Public Expenditure Management Peer Assisted Learning

# PEMPAL TREASURY COMMUNITY OF PRACTICE

## Videoconference of the Thematic Group on the Evolution of the Role and Functions of the Treasury

Risk Management and Control in the Treasury of Albania

November 10th, 2022

On November 10th, 2022, members of the PEMPAL Treasury Community of Practice (TCOP) met via videoconference (VC) to hear about recent developments in relation to risk management and control in the Treasury of Albania. The presentation was jointly delivered by Ms. Mimoza Pilkati, Director of Treasury Operations in General Directorate of Treasury, and Ms. Aurela Velo, Director of Business Processing in General Directorate of Treasury. The VC was attended by 40+ officials[1] from 12 PEMPAL countries (Albania, Azerbaijan, Belarus, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, North Macedonia, Serbia, Turkey, and Uzbekistan). 17 observers from the PEMPAL Internal Audit Community of Practice, World Bank and Hungarian State Treasury also joined the session. The meeting was facilitated by the World Bank resource team, including Ms. Elena Nikulina (TCOP Resource Team Leader), Mr. Mark Silins (TCOP Thematic Advisor), Ms. Yelena Slizhevskaya (TCOP Resource Team Member), Ms. Galina Kuznetsova (Head of PEMPAL Secretariat), and Ms. Anara Tokusheva (PEMPAL Secretariat).

**Summary of Discussion**

**Ms. Elena Nikulina (TCOP Resource Team Leader) welcomed participants to the meeting** on behalf of the PEMPAL Secretariat and the World Bank. She noted that the COVID-19 pandemic had interrupted face-to-face meetings, but despite this, PEMPAL continued to convene many virtual events which have been well supported by members. PEMPAL has been benefiting from a very active level of involvement from Albanian colleagues for many years. Many participants will already know both Mimoza (also on the TCOP Executive Committee) and Aurela from their very active role in the TCOP, including several VCs over the last few years. Indeed, Albania has been one of the most active countries in the network and with recent public financial management (PFM) reforms. Today's topic on risk management is very welcome and of interest to many members. Elena thanked the presenters and the Albanian Ministry of Finance and Economy for their continued high-level support and involvement in the TCOP and PEMPAL more broadly.

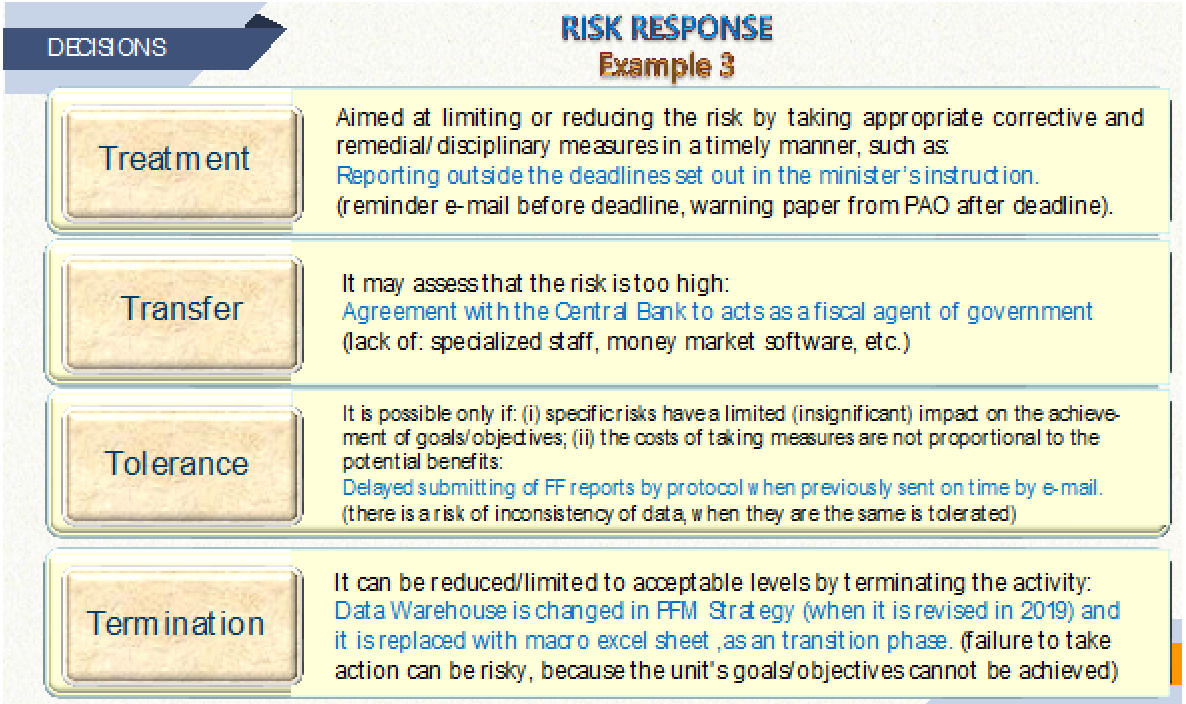
### Presentation by the Treasury of Albania

**Ms. Pilkati led off the presentation by introducing participants to the way in which risk management is institutionalized in Albania.** The 2010 Law on Financial Management and Control was updated in 2015 to require all financial actors to include risk management in their operations in a systematic way. General directors of organizations are responsible for policy development, approval and monitoring of a risk management strategy while Chief Financial Officers are responsible for implementing systems to mitigate risks. All managers within the organization are responsible for identifying, assessing, managing, and documenting risks.


