The Audit Law obliges the auditors to take corrective measures and implement the agreed recommendations within a reasonable time.

Table 9. Quality assurance review grades

Grade	Criteria
A	No shortcomings identified in the audit approach, evidence obtained, audit documentation, or financial statements.

Table 9. Quality assurance review grades

B	Audit approach, evidence obtained, audit documentation, and financial statements are generally of a good standard, but areas for improvement have been identified.
C	Audit approach, evidence obtained, audit documentation, and financial statements are generally of a good standard, but there are (i) violations of legal/regulatory framework with no effect on audit opinion and (ii) areas for improvement
D	Although the audit opinion is supported and appropriate, significant shortcomings in audit approach, evidence obtained, audit documentation, or financial statements have been identified.
F	Fundamental shortcomings have been identified, such as incorrect or unsupported audit opinion, significant gaps in audit evidence, absent or deficient audit documentation, or serious errors in the financial statements, or violations of legal and regulatory framework.

177. **The number of quality assurance reviews to be performed in a year may vary according to the risk-based approach.** There were no reviews conducted in 2017 as the new POB had just started. In 2018, 15 audit engagements were inspected covering ten audit firms (including the seven largest audit firms).
178. **POB methodology in conducting quality assurance inspections covers the internal quality review system and the quality of individual audit engagements.** The inspection methodology focuses on the responsibility of statutory auditors and audit firms in terms of implementation of standards and legal requirements in conducting an audit. The quality assurance review procedure and methodology were issued under POB Regulation 7/2018¹¹³, which includes the quality assurance methodology for statutory auditors. The regulation was prepared in accordance with the EU Audit Directive with the assistance of international consultants. The regulation also details policies and procedures to build efficient cooperation between the POB and the IEKA on conducting the quality assurance activity as the POB can delegate quality assurance of auditors engaged in non-PIEs audit to the IEKA.
179. **On completion of an inspection a closing meeting is held with the auditors to discuss preliminary findings.** The draft inspection report and action plan are prepared and sent to

¹¹³ POB Regulation no. 7 "On Procedures and Methodology of Quality Assurance of Statutory Audit" October 2, 2018

the auditors. The auditors are required to comment and confirm the action plan within two weeks. Upon confirmation, the final report is issued by the POB.

180. **The POB does not engage with audit committees or other bodies charged with governance within audit clients to discuss review findings, and currently there is no legal basis for such engagement.** The POB may consider performing outreach to audit committees in the future to help raise awareness of the valuable information available to them as a result of audit oversight and quality assurance.

Quality Assurance Inspectors

181. **The POB is assisted by a technical secretariat, including inspectors, in conducting quality assurance and oversight functions.** The POB has three inspectors to conduct quality assurance reviews. This is less than the minimum of five inspectors required by the Ministers Council Decree 31 dated January 31, 2018.¹¹⁴ The requirements for inspectors are to have an auditing, finance, or accounting background, have at least 10 years of experience in the statutory audit and financial reporting field, and have been trained on conducting quality assurance reviews. Other than this background and experience, there are no requirements for certain industry knowledge or experience. In 2018, the three inspectors were assisted by international experts hired under the EQ FINREP.
182. **Several training sessions and technical assistance were provided to POB staff in 2018 to develop the inspectors' capacity in conducting quality assurance activity.** There was a delay in providing training and assistance in 2018 which did not take place until the last quarter, due to lack of funding and regulatory back-ups. The POB needs to ensure that adequate funding is available for regular capacity building of inspectors.
183. **The inspector compensation level is determined and approved by the Ministers Council.** Inspectors are categorized as public administration salary category II b (or equivalent to director level at a ministry).
184. **The POB ensures that inspectors are independent of the profession.** They should be non-practicing auditors and not associated with an auditor or an audit firm. In conformity with the EU Audit Directive, practitioners associated with certain statutory auditor/audit firms cannot perform quality assurance until a cooling off period of three years has passed.¹¹⁵ Such requirements may limit potential applications, hence the difficulties hiring inspectors with adequate background, experience, and knowledge.
185. **All quality assurance activities, whether performed by the POB or delegated, must maintain the same high standards.** The POB has the legal mandate to perform quality assurance activities. It may delegate quality assurance for non-PIEs audit to the IEKA. Delegated

¹¹⁴ Currently the POB has already five inspectors in place.

¹¹⁵ Audit Law Article 4.7

activities should maintain the same level of independence, avoidance of conflict of interest, and requirements for the review to be carried out by inspectors who meet the criteria, as for the POB quality assurance of auditors of PIEs.

Investigations and sanctions

186. **Another essential step in establishing the POB as an independent regulatory authority was the issuance of Regulation 4 on March 29, 2018 regarding “Investigation and Discipline Measures”.** This Regulation gave the POB powers to conduct an investigation and take necessary disciplinary measures against statutory auditors, audit firms, certified accountants, accounting service firms, and other supervisory entities. The regulation also supported the POB to take disciplinary action against any party, directly or indirectly under POB oversight including entities, that violate the Audit Law; and to verify complaints received by the POB.
187. **The IEKA refers results of investigations into non-compliance or failure to apply technical standards and professional ethics by the auditors to the POB.** In 2018, the POB reviewed two cases referred by the IEKA. After the review and conducting a hearing with the audit firms, the POB decided that one case was not substantiated. In the other case, based on evidence, the audit firm had to pay a lek 85,000 penalty for failure to provide the information required under quality assurance review. In accordance with the Audit Law, 30 percent of the proceeds collected from fines was allocated to the POB budget.

The Audit Law does not introduce prohibited non-audit services to PIEs audit clients as stipulated in the EU Audit Directive. The amended Audit Law strengthens the POB’s position as an independent regulatory authority. The POB is independent of the profession. The POB has adopted a mixed-approach to select audit engagements for review, which allows all PIEs engagements to be inspected within a three-year cycle. The POB is responsible for quality assurance activity with the option to delegate to the IEKA for quality assurance of non-PIEs auditors. Any future delegated quality assurance activities must maintain the same standards as if carried out by the POB. The POB currently has three inspectors although the Ministers Council Decree 31/2018 requires a minimum of five inspectors.

IV. OBSERVED FINANCIAL REPORTING PRACTICES AND PERCEPTIONS

188. **The ROSC A&A process included reviews of financial statements and regulators' reports and discussions with stakeholders.** The objectives of this section are to (i) corroborate the findings from the assessments of A&A standards (Section II) and the institutional framework for corporate financial reporting (Section III) with reference to financial statements issued and reports from the regulators, where they are available; and (ii) gather perceptions on the demand for and quality of financial information from users of financial statements. The financial sector regulators (the BOA and the AFSA) do not specifically issue reports on reviews of financial statements. Therefore, this section is primarily based on reviews of financial statements, results of perception surveys, and discussions held with users of financial statements and auditors.
189. **The observed financial reporting practices suggest that gaps exist between the applicable legislative requirements and actual practice.** Non-compliance with applicable financial reporting standards were identified, ultimately leading to limiting the availability of financial information to support economic decision making. Limited financial information constrains the potential for financing, business growth, and increasing revenues from taxes. The compliance gap is an indication that further capacity strengthening is needed for the enforcement of financial reporting practices by the entities.

FINANCIAL STATEMENTS REVIEW

190. **Limited reviews of financial statements were performed to assess the compliance gap and the quality of financial information available in the market.** The ROSC team reviewed a sample of financial statements to assess the extent to which they complied with the financial reporting standards with which they had been prepared. Conclusions should be taken with a degree of caution, given the limited sample size as well as the inherent problems in examining the compliance gap, as the reviewer of financial statements cannot be certain that everything that should have been disclosed has indeed been disclosed. Furthermore, the team had difficulty in obtaining a representative sample of financial statements prepared in accordance with IFRS due to the limited availability of those financial statements in English. As no stock market exists, none of the samples are listed entities.
191. **A total of 30 sets of financial statements prepared in accordance with IFRS or NAC were reviewed.** The sectors and types of entities were selected based on their importance to the national economy, with the limitation mentioned above:
- Five private banks;

- One insurance company;
- One investment fund management company and one investment fund it manages;
- Two SOEs: a power generating company and a power distribution company; and
- 20 companies in various industries who prepared their financial statements in accordance with NAS, including two non-PIE SOEs.

Financial statements prepared in accordance with IFRS

192. **The overall quality of financial reporting needs improvement due to likely non-compliance with the financial reporting standards identified in several areas.** Three of the IFRS-based financial statements reviewed received a qualified opinion: i) one company treated capital as monetary item; ii) there was possible impairment of property, plant, and equipment and lack of accounting for deferred taxes and revaluation thereof; and iii) going concern and unavailability of recognition related to assets impairment. The review of the selected financial statements revealed some instances of questionable financial reporting practices, and some cases of probable non-compliance with IFRS. The issues identified the impact on the quality of financial information presented and disclosures, ultimately leading to less reliable information available for decision making and accountability of those charged with governance. The issues with audit reports and financial statements presentations reflected that quality assurance activities are not adequate.
193. **Based on the review findings, the quality of financial reporting needs improvement in some areas.** The areas of potential non-compliance are summarized below:
- **Financial statement presentation: disclosure of too much information that is not relevant for decision making.** Most financial statements reviewed provide detailed disclosure of non-significant accounting policies, a full description of financial accounting standards that are not required or would never be required for such entities, and immaterial information.
 - **Incomplete disclosures of transactions, balances, risks, and subsequent events that may impact the way the financial position is presented and may mislead users of financial statements.** The reviewers noted incomplete disclosures on the following: foreign exchange results; revaluation of property, plant, and equipment; movement of deferred income tax; estimates of the useful life of property, plant, and equipment; risk management in situations of crisis and environmental matters; and subsequent acquisition of an entity.
 - **There were frequent errors and deficiencies in the presentation of the auditors' report, financial statements, and the notes of financial statements.** These shortcomings may reflect poor quality control by both the auditor and the preparer. For example, the auditors' opinion, the majority of explanatory notes and various other items are excluded

from the financial statements of several entities that are publicly available. The shortcomings might be due to a preference for opacity, poor quality of translation of financial statements into English, or lack of understanding regarding the standards. Furthermore, one auditor report of an entity indicates disagreement between the auditor and the entity regarding the use of going concern basis of accounting, but the auditor did not express an adverse opinion as would be required under ISA 570.

- **None of the auditors' reports reviewed present any key audit matters.** As these entities are not listed on any stock market, auditors do not have an obligation to include key audit matters in their reports.

Financial statements prepared in accordance with National Accounting Standards

194. **Out of 20 sets of financial statements reviewed, five were not audited.** Of the 15 audited financial statements, nine companies received unqualified (clean) opinions, five companies received qualified opinions, and one company did not receive an audit opinion. Financial statements are publicly available and accessed from the NBC website. The companies selected were from different sectors. During the review, the NBC database did not indicate whether the entities' financial statements were prepared in accordance with IFRS or NAS, to identify this the reviewers needed to open each report file. This issue will be addressed with the new NBC system effective in July 2019.
195. **The quality of financial reporting prepared in accordance with NAS needs substantial improvement.** Both audited and unaudited financial statements reviewed were largely non-compliant with one or more NAS. Such non-compliance increases significantly for NAS which required management to make judgments or develop estimation for the recognition and measurement of different items in the financial statements, such as financial instruments and the related impairments and depreciation of fixed assets.
196. The areas of potential non-compliance are summarized below:
- **There was a lack of qualitative and meaningful disclosures across the samples reviewed.** Such deficiencies vary from lack of comparative information in the notes to the financial statements to the omission of notes to the financial statements. Furthermore, for most of the companies, there was a lack of a clear description of the activities and business stream of the entities (85% of the sample was assessed as non-compliant or partially compliant with NAS 1 and 65% with NAS 2).
 - Usage of boilerplate statements and notes to the financial statements makes the presentation and disclosures in the financial statements irrelevant to the entities, eventually leading to the omission of information to the users of the financial statements.

- There was a general tendency from the preparers of the financial statements to present as little information as possible and mostly adopt the fiscal rules for the recognition and measurement of assets/liabilities and consequently incomes and expenditures. The fiscal rules adoption supported the preparers' survey result that the main user of the financial statements is tax authorities. Such tendency undermines the purpose of the general financial statements to provide a true and fair view of the financial positions and results of the operation of the companies.
- Considering the high occurrence of deficiencies identified during the review, one might assume that a modified opinion on the financial statements should have been appropriate in most instances. However, the review has shown that the auditor opinions were modified in only five of 14 companies that have audited financial statements.

PERCEPTIONS

197. **The team conducted group discussions with stakeholders, which generally confirmed the poor quality of financial reporting.** The stakeholders included auditors, bankers, and financial analysts. In addition to the group discussion, there were perception surveys conducted under EQ FINREP for both users and preparers of the financial statements¹¹⁶. The target group selected for the users' survey were from financial and non-financial institutions, private companies, public institutions, including tax authorities, and academia. The target group selected for the preparers' survey were accountants from private sectors, public institutions, certified accountants, accounting service firms, and audit firms.
198. **Stakeholders perceived that the financial statements prepared for statutory purposes have an insufficient level of detail of information and disclosures on the main statements, related parties, risks, or valuations.** Furthermore, respondents are also felt there is a lack of clarity in terms of accounting policies and assumptions in the financial statements. The financial statements were also deemed to lack clarity on the risk management policies of a company, which were insufficiently addressed in the financial statements.
199. **Stakeholders noted an improvement in the quality of financial reporting in Albania compared to five years ago.** The majority perceived evident improvements, while the rest perceived minor improvements. Banks' credit analysts still relied more on transaction information than financial statements, especially for small businesses, although they saw an improvement in the quality of the financial statements.
200. **Stakeholders perceived that the main hindrances to improving financial reporting in Albania related to applying the accounting standards are due to: a lack of available data to enable**

¹¹⁶ "Raising the Awareness on the Benefits of Good Financial Reporting", Users' Survey and Preparers' Survey, Draft reports, 2018

proper estimation; too little guidance and illustrative examples; discrepancies with tax reporting and regulatory requirements; and insufficient level of details in the accounting records. Furthermore, the survey revealed that there is a perception that the limited information provided from other than finance and accounting departments is the main barrier to improving the quality of financial reporting.

201. **When comparing the financial statements prepared in accordance with IFRS and NAS, some respondents agreed that IFRS allows fair measurement of the financial position and performance and some respondents agreed that with IFRS there is greater clarity on the figures.** However, most respondents think that NAS is easier to understand than IFRS. This may be because many kinds of literature on NAS can be found in the local language as opposed to IFRS, which is available mostly only in the English language.
202. **The stakeholders' survey revealed that 42 percent of auditors audit financial statements which they have prepared.** This practice contradicts the Audit Law and best practice, which requires that statutory auditors maintain independence and avoid conflict of interest in rendering their service.

COMPLIANCE WITH AUDITING STANDARDS

203. **The ROSC team reviewed a sample of financial statements to assess the extent to which they complied, in practice, with applicable auditing standards (mainly ISA 700 *Forming an Opinion and Reporting on Financial Statements*).** The auditor's reports reviewed were those performed for the financial statements used to review reporting practices (see section IV). The same limitations apply in analyzing a relatively small sample of audit reports, and the team mainly focused on reviewing compliance with ISA 700. It is worth noting that given the "standard" format of audit reports, it is reasonably easy for preparers of audit reports to make them appear good simply by conforming to the format, regardless of the entity's underlying financial transactions and position. The ROSC team also includes here findings from POB quality assurance review.
204. **The team sought views on the practical application of audit standards through group discussions with auditors, including large international audit firm networks and small and medium-sized audit practitioners.** The discussions focused on the practical application of auditing standards, audit quality, and wide-ranging challenges facing the audit profession.
205. **The quality of auditing standards implementation is uneven for a variety of reasons, including smaller audit practices' limited resources, and some out of date audit methodologies.** Some statutory auditors and audit firms have limited capacity to develop and maintain an audit methodology, and this can create difficulties in achieving full compliance with auditing standards. Fully documented audit methodologies are not the primary driver of audit quality, as other important elements such as skills, experience, and attitudes/behaviors

are all key elements of achieving good audit quality. Nevertheless, methodologies are important to help ensure that the auditors comply with ISA and ISQC 1 appropriately. A POB review revealed that larger audit firms have resources from their international network and therefore the staff is provided with adequate training on international standards, while sole practitioners do not have a good understanding of ISA.

206. Based on the review of audit reports, the team identified some issues, including with the quality of financial statements, which suggest the following compliance issues with auditing standards by auditors, as follow:

- Presentation of financial statements: cluttering resulting from numerous disclosures of immaterial information;
- Judgments in accounting policies: often these contain inadequate “boiler-plate” information;
- Key management assumptions: often disclosed without quantification;
- High occurrence of deficiencies identified in the financial statements prepared in accordance with NAS, but the entities received unmodified opinion.

Further detail on issues identified in financial statements is provided at the beginning of section IV.