**Risk management is integrated top down in Albania from the strategic planning process right down to the work officials perform.** This can be seen in the below slide where strategic planning first takes place which is implemented by specific policy solutions and underpinned by operational processes. Risk is assessed at each level and risk mitigation is put in place to provide greater assurance that the policies are successfully implemented. It is clearly stated in the Financial Management and Control Manual[2] that the strategic plan (or medium-term budget plan), the annual work plan and the annual budget of an entity shall serve as a starting point for the risk identification and analysis at every level of the entity.

**The main risks faced by the Treasury of Albania include:** (i) liquidity risk; (ii) financing, exchange rate and interest risks; (iii) operational risks; and (iv) business processes risk. The speaker explained that in the Treasury's context the liquidity risk refers the situations where the Treasury Single Account (i.e. liquid assets) diminishes quickly as a result of unanticipated cash flow obligations, decreases in revenues and/or a possible difficulty in raising cash quickly by borrowing. It was noted that several ratios are used to measure the liquidity risk: liquidity ratio - current assets (liquid resources of the government) divided by current liabilities (short-term debt); acid test – current assets less inventories divide by current liabilities; and cash ratio – cash on hand plus financial assets divided by current liabilities. An important role in monitoring and mitigating short-term liquidity risks lies with the Debt and Liquidity Management Committee established by the Ministry of Finance and Economy of Albania.

**An important risk stemming from the execution of a unit's business functions is an operational risk.** The speaker explained that the risk results from ineffective or failed internal processes, staff, systems, or external events that can disrupt the flow of business operations. It is better viewed as the risk arising from the execution of a unit's business functions. In turn, the Operational Risk Management represents implementation of policies and strategies to reduce risk, to prevent new risk, to reduce existing risk and to manage residual risk, contributing to the achievement of organization's objectives. It was clarified that in Albania the treasury functions comprise budget execution (ex-ante controls, recording, authorization), cash management (cash flow forecasting, preparation of payments, liquidity management), keeping government's accounts (data elimination, consolidation, and reconciliation), and data dissemination (generation of financial reports and generation of the government's statistics data). All of these serve as a starting point for risk identification and analysis at every level of the entity – heads of units identify risks associated with the respective objections of the units.




**Ms. Pilkati worked through how the government of Albania, including the Treasury, assesses risk and implements its policies and processes which integrate risk mitigation strategies.** Once the strategic framework is in place and the policies and processes to achieve this are determined, risks are identified (in a number of different ways) and these are recorded in a risk register. Each risk is assessed for impact and the probability of its occurrence and ranked on an assessment scale from low probably and minor impact, to high probability and significant impact. This helps management respond appropriately when seeking to mitigate these risks. Risks rated high on the scale are given considerable focus to reduce the likelihood of a negative outcome for government. The slide below shows some of the options used in Albania to mitigate risks. This includes direct operational responses to mitigate risks, for example through enhanced internal controls, accepting risks where the impact is assessed as very low, or sometimes seeking external support and expertise to address the risk by transferring it - the later can be particularly effective where expertise is limited within government, and an external expert can be secured to mitigate risks on behalf of government.

**Ms. Aurela Velo delivered the second part of the presentation where she discussed the practical side of business processes risk.** She explained how her team designs its policies and processes to mitigate risks in the operation of the government public finance system. This covers a range of responses including prevention and detection, separation of duties along with other institutional controls such as setting budgetary limits and controls over vendors. Ms. Velo shared that the Business Processing Directorate deals with (i) mitigation of operational risks through building control rules and processes in the financial systems, and (ii) identification and mitigation of the Directorate's functional risks.


**Ms. Velo also emphasized that Albania particularly focusses on using financial management information system (FMIS) controls as this provides greater assurance and an e-audit trail for reviewing actions and transactions.** She also reinforced that once risks had been identified and recorded in the risk register, they are assessed, and solutions determined to mitigate the risks depending on the assessment of the risks. This process is also not static but results in an ongoing process of review to build stronger and more effective controls into the PFM system over time. In the final part of her presentation Ms. Velo familiarized the participants with detailed list of steps her unit is following to prepare the risk register and mitigate the risks related to the business processing function.

## Questions and Answers

**Mr. Mark Silins noted that one of the most significant risks for modern government at present is cybercrime.** He indicated that this was particularly relevant personally with three major attacks in Australia in the last month, two of which resulted in his personal information being stolen. In fact, over 10 million people have been affected, 40% of the population. How is Albania addressing these risks and preventing the untoward access from parties who shouldn't have access?