207. POB quality assurance review revealed some issues on compliance with legislation and auditing standards, among others:

- Local PIE engagements are not always included in the audit firm quality control review. Although this type of engagement is subject to quality assurance in accordance with the legislation and ISQC1, some audit firms’ policies do not require such review at the engagement level;
- The transparency report is not prepared in few cases;
- Archiving audit files seems to be a problem, sole practitioners do not have archiving systems in place;
- Quality control procedures in smaller audit firms summarized ISQC1, but do not have policies designed to meet the objectives associated with the quality control system and the procedures to implement and monitor compliance with these policies;
- Some cases of non-compliance with audit documentation procedures and missing letters of representation in the review of many engagements.
- Lack of evidence that the auditors have conducted appropriate audit procedures in identifying related parties.
- Lack of information of staff-hours spent on the engagement, therefore it is impossible to determine whether the working hours spent were adequate to ensure good quality of audit. There is no information on the budgeted hours and actual hours spent on the

engagement, hence no proper planning, which raises the question of how the audit fee was determined.

- Small audit firms' audit opinions do not comply with ISA.

208. **Auditors revealed that since an audit is only required due to legal compliance, clients often have issues with understanding the value of an audit.** The perception survey revealed that the primary users of financial statements are the tax authorities and shareholders. For tax reporting purposes, entities are required only to prepare simple financial statements and audit is not mandatory. Auditors face difficulties with declining audit fees, but an increased workload because of the poor quality of financial reporting, which requires extensive adjustments. Many stakeholders referred to auditor involvement in the preparation of financial statements, raising questions about auditor independence and professional skepticism.
209. **Bank auditors must usually audit two sets of financial statements, prepared based on different frameworks.** Banks, as PIEs, must prepare financial statements in accordance with IFRS and are additionally expected to prepare another set of financial statements based on the regulator's requirements¹¹⁷. Auditors perceived that the regulator had not seen value from IFRS-based financial statements and therefore still requested the financial statements based on their manual. Banks usually hired larger audit firms with an international network, and branches of foreign banks are required to use the same audit firm used by the parent bank.
210. **In terms of implementation of the amended Audit Law, there is still confusion related to the quality assurance review and statutory auditor registration process.** This is largely due to the different methodology of past quality assurance reviews compared to the current activity of the POB. Auditors belonging to an international network may need more time to provide the POB with access to information as they need clearance from their headquarters. The three percent fee for quality assurance review is perceived as too high. Auditors feel unclear regarding registration requirements for ACCA/CPA holders who want to register as a statutory auditor.

¹¹⁷ Methodology on Reporting and Content of Financial Reports and Regulations of the BOA

V. POLICY AND INSTITUTIONAL RECOMMENDATIONS

211. This section makes a series of policy and institutional recommendations to help improve the corporate financial reporting framework in Albania.

FINALIZE AND ADOPT THE UPDATED COUNTRY ACTION PLAN

212. The Ministry of Finance and Economy is updating the CAP to enhance corporate financial reporting in Albania. It is expected to capture the national progress and achievements since it was first approved until 2018 and extend the reform agenda until 2023. It will set out an updated strategy and action plan with a clear program of further reforms to enhance Albania's legal framework, institutions, accounting and audit profession, and the corporate financial sector in general. It is important to finalize and adopt the updated CAP to complete the building blocks of Albania's compliance with the *acquis communautaire* relating to company law, financial reporting, auditing, financial market, and financial institutions. These, along with IFRS and ISA, are the key measures of international best practice. Proper transposition and implementation of the *acquis communautaire* has become even more important given progress in Albania's journey to joining the EU.

ALIGNMENT OF LEGISLATIVE AND REGULATORY FRAMEWORK

213. Albania has made good progress in developing the statutory framework for corporate financial reporting in recent years through amendment of the Audit Law in 2016 and approval of the new Accounting Law in 2018. These further advance compliance with the EU Audit and Accounting Directives. The Government of Albania needs to continue to work to close the gaps and move forward in the convergence process of its relevant corporate financial reporting statutory framework with the EU legislation. Some examples of existing gaps noted during the ROSC due diligence are described below.
214. The Council of Ministers Decision 17/2019 criteria increased the number of entities that are considered PIEs, but do not necessarily mean that the entity is significant to the economy. All businesses considered as PIE are required to prepare their financial statements with additional disclosures, are subject to statutory audit, and are required to publish their financial statements. They should also establish an audit committee. The Government needs to consider fully aligning the criteria defining PIEs with the EU Directives. The entities considered as PIEs should apply IFRS. A balance needs to be achieved between the benefits of basic financial information and the costs of burdensome reporting requirements, especially when companies do not have a significant impact on the economy.

215. The Audit Law allows auditors to offer other services to their PIE audit clients, to the extent that no third party perceives any independence breaches. It would be beneficial to ensure the independence of auditors by including in law the prohibited non-audit services to PIEs audit clients, as stipulated in the EU Audit Directive.¹¹⁸
216. Commercial banks are required to prepare financial statements based on two different frameworks, i.e. IFRS for annual general financial statements as required by the new Accounting Law for PIEs and the FRM for prudential purposes as required by the Banking Law. The FRM is based on obsolete IFRS and therefore needs to be updated in accordance with the latest IFRS. In addition to the Audit Law requirement that banks' financial statements prepared on the basis of IFRS should be audited, FRM also requires the financial report prepared on the basis of FRM to be audited. These burden both the banks and auditors to cater audits of two sets of financial reports. It is noted that the BOA will wait for at least two full reporting periods before transitioning to the adoption of IFRS for regulatory reporting. The BOA needs to focus on the areas of differences and to establish a framework to reconcile the two frameworks for prudential reporting requirements. Reconciliation tools would be useful to assist with the BOA oversight function that requires prudential reporting, while also support the general-purpose financial reporting compliance with IFRS.
217. Albania needs to harmonize the legal framework on the requirements for audit committees, including the Companies Law, Audit Law, and sector Laws, with EU legislation. The Companies Law allows supervisory boards and/or administrative boards to establish special committees, including the audit committee, composed of members of supervisory boards/administrative boards. The Companies Law indicates that such committees should be mostly composed of non-executive members. The Audit Law requires that audit committees are composed of non-executive members, with at least one member independent of the audited entity. However, the Insurance Law does not specifically exclude executive members of supervisory boards from the audit committee. Instead, it seems to limit the selection of audit committee members to the administrative/supervisory board, therefore there is no independent member. The Insurance Law needs to be amended to be in compliance with the EU Audit Directive and aligned with other laws.
218. The Banking Law and the Audit law have different requirements regarding audit committee members. The Banking Law requires that all members of the audit committee have expertise in accounting and auditing, resulting in the committee lacking other expertise. The Audit Law requires at least one committee member with such knowledge. The Government needs to

¹¹⁸ In accordance with Article 5(1) of EU Audit Directive, prohibited non-audit services to PIEs audit clients including tax services, act on behalf of the management or decision making of the audited entity, bookkeeping and accounting services, payroll services, designing and implementing internal control or risk management procedures, valuation services, legal services, internal audit services, investment agent of the audit entity, underwriting services, and human resources services.

align audit committee requirements among the laws with the aim to ensure that committees have a range of relevant expertise.

219. Non-PIEs should be encouraged to apply NAS to prepare their financial reports. Enhancing financial reporting of non-PIEs leads to greater investor confidence, better decision making, and more accurate taxation assessment. The Tax Law should be amended to allow the Tax Office to apply reconciliation tools to use financial reports prepared using NAS for taxation purposes. In practice, it seems many companies applying NAS in preparing financial statements tend to follow tax requirements rather than the NAS.¹¹⁹ With support from EQ FINREP, the Tax Office has developed reconciliation tools and tables from general purpose financial statements to tax reporting. These tools have not been adopted formally, however, as the Tax Office is limited by the Income Tax Law requirements. Formal adoption would require an amendment to the Law.

IMPROVE INSTITUTIONAL ARRANGEMENTS

220. There is still confusion within the audit profession about the POB and the IEKA mandates and responsibilities related to quality assurance review and the statutory auditor registration process. Outreach to the profession will help improve understandings of their roles in accordance with the amended Audit Law. The framework to facilitate information exchange between the profession and the POB and the IEKA should be improved. It should allow the POB and the IEKA to communicate with the profession and request information; and give the profession a single channel through which they submit information that can be used by both the POB and the IEKA in accordance with their mandates.

STRENGTHEN ALIGNMENT WITH INTERNATIONAL STANDARDS

221. The official translation of the latest full sets of ISAs is not available. Although the law requires that the translation and publication of new and revised ISAs should be done on a timely basis, there is no process in place ensuring timely translation and publication of the updates. It raises the question of whether the standards are legally enforceable when some standards are only available in English. A more consistent approach to the official translation of new and revised ISAs is required, together with appropriate mechanisms to ensure the full sets of standards are legally enforceable. This will help maintain consistency of audit requirements and audit quality standards with international benchmarks. The dissemination of the standards should also be available to wider stakeholders by providing access through the IEKA website.

¹¹⁹ Supported by findings from the review of financial statements - see section IV

222. Ethical requirements for accountants and auditors in Albania are based on the 2015 IESBA Code of Ethics. The 2016 IESBA Code of Ethics has not been translated. In April 2018, IESBA issued a completely restructured, strengthened, and clarified International Code of Ethics for Professional Accountants that became effective in June 2019. IEKA, as the leading organization responsible for translation of IESBA Code of Ethics, should adopt and publish the revised and restructured IESBA Code. The new Code has introduced substantive changes and it is important that the latest standards of ethical conduct are applicable for all members of the profession.

STRENGTHEN THE PROFESSIONAL ASSOCIATIONS

223. The amended Audit Law requires that professional associations comply with IFAC requirements. With EQ FINREP support the POB has prepared an action plan and roadmap for the development of the PAOs. There is a need to take stock of the PAOs to avoid duplication and ensure long-term development and sustainability. Merging the three institutions may be considered as an option. A merger would facilitate the establishment of appropriate education, qualification, and CPD systems to support high quality service delivery by accountants. Professional accountants must maintain their professional competence to be able to deliver high quality service. It is their ethical obligation to undertake their work with due care and diligence. PAOs should require their members to continue to develop and maintain their professional competence by imposing CPD requirements. The revised IES (2015) should be fully incorporated into IPD and CPD requirements for professional accountants in Albania. The accountant profession as members of the PAOs should comply with the profession Code of Ethics and also fulfill CPD requirements.
224. The PAOs should establish a system that provides for the monitoring and reporting of professional experience obtained by the candidates. There is currently no system to ensure the compliance of certified accountant candidates in fulfilling their professional experience requirements. There should be written guidance for employers and students. The PAOs may need to establish a mechanism to create a list of “approved employers” who can provide relevant work experience to candidates. Candidates should be required to regularly submit written details of their gained professional experience to the PAOs. These claims should be validated by the (approved) employers where the work experience was undertaken. The IEKA has established good practice in monitoring and recording the practical experience of statutory auditor candidates but there is nothing similar for certified accountant candidates.

STRENGTHEN ACCOUNTANCY EDUCATION AND TRAINING

225. Maintaining a low teacher-student ratio may become an issue in the longer term due to a lack of people entering the teaching profession. This is mainly due to unattractive salary packages and lack of support in keeping knowledge and teaching materials updated. The Government may want to consider the professional and personal conditions of teaching, remuneration, and additional incentives, to encourage people to enter the teaching profession.
226. The Audit Law requires a master's degree as the minimum education requirement to enter the profession as a candidate. A master's degree might be beneficial but is not essential. The EU Audit Directive requires the candidate to have attained university education or equivalent level. The Ministry of Finance and Economy may want to consider changing the minimum education requirement of a candidate in accordance with the EU Audit Directive.
227. There is a need to create a database of teaching materials for lecturers through PAOs. Currently, lecturers often use their own resources to update the teaching materials to keep pace with international standards. PAOs can enter into agreements with leading providers of professional accounting and auditing education to use and translate high-quality textbooks and study materials. Furthermore, the database can also be used to prepare study materials and mock exams for the candidates so that they can be better prepared for the professional exams. This would help to improve the pass rate of professional exams. The IEKA has a contract with one of the foreign training providers to use ACCA study materials with support from EQ FINREP. The IEKA needs to expedite the translation process to make the materials available for students.

STRENGTHEN AUDIT OVERSIGHT AND QUALITY ASSURANCE

228. The POB needs to continue to develop its profile and strengthen its institutional capacity to conduct effective public oversight. It must continue to maintain its independence from the profession and ensure it has an adequate legal framework and authority to supervise the profession, adequate staffing, and sufficient and stable funding.
229. Strong public oversight needs experienced and knowledgeable inspectors. The Audit Law requires that POB inspectors are non-practicing auditors and independent of the profession. The requirement that practicing auditors must have a three year cooling off period before conducting quality assurance for a statutory auditor/audit firm they associated with may be limiting the pool of experts available to be recruited with the senior level audit experience and expertise to effectively conduct the work. One option is to hire external expertise for specific reviews, which is permitted by the law. External expertise can also be used to resolve a lack of internal expertise on specific industry knowledge and experience. For the longer

term, the POB needs to provide adequate training to enrich inspectors' knowledge and maintain good quality review.

230. Current regulation establishes the source of funds for the POB, which includes income generating activities. As the POB is still at an early stage it may not be able to generate adequate funds itself and may instead have to rely on some public funding. If the funding is not readily available, activities like training for inspectors may be delayed. Until the POB income is more stable there needs to be effective planning based on the sources of available funding to ensure it is able to maintain adequate staff with experience and knowledge and to provide competitive compensation and deliver regular training for inspectors.
231. The POB needs to take measures to improve wider perceptions of the benefit of audit to address auditors' concerns about the trend of low audit fees in the country. As audit is mostly to meet the requirements of law and regulations or based on the request of foreign investors, clients often do not see its value and prioritize lower fees rather than high quality. The POB can conduct stakeholder workshops and information sessions, and include companies' audit committees, to build awareness of the risk of low audit fees. Through its inspection, the POB found some audit firms did not have information on actual staff-hours spent in an engagement. This raised questions about whether adequate time was spent on such engagements and how the audit fee was determined. When the POB is fully functional, its rigorous inspections can help further identify underlying issues with audit quality associated with low audit fees and less time spent by auditors. Quality issues with the audit report were noted from the perception surveys and POB findings but only two cases were investigated by the POB in 2018. The POB needs to enhance enforcement of its investigative and disciplinary function.

STRENGTHEN AUDIT PROFESSION

232. The legal framework does not indicate the minimum coverage value of professional indemnity insurance. There is no aggregate data available on how this requirement is being implemented. Although no claims cases have been reported in the past, it is important to ensure that any potential claims against auditors will be adequately covered. POB needs to assess and determine a minimum coverage and request periodic reporting of such data from statutory auditors and audit firms.
233. The quality of auditing standards' implementation is uneven for a variety of reasons. Many smaller audit practices lack access to the most recent ISAs due to limited resources and still use out of date audit methodologies. As has already been noted, the system for timely translation and publication of new and revised ISAs must be improved to ensure statutory auditors have access to the standards and understand and can apply them.

234. Smaller practices are responsible for most cases of non-compliance with auditing standards. They are not part of the current quality assurance system unless their client is a PIE. The POB has been focused on PIE auditors, but the quality of non-PIE audit is concerning. There is a need to establish a quality assurance review for non-PIE auditors with procedures and quality agreed with the POB. One option is by hiring external expertise. The review will help the POB understand sole practitioner/non-PIE auditors' areas of concern with the implementation of audit standards and strategize to close the gaps.
235. The stakeholder survey revealed that auditors are preparing and then auditing the same financial statements. This is a conflict of interest and a worrying practice. It appears to be happening because of the poor quality of financial statements, which must be properly adjusted before they can be audited. It is expected that the POB strategy to regulate certified accountant practices and strengthen oversight of the profession will help stop this practice and maintain the independence of the statutory auditors.

STRENGTHEN MONITORING AND ENFORCEMENT

236. Implementation of the financial accounting and auditing standards is a real challenge in Albania. The quality of financial information presented in financial statements needs improvement. Most of the sample of financial statements reviewed do not comply with the financial reporting standards principles in several areas. A similar challenge also applies to MSMEs that apply NAS in preparing financial statements. Although stakeholders perceived some improvements in the quality of financial statements, banks need to extensively adjust the financial statements for them to be able to conduct their due diligence before extending their lending. As nonperforming loans are still an important concern, banks often place limited reliance on the financial statements or the audit opinions due to concerns about their reliability. The lack of a robust system of monitoring compliance and enforcement of the implementation of the standards is a factor that is contributing to the compliance gaps with the financial reporting and auditing standards requirements. The new Accounting Law mandated the NAC to conduct a regular desk review of the implementation of the standards. However, the NAC currently lacks adequate capacity to do this and may need support to build their capacity for monitoring and research. The NAC should work with regulators such as the BOA, the AFSA, and the POB to share the results of the review and systematic issues that are identified for the regulators to follow up compliance issues.
237. The POB should make appropriate arrangements for coordination and cooperation with other regulators for effective oversight. The POB has approached the BOA and the AFSA to establish a systematic way to work together within their mandated oversight role. A memorandum of understanding between the POB and the BOA is in progress. This will outline the roles and responsibilities of the two organizations in audit oversight of the financial sector, and the

format and frequency of communication between the parties. The POB expects to agree a similar memorandum with the AFSA.