Ms. Velo indicated that the government FMIS had not been hacked in 15 years of operation. Access to all major government systems is tightly controlled through a government gateway. This access is controlled by a separate government agency which is a good example of transferring risks.

**Mr. Azamkhuja Bakhodirkhudjae (Ministry of Finance of Uzbekistan)** noted that he is from a new division in charge of risk management in the Treasury, and currently they are mostly focusing on debt management risks. His question was about improving risk management capacity and coordination across the functional units of the ministry. Ms. Pilkati responded with an example of coordination between the Treasury, other units of the ministry and the Central Bank of Albania. A debt and liquidity management committee was created in the Ministry of Finance and Economy two years ago, headed by a deputy minister and the general secretary; the committee coordinates Treasury department and other departments involved in cashflow forecasting and cash management (debt, budget, macro, revenue, etc.). It meets once a month. Three representatives of the Central Bank of Albania are always attending the committee meetings - the Deputy Governor, the Director of the Monetary Operations Department, and the Director of the Policy Department. This committee is a good solution to coordinate liquidity needs, sources of financing, debt instruments, etc, and it had been very helpful to have the Central Bank involved.

Mr. Silins reinforced the importance of coordinating risk management across the government since many risks for a functional area are external risks. Thus, one of the benefits of integrating risk management into government processes is that it forces you to look beyond the "silo" of your unit to consider the impact of other units and even beyond government units. Thus, risk management has created a driver for governments to take a more strategic and holistic approach to management, including operational management.

Mr. Bari Iseni (Head of the Treasury, North Macedonia) thanked colleagues from Albania for the very detailed analyses of the processes. He shared that in North Macedonia the treasury risk management function is part of a broader responsibility of the Ministry of Finance as an institution, and the Treasury contributes to risk issues in line with its mandate.

Ms. Nikulina added that indeed the risk framework is a high-level governmental framework, and both, ministries of finance and treasury departments must take on their roles and responsibilities within that framework. While the presentation by Albania focussed on how Treasury is managing risk, the process reflected have been implemented across government for the entire finance and control system. The law Mimoza referred to during her presentation is a general financial and control law which applies to all government entities.  Thus, all ministries and departments, including Ministry of Finance and the Treasury, must ensure integrity of its own control systems.

## Conclusions

Mr. Silins thanked PEMPAL and the World Bank for continuing to convene important learning activities. COVID-19 created new challenges for PEMPAL as have other recent negative external events. However, despite this the PEMPAL Steering Committee and the World Bank resource team have ensured continuity regarding peer-to-peer exchange albeit remotely. This is in fact a practical example of the assessment of risk and of a sensible risk mitigating strategy very relevant to today's presentation.

Mr. Silins noted that the COVID-19 pandemic has shown the importance of focusing on risks and on how to ensure business continuity, for example how the Treasury continues to deliver services during lockdowns. There are many other risks to consider as well. This is particularly important given the fact that Treasury manages one of government's most important systems and processes - namely the collection and mobilization of revenues for payments.

Presentation by the Albanian Treasury illustrated that risk management should be considered part of the public internal control framework – seeking to assure the integrity of public finance system and over public assets. There is also a need to clearly understand what the role and mission of an entity are to understand the risks. All of this maybe obvious but it shows how important it is to plan, establish clear roles, responsibilities, and rules, and integrate risk into our thinking for all of this. Risk management is therefore not just a management responsibility or the responsibility of designated officers, it is everyone's responsibility.  This means that modern public servants cannot operate in isolation or "silos" if they are to be effective and they must understand not just their roles and responsibilities but the entire PFM control framework if proper risk mitigating strategies are to be put in place.

The speakers from Albanian Treasury mentioned how their team reviews all processes, roles and responsibilities and ensures the continuity of business operations. The examples included transaction logs and exception reports to see if errors or issues are occurring. Key here is how to utilize the FMIS and other systems to mitigate risks. The Albanian Treasury is not only looking at the processes but giving back information whether these processes are operating well, and it feeds back into the mitigation of risks. Albania does this well and uses ICT capabilities to enhance management's ability to monitor performance. This is important as controls within the FMIS ensure the integrity of the overall system and allow earlier controls to be passed forward to later stages of processes, for example from procurement to payment.

Mark also highlighted that it is not possible to completely eliminate risk – we can only take steps to mitigate risks and strengthen our controls to reduce the probability of the risk occurring and/or the impact of any negative outcome. Our IT colleagues from Belarus explained this very well at a previous event - a proper risk assessment showed that the Treasury system could be available most of the time (e.g., 98%) and for a reasonable cost, however, while desirable, ensuring the availability of the system 100% of the time was not practical as it would impose an extreme financial burden on government. Understanding this and managing risks in a practical way is therefore also critical.

Not all risks warrant our detailed attention. This is the whole point about risk management - ensuring that we focus our efforts and resources on the biggest issues and risks. From a Treasury perspective therefore, we would want to focus our controls on those transactions which have the highest value or create the biggest risk of a negative outcome for government. We have seen