238. Follow up of the EQ FINREP technical assistance project will potentially include a focus on further strengthening the AFSA's risk-based supervision, including developing prudential reporting in line with good international practices. It will be key to enhance AFSA supervisory staff's technical skills on IFRS and their ability to review IFRS financial statements of companies under their supervision, including investment fund firms.

OTHER RECOMMENDATION

239. The very useful opportunity for accountancy students to gain practical experience through an internship has now become more limited as they are offered by only a few audit firms. The internship program allows students to prepare for the job world which is a good practice acknowledged by employers. There is a need to create a network of internship opportunities for students, involving practitioners, the private sector, SOEs, academia, and PAOs. Academia and the PAOs can take a lead as they have access to alumni and members.

Table 10. ROSC AA 2019 Recommendations

Recommendations	Responsible agency	Timeline
COUNTRY ACTION PLAN		
Finalize and adopt the updated CAP	MOFE ¹²⁰	Short-term
LEGISLATIVE AND REGULATORY FRAMEWORK		
Align the criteria for PIEs in the Council of Ministers Decision 17/2019 with the EU Directives.	MOFE	Medium-term
Introduce the prohibited non-audit services by auditors to PIEs audit clients in the Audit Law to ensure the independence of the auditors.	MOFE	Medium-term
Establish a framework to reconcile banks' financial statements based on IFRS and the FRM.	BOA	Short-term

¹²⁰ Ministry of Finance and Economy

Table 10. ROSC AA 2019 Recommendations

Recommendations	Responsible agency	Timeline
Harmonize the legal framework on audit committee requirements in legislation with the EU legislative requirements.	MOFE	Medium-term
Align audit committee members' requirements under the Banking Law and Audit Law.	MOFE	Short-term
Amend the Tax Law to allow the Tax Office to apply reconciliation tools.	MOFE	Medium-term
INSTITUTIONAL ARRANGEMENTS		
Outreach to the profession to improve understanding about the POB and the IEKA mandates and responsibilities in accordance with the amended Audit Law.	POB	Short-term
ALIGN WITH INTERNATIONAL STANDARDS		
Translate and publish the new and revised ISAs and IESBA Code of Ethics	IEKA	Short-term
STRENGTHEN THE PROFESSIONAL ASSOCIATIONS		
Consider merger of the three PAOs. The revised IES (2015) should be fully incorporated into IPD and CPD requirements for professional accountants.	POB and PAOs	Medium-term
PAOs establish a system for monitoring and recording the fulfilment of professional experience requirements for candidates of Certified Accountants.	PAOs	Medium-term
STRENGTHEN ACCOUNTANCY EDUCATION AND TRAINING		
Ensure professional and personal conditions of teaching, remuneration, and additional incentives, to encourage high-quality individuals to teach accountancy.	MOFE	Long-term

Table 10. ROSC AA 2019 Recommendations

Recommendations	Responsible agency	Timeline
Consider reducing the minimum education requirement of a candidate from a master's degree to a bachelor's degree.	MOFE	Short-term
Create database of teaching materials for lecturers.	PAOs and academia	Medium-term
STRENGTHEN THE AUDIT OVERSIGHT AND QUALITY ASSURANCE		
Ensure the POB has adequate legal framework, authority, and staff to supervise the profession and sufficient and stable funding.	MOFE	Medium-term
Ensure POB inspectors have adequate knowledge to maintain good quality review.	POB	Medium-term
Ensure effective planning on the use of available funding so the POB can attract and retain an adequate number of experienced and knowledgeable inspectors and deliver regular training.	POB	Short-term
STRENGTHEN AUDIT PROFESSION		
Assess and determine a minimum coverage of professional indemnity insurance and request periodic reporting from auditors.	POB	Short-term
Establish a quality assurance review system for auditors of non-PIEs.	POB	Medium-term
Regulate certified accountant practices and strengthen oversight of the profession.	POB	Medium-term
STRENGTHEN MONITORING AND ENFORCEMENT		
Build the NAC capacity for monitoring and research on implementation of the accounting standards by companies.	MOFE	Medium-term
Establish a systematic way of harmonizing oversight by regulators.	AFSA, BOA and POB	Short-term

Table 10. ROSC AA 2019 Recommendations

Recommendations	Responsible agency	Timeline
Strengthen AFSA's risk-based supervision, including enhancing the supervisory staff technical skills on IFRS and ability to review the IFRS financial statements.	AFSA	Short-term
OTHER		
Develop network of internship opportunities for students, involving practitioners, private sector, SOEs, academia, and PAOs.	PAOs and Academia	Short-term

SUMMARY OF PROGRESS ON ROSC 2006 RECOMMENDATIONS¹²¹

Table 11. Progress on ROSC 2006 Recommendations

1. The statutory framework governing accounting, auditing, and financial reporting should be enhanced using a holistic approach, taking into account other laws and regulations, including Companies Law and Tax Law

Recommendation 1.1	<p>Prepare an audit law compliant with the Eighth EU Company Law Directive to include, but not limited to, the establishment of a public interest oversight system for the audit profession, enhanced quality assurance for statutory audits, and regulations on the registration of local and foreign auditors, including audit firms.</p>
Status of implementation as of July 2019	<p>Addressed</p> <p>The 2009 Audit Law¹²² is based on the key provisions of the EU Statutory Audit Directive and calls for establishment of a public oversight system. The POB was established in 2009 as a regulatory authority and is responsible for oversight of the accounting and auditor profession, accounting service and audit firms, and the professional bodies. The law was substantially amended in 2016 to strengthen the POB in terms of human and financial resources, operations, also to enhance investigation and discipline and quality assurance review. The amendment established that the quality assurance activity is performed by the POB, with the option to delegate to the IEKA for auditors/audit firms conducting audits of non-PIEs. Currently, only the POB carries out the quality assurance which covered auditor and audit firms of PIEs.</p> <p>The independence of POB members from the profession, previously identified as an issue, is now resolved. The POB members are five non-practitioners, as per the requirements of the EU Statutory Audit Directive.</p> <p>Although there is now clarity on sources of POB funding, adequacy of funding may remain an issue.</p>

¹²¹ Updated from World Bank Albania FSAP Technical Note, 2014

¹²² Law 10091/2009 "On Statutory Audit, Organising of Certified Auditor and Certified Accountant Professions"

Table 11. Progress on ROSC 2006 Recommendations

<p>Recommendation 1.2</p>	<p>Establish appropriate thresholds for simplified financial reporting requirements and exemption from annual statutory audit, including the proxies used to determine economically significant entities. This will avoid burdening SMEs with excessive financial reporting and auditing requirements. Conversely, it will ensure that PIEs are subject to more demanding transparency and disclosure requirements. This should be done through an analysis of the business structure in Albania.</p>
<p>Status of implementation as of July 2019</p>	<p>Addressed</p> <p>A new Accounting Law was approved on May 10, 2018. The new Law sets out new limits for the classification of entities, a new definition for groups and provisions for the preparation of consolidated financial statements, and new rules for the preparation of additional non-financial reports.</p> <p>The criteria for the classification of enterprises and groups for financial reporting purposes will be increased every three years to fully achieve the criteria determined in the respective legislation of the EU by the year 2028.</p> <p><i>Financial reporting requirements:</i></p> <p>According to the new Accounting Law, IFRS are to be applied by PIEs. IFRS in the context of Albanian law are those that are developed by the IASB and translated into the Albanian language under the authority of the NAC with no changes to the original English text. IFRS is required for PIEs that exceed the criteria of the BOA and the AFSA and medium entities¹²³.</p> <p>The NAS apply to all remaining companies. Micro entities¹²⁴ apply a simplified standard (NAS 15).</p> <p>Requirements to have financial statements audited (statutory audit requirements) are generally in line with the principles of the EU Accounting Directive.</p>

¹²³ Entities that do not exceed two of the following criteria at the reporting date: total assets lek 750 million, turnover lek 1,500 million, and average number of employees during the reporting period 250 employees.

¹²⁴ Entities that do not exceed two of the following: total assets lek 15 million, turnover lek 30 million, and average number of employees during the reporting period 10 employees

Table 11. Progress on ROSC 2006 Recommendations

	<p>Statutory audit of the annual financial statements is mandatory for:</p> <ul style="list-style-type: none"> • Companies that apply IFRS, irrespective of their legal form; • Joint stock companies that apply NAS for financial reporting; and • Limited liability companies that apply IFRS, or apply NAS that for two consecutive years fit in two of the following criteria: <ul style="list-style-type: none"> (i) total assets at the reporting date equal to/exceeding lek 50 million; (ii) total revenue during the year equal to/exceeding lek 100 million; and (iii) total employees of 30 people on average during the reporting period.
Recommendation 1.3	Require PIEs to make their legal entity (and consolidated) financial statements readily available to the public within a reasonable period after the balance sheet date.
Status of implementation as of July 2019	<p>Partially addressed and currently being implemented</p> <p>Under the new Accounting Law within seven months following the reporting date, entities must submit to relevant authorities the annual financial statements, the performance report, and the audit report (if the audit report is required). Commercial entities are required to submit this information to the NBC.</p> <p>Medium and large entities and PIEs, are required to publish financial information on their official websites no later than seven months from the reporting date.</p> <p>Non-profit organizations with asset/income above lek 30 million, unless required differently by a legal provision, are to publish annual financial statements together with the performance report on their official websites.</p>
Recommendation 1.4	Harmonize the tax framework with accounting, auditing, and financial reporting legislation. IFRS and NAS will introduce new categories of revenues and expenses. Therefore, guidance will need to be given on how to reconcile the accounting profit/loss with the

Table 11. Progress on ROSC 2006 Recommendations

	taxable profit/loss. In the absence, of guidance entities will intermingle tax and accounting standards in the preparation of financial statements.
Status of implementation as of July 2019	<p>Partially addressed</p> <p>There has been no meaningful harmonization of the tax framework with the accounting/auditing framework. The Tax Office, with the support of EQ FINREP, has developed tools and tables for reconciliation from financial reporting for general purposes (NAS and IFRS) to tax reporting. However, such tools have not been adopted in day to day control activities and an amendment to the current procedures/processes are required.</p>
2. The accounting standard setting structure should be enhanced to make it sustainable	
Recommendation 2.1	Expand the current standard-setting body to include a broader range of stakeholders in order to systematically address the needs of private and public sector stakeholders in the standard setting-process, including the appropriateness of the scope of IFRS and NAS application that is simplified reporting requirements for SMEs and more rigorous reporting requirements for <i>public interest entities</i> .
Recommendation 2.2	Mobilize funding and technical expertise in order to ensure that the accounting standards are up-to-date.
Recommendation 2.3	Document, disseminate and implement a clear strategy for the drafting and adoption of standards, which includes an effective consultative process. This will help address the low level of awareness and implementation of accounting standards currently exhibited.
Status of implementation as of July 2019	<p>Addressed</p> <p>The new Accounting Law improves the requirements for the election of members of the NAC, expanding the possibility for representation of more sectors in the Council and limiting the mandate of members. It also introduces additional provisions determining the right of the NAC to monitor the implementation of accounting standards.</p>

Table 11. Progress on ROSC 2006 Recommendations

	<p>The new law reduces the number of NAC members from nine to seven and changes the composition of the NAC by amending the entities and institutions that have the right to propose members. Members are appointed by the Minister of Finance instead of the Council of Ministers. A new requirement has been introduced for the NAC to report its annual performance by the end of the first quarter of the following year.</p> <p>The IFRS translation process has been improved and, under EQ FINREP, the most recent consolidated version of IFRS is translated into Albanian and published.</p>
Recommendation 2.4	<p>Explore synergies concerning translating accounting and auditing standards according to International Accounting Standards Committee Foundations and IFAC translation policies. The NAC should explore opportunities to collaborate with the auditing standard-setter, including pooling resources and using common software.</p>
Status of implementation as of July 2019	<p>Addressed</p> <p>IFRS and ISA translation processes seek synergies where possible through collaboration between the NAC and the IEKA.</p> <p>With World Bank support, the NAC and the IEKA are equipped with TRADOS software to facilitate the translation process. A joint protocol is in place for pooling resources. Training is also provided to the designated translators. The translation process, as a result, is greatly improved and is now in line with IFAC translation policies. A recent version of consolidated IFRS is translated and published by NAC. However, the full set of the latest ISA translation is not available.</p>
Recommendation 2.5	<p>Banking and insurance regulators to engage in international forums exploring the relationship between prudential and general purpose financial statements in order to design prudential filters. This would address regulators' concerns that the application of IFRS could jeopardize regulatory criteria of own funds and introduce volatility in the financial statements. In this context, the BOA should have</p>

Table 11. Progress on ROSC 2006 Recommendations

	<p>regard to (i) the guidelines on a common reporting framework to be used by credit institutions and investment firms when they report their solvency ratio to supervisory authorities under the Capital Requirements Directive, and (ii) the guidelines establishing a standardized financial reporting framework for credit institutions operating in the EU. This framework enables credit institutions to use the same standardized data formats and data definitions for prudential reporting in all countries where the framework is applied, reducing the reporting burden for credit institutions that operate cross-border, and lower barriers to the development of an efficient internal market in financial services. This is particularly important in the context of Albania, where a significant portion of the banking sector is foreign owned.</p>
<p>Status of implementation as of July 2019</p>	<p>Partially addressed, some activities in progress</p> <p>Banks and insurance regulators have increased their awareness on the application of IFRS. The banking regulator maintains a separate prudential reporting requirement for supervision purposes. Both the BOA and the FSA participate in international forums and have taken steps to update their reporting requirements. The World Bank CFRR, under the REPARIS program, organized several “<i>IFRS for Financial Sector Regulators</i>” regional workshops in which representatives of the BOA and the FSA participated.</p> <p>The BOA has finalized the draft of a new regulation on capital adequacy, which has to complete an extensive discussion process with the industry before implementation. Particular attention has been paid to the compilation of the reporting framework to the BOA based on the common reporting framework standard of the European Banking Authority. A new electronic prudential reporting system is being installed. The BOA is also implementing a project to adopt IFRS for regulatory reporting purposes, as a necessary element for full adoption of the Basel II framework. Insurance companies have to apply IFRS in their general purpose financial reporting. The AFSA is empowered by law to impose additional requirements; in practice, this has implications for regulatory reporting. In recent years, the AFSA has improved its prudential reporting framework and installed an electronic reporting platform, which helps ensure consistency in reporting by insurers.</p>

Table 11. Progress on ROSC 2006 Recommendations

3. A sustainable auditing standard setting structure should be created.	
Recommendation 3.1	Establish a sustainable auditing standard-setting process, ensuring the translation of ISAs and developing relevant audit practices, especially for SMEs.
Recommendation 3.2	Mobilize funding and technical expertise to ensure that ISA is translated in a timely manner. This could include exploring synergies concerning translating IFRS.
Status of implementation as of July 2019	<p>Partially addressed</p> <p>According to the Audit Law, ISA issued by the IAASB are translated into Albanian by the IEKA in accordance with the IFAC translation policy and are applicable for all statutory audits in Albania. See section 2.4 on translation assistance. The Albanian translation of the full set of the latest ISA is not available.</p>
4. A systematic institutionalized monitoring and enforcement mechanisms should be established to ensure compliance with accounting and auditing standards.	
Recommendation 4.1	Update legislation to clearly outline the authority of regulatory bodies to enforce accounting and auditing standards and to modernize the sanctions currently existing in order to make them better deterrents. While they were developed in the context of listed companies, Albania may wish to have regard to the principles of accounting standard enforcement set out by the Committee of European Securities Regulators. Qualified audit reports should trigger investigations of the entities and unqualified audit reports, which should have triggered a qualification, should also lead to an investigation of the audit firm.
Status of implementation as of July 2019	<p>Mostly Addressed</p> <p>An audit oversight system was introduced through the 2009 Audit Law. Under this legislation, the POB was created. The law foresees disciplinary sanctions for auditors. The law was amended in 2016 and strengthened the POB position.</p> <p>Both the BOA and the FSA have the power to approve the auditors of banks and insurance companies annually. They have issued specific regulations that impose additional requirements about</p>

Table 11. Progress on ROSC 2006 Recommendations

	<p>what should be reported for the regulator’s purposes. Auditors must report immediately to the regulator any material fact that is in breach of the legislation. A qualified opinion normally triggers an investigation by the regulators. Both BOA and the AFSA have the power to ask for re-audit and to disallow the auditor from performing audits in the future.</p> <p>The POB has put some effort into establishing cooperation with the regulators. Financial regulators would benefit from cooperating with the POB. This supports a stronger and properly functional public oversight system and greater direct participation of financial regulators in the oversight system (for example through membership of their representatives in the POB, as well as through the regular exchange of information).</p>
Recommendation 4.2	<p>Establish a system of quality assurance subject to public oversight. Quality assurance for the statutory audit is fundamental for ensuring good audit quality, which adds credibility to published financial information and adding value and protection to shareholders, investors, creditors, and other stakeholders. The system may draw upon existing practices in the EU Member States, especially countries that joined the EU on May 1, 2004, which have had to implement quality assurance systems in the circumstances similar, albeit not identical, to Albania’s. Also, IFAC SMO 1, <i>Quality Assurance</i>, is a useful guideline in this regard. The results of the external quality assurance system should feed into the continuing professional development program and the disciplinary system, as appropriate.</p>
Status of implementation as of July 2019	<p>Partially Addressed – in progress</p> <p>The quality assurance system is conducted by the POB independently from the profession.</p> <p>The following activities have been completed:</p> <ul style="list-style-type: none"> • Development of regulatory improvements and support for implementation at the national level, and both firm-wide and engagement level, based upon IFAC SMO-1 and meeting the

Table 11. Progress on ROSC 2006 Recommendations

	<p>requirements and recommendations in the EU <i>acquis communautaire</i>;</p> <ul style="list-style-type: none"> • Development of methodology and guidance to support quality assurance at firm (i.e. compliance by firms with ISQC1) and engagement (compliance with ISAs) levels, with tools to facilitate monitoring of the application of the requirements; • Development of quality control manual, including guidelines, methodologies, and tools to support quality control by the POB for PIEs as a means for an independent assessment of the quality of audit engagements performed by the statutory auditors and audit firms; • Development and delivery of training to inspectors on implementation of quality manual and procedures; • Completed 15 audit inspections in 2018. <p>Some activities that still need to be addressed:</p> <ul style="list-style-type: none"> • Development of regulations and guidelines that compel adoption and compliance with auditor ethical requirements as promulgated by the International Ethics Standards Board for Accountants' Code of Ethics, as well as EU Statutory Audit Directive requirements; • Developing the tools to support quality assurance review to be done by the IEKA for non-PIEs; • Developing case studies to strengthen the teaching of ethics and training.
<p>Recommendation 4.3</p>	<p>Require statutory auditors and audit firms that conduct statutory audits of PIEs to prepare and publish annual transparency reports. These reports should include a description of the network and its legal and structural arrangements, where the audit firm belongs to a network; information on the governance structure of the audit firm; a description of the internal quality control system; a list of the PIEs which were audited by the audit firm during the years; and other relevant information that would assist users of the financial statements to gain confidence in the quality of the audit work conducted.</p>

Table 11. Progress on ROSC 2006 Recommendations

<p>Status of implementation as of July 2019</p>	<p>Addressed</p> <p>The amended Audit Law requires the preparation and publication of an annual transparency report within three months from the close of the year by audit firms that carry out an audit of PIEs, including information on the foundations of remuneration of partners/shareholders.</p>
<p>Recommendation 4.4</p>	<p>Establish an effective system of investigations and sanctions to detect, correct, and prevent inadequate execution of the statutory audit. The system may provide effective, proportionate, and dissuasive civil, administrative, or criminal penalties in respect of statutory auditors and audit firms, where statutory audits are not carried out in conformity with the Audit Law, ISA, and the Code of Ethics for Professional Accountants. Also, every measure taken or sanction imposed on statutory auditors and audit firms should be appropriately disclosed to the public. The system may draw upon existing practices in EU Member States and IFAC SMO 6, <i>Investigation and Discipline</i>, which is a useful guideline in this regard.</p>
<p>Status of implementation as of July 2019</p>	<p>Partially Addressed – in progress</p> <p>The amended Audit Law provides adequate requirements for the authority of the POB to investigate and impose sanctions on auditors and audit firms.</p> <p>The POB and the IEKA, with World Bank support, are working to improve the system of investigation and disciplinary sanctions. The following activities have been completed:</p> <ul style="list-style-type: none"> • Improving POB and IEKA internal regulations to bring to account those who fail to maintain high professional standards; • Development of guidelines and methodologies on establishing a just system of investigations and discipline. <p>The following are being addressed:</p> <ul style="list-style-type: none"> • Ensuring the investigation and disciplinary system includes a link to the Public Register of Statutory Auditors and a facility that enables users of audit services to provide feedback and

Table 11. Progress on ROSC 2006 Recommendations

	<p>complaints relating to suspected breaches of professional or ethical requirements. Regular reports, to be available to the public, should be generated providing information on the operation of the system (number of complaints received, number of investigations, a summary of outcomes, and summary of remedial/disciplinary actions);</p> <ul style="list-style-type: none"> • Make sure that the investigation and disciplinary system facilitates early investigation of public interest cases; • Support the development of public outreach activities to educate auditors, users, and the wider public on the investigation and disciplinary system.
Recommendation 4.5	<p>Adequately staff, in terms of numbers and expertise, the bodies responsible for monitoring and enforcement. Reviewers must have the expertise to review financial statements to determine whether the accounting standards have been complied with. Likewise, reviewers of audit firms should have the capacity to assess whether the internal control mechanisms within firms are adequate and effective to ensure the performance of high-quality audits.</p>
Status of implementation as of July 2019	<p>Partially addressed - in progress</p> <p>The amended Audit Law strengthens the POB's position as an independent regulatory authority responsible for oversight of the profession and the professional bodies. The Law regulates POB funding and clarifies the POB role in inspecting PIEs audits. Quality assurance review methodology and manuals have been developed. Training is conducted for POB inspectors to ensure they have adequate knowledge for the review. The POB needs to hire more inspectors.</p> <p>The new Accounting Law mandated the NAC with the responsibility to monitor the implementation of accounting standards starting in 2019. The NAC currently has three inspectors and may need up to five inspectors to conduct the review.</p>
Recommendation 4.6	<p>Enhance the register of statutory auditors and audit firms so that interested parties can determine rapidly whether a statutory</p>

Table 11. Progress on ROSC 2006 Recommendations

	auditor or an audit firm has been approved. This will be facilitated through registration in a public electronic register. The availability of the public register in a foreign language would greatly increase its usefulness, especially in the context of foreign direct or portfolio investment.
Status of implementation as of July 2019	<p>Addressed</p> <p>The Public Register of Statutory Auditors is available on the IEKA website and is accessible by the public. The Register is managed by the IEKA, which comprises members from IEKA and the Ministry of Finance and Economy.</p>
5. The professionalism and the quality of the work done by the accounting and auditing profession should be improved	
Recommendation 5.1	Clarify IEKA's mandate to include serving the public interest.
Status of implementation as of July 2019	<p>Addressed</p> <p>Article 12 of the Audit Law clarifies that the IEKA's goal is to ensure that the audit profession acts in full compliance with the public interest, and that the reputation and independence of its members are respected.</p>
Recommendation 5.2	Remove the audit fee rate setting by the Government, which currently restricts the scope and quality of auditors' work. Instead, more reliance should be placed on the quality assurance review and investigation and disciplinary process to monitor auditor independence and audit quality.
Status of implementation as of July 2019	<p>Addressed</p> <p>There is no audit fee setting by the Government. The IEKA has established benchmarks with regard to minimum hours and costs needed for the audit, which are used for quality control purposes.</p>
Recommendation 5.3	Seek (full) membership of international bodies, such as IFAC and, over time, the European Federation of Accountants. Membership in these international bodies often provides the discipline and

Table 11. Progress on ROSC 2006 Recommendations

	structure to help local professional bodies adhere to minimum standards, which helps them improve.
Status of implementation as of July 2019	<p>Addressed</p> <p>The IEKA is a full member of the IFAC since November 2008, as well as a member of the Federation of Mediterranean Accounting Experts, and the International Federation of Francophone Accountants. Membership of the IFAC has put some pressure on the IEKA to observe compliance with SMOs.</p> <p>The IKM became an associate member of IFAC in 2012. It updated its IFAC SMO in September 2019 and is waiting for IFAC Council approval for full membership.</p>
Recommendation 5.4	Clarify the role and responsibilities of certified accountants and consider the merits of a regulatory underpinning.
Status of implementation as of July 2019	<p>Addressed</p> <p>The amended Audit Law defines the certified accountant profession and prescribes basic requirements. Certified accountants have to fulfill some criteria on education and experience, pass a series of tests, and become members of professional associations of accountants.</p> <p>There is some level of regulation for accountants that provide external accounting services. According to the law, commercial companies can either hire accountants as their employees or outsource the service. In case they outsource, only certified accountants can be hired.</p>
<p>6. The number of accounting and auditing professionals able to prepare high-quality financial statements and conduct high-quality audits, respectively, should be increased. Initiatives to attract bright graduates to the profession and to raise the recognition of the accounting and auditing qualifications in Albania should also be launched.</p>	
Recommendation 6.1	Revamp the university accounting curriculum to include more material on IFRS, ISA, business ethics, and corporate governance.

Table 11. Progress on ROSC 2006 Recommendations

<p>Status of implementation as of July 2019</p>	<p>Addressed</p> <p>Two public universities, the IEKA, and the PAOs joined efforts (with support from the World Bank under CFREP and EQ FINREP) to review and update accounting and auditing curricula for university education and professional certification.</p> <p>The following activities have been completed:</p> <ul style="list-style-type: none"> • A benchmark core program of education compliant with IES, for use by universities and professional bodies of accountants and auditors, has been prepared. • The teaching process has been improved through training and workshops about new curricula and training materials. • Increasing awareness of the benefits of using improved curricula. <p>A series of training activities under EQ FINREP on education, tax, and accounting strengthened the capacity of universities and professional organizations.</p>
<p>Recommendation 6.2</p>	<p>Provide incentives for individuals to join the profession. Incentives could be by way of Government and business entities offering scholarships for university students to study accounting.</p>
<p>Status of implementation as of July 2019</p>	<p>There is no evidence that Government and business entities have been offering scholarships for university students to study accounting or offering other incentives for individuals to join the profession. However, accountancy has become one of the most popular programs among students. Also, there is a steady growth of aspiring auditors and certified accountants. There seems no need to provide further incentives for individuals to join the profession.</p>
<p>Recommendation 6.3.1</p>	<p>Update the qualification standards in line with IFAC IES. This would include updating the content of the professional examination syllabus, the content of the professional examination, and the assessment of the examination in order to include critical areas that are currently omitted. This would lead to better-qualified professionals and better recognition of the qualification. Given the</p>

Table 11. Progress on ROSC 2006 Recommendations

	shortage of resources in Albania, synergies should be explored between the education and qualification of accountants and auditors.
Status of implementation as of July 2019	<p>Partially addressed – in progress</p> <p>(see 6.1)</p> <p>The qualification standards are in line with IES. The content of the professional examination syllabus is being updated.</p>
Recommendation 6.3.2	Coordinate and facilitate training courses, particularly in the areas of IFRS and ISA, taught by regional and international experts. Accounting and auditing courses should progress from basic to advanced level. In addition, courses should be provided in specialist areas such as financial reporting and auditing of banks and insurance companies.
Status of implementation as of July 2019	<p>Addressed</p> <p>Training courses are being offered frequently by IEKA and accountants' professional bodies, mostly to their members. The World Bank, under its REPARIS, CFREP, and EQ FINREP programs, has offered regional workshops and training on various accounting and auditing topics to regulators, PAOs, fiscal authorities, and universities.</p>
Recommendation 6.4	Systematically monitor members for CPD compliance and consider suspending licenses of members for non-compliance.
Status of implementation as of July 2019	<p>Addressed</p> <p>According to the Law of Audit, statutory auditors must realize CPD through various forms of professional and educational activities of the professional bodies. CPD is compulsory and at least 40 hours must be completed per year. This can be achieved through workshops, panels, and round tables, in accordance with the IEKA's annual program. It is also required that CPD certification is filed annually with the IEKA. The IEKA council approves the monitoring and assessment procedures for members' CPD. As part of the assessment process, the council approves the testing of knowledge</p>

Table 11. Progress on ROSC 2006 Recommendations

	<p>gained during CPD. This must happen not less than every three years and not more than every five years. The IEKA publishes monitoring results that are copied to the POB.</p> <p>Article 52 of the Audit Law also provides CPD requirements for certified accountants, to the extent of the body of knowledge required under their certification, monitored by the professional associations of accountants.</p> <p>POB regulation No. 9/2019 further established the CPD requirements for certified accountants and at least 40 hours CPD must be completed annually.</p>
Recommendation 6.5	<p>Establish a professional accountancy education center to provide up-to-date training in accountancy, auditing, and financial reporting and other related subject areas.</p>
Status of implementation as of July 2019	<p>Addressed</p> <p>No such single center exists as the Government decided to strengthen existing institutions rather than create a new one and to empower the professional bodies to provide training in accounting and auditing. The Audit Law provides requirements for candidates for statutory auditors and certified accountants to attend professional courses organized by professional bodies.</p>
Recommendation 6.6	<p>Establish or re-establish linkages with international accountancy professional bodies.</p>
Status of implementation as of July 2019	<p>Addressed</p> <p>The IEKA is a full member of IFAC and also a member of the Federation of Mediterranean Accounting Experts and the International Federation of Francophone Accountants.</p> <p>The IKM was accepted as an associate member of IFAC in 2012 and currently is working towards becoming a full member. The updated SMO was submitted in September 2019 and was published on the IFAC website in October 2019. The IKM is waiting for IFAC Council approval to become full member.</p>

SUMMARY OF PROGRESS ON FSAP TECHNICAL NOTE 2014 RECOMMENDATIONS

Table 12. Progress on FSAP Technical Note 2014 Recommendations

Recommendation	Status of implementation as of July 2019
<p>i. The BOA should sustain implementation of FINREP, a standardized EU-wide framework for financial reporting data based on IFRS.</p>	<p>To be addressed</p> <p>The BOA has deferred implementation of IFRS for regulatory purposes for at least another two years.</p>
<p>ii. AFSA's should address the lack of technical capacity to effectively discharge its power to enforce financial reporting and auditing standards owing to inadequate financial independence and an inability to retain staff with suitable qualifications.</p>	<p>Addressed</p> <p>Following the 2014 FSAP and with the support of Financial Sector Modernization DPL of 2014, a series of legal changes helped AFSA to increase its financial independence and ability to hire and retain suitably qualified staff. This was also implemented in practice. This enables AFSA to better absorb capacity building activities and discharge more effectively its power to enforce financial reporting standards.</p>

ANNEX 1: KEY ALBANIAN ACCOUNTING AND AUDITING LEGISLATION

- Decision of the Council of Ministers 17/2019 on the Definition of Other State or Private Companies, Important to the Public Interest due to the Nature of the Business, Company Size or Number of Employees (“Council of Ministers Decision 17/2019”)
- Law on Accounting and Financial Statements 25/2018 (“Accounting Law”)
- Law on Statutory Audit and Organization of Registered Chartered Auditors and Approved Accountants 10091/2009 as modified by Law 47/2016 (“Audit Law”)
- Law on Entrepreneurs and Companies 9901/2008 and as subsequently amended (“Companies Law”)
- Law on Banks in the Republic of Albania 9662/2006 (“Banking Law”)
- Law on the Corporatization of State Enterprises adopted in 1995, succeeded by several government decisions establishing the criteria for the capital, statute and governing bodies for the corporatized state-owned companies (“the Corporatization Law”)
- BOA Regulation 69/2014 On the Bank’s Regulatory Capital
- BOA Regulation 48/2013 On Capital Adequacy Ratio
- BOA Regulation 63/2012 On Core Management Principles of Banks and Branches of Foreign Banks and Criteria on the Approval of Their Administrators, amended by Regulation 73/2017
- BOA Regulation 62/2011 On Credit Risk Management from Banks and Branches of Foreign Banks
- BOA Regulation 42/2011 On Statutory Auditor of Banks and Branches of Foreign Banks
- BOA Regulation 60/2008 On the Minimum Requirements of Disclosing Information from Banks and Foreign Bank Branches
- AFSA Regulation 131/2011 updated in 2015 On the Code of Conduct of the Management Company of Collective Investment Undertakings
- AFSA Regulation 89/2016 as subsequently amended on July 30, 2018 On the Criteria and Requirements for the Approval of the Audit Firm of Management Companies of Collective Investment Undertakings and Management Companies of Voluntary Pension Funds
- AFSA Regulation 110/2016 on the Risk Management of the Management Company of Collective Undertakings
- AFSA Regulation 34/2015 as subsequently amended On Compulsory and Periodic Reporting of Insurance and Reinsurance Companies

- POB Regulation 9/2019 on the Regulation and Supervision of the Operations of the Certified Accountant Profession and the Professional Organizations



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

CFRR»

**Centre for Financial
Reporting Reform**



WORLD BANK GROUP

Centre for Financial Reporting Reform (CFRR)
Governance Global Practice, The World Bank
Praterstrasse 31
1020 Vienna, Austria

Web: www.worldbank.org/cfr
Email: cfr@worldbank.org
Phone: +43-1-217-0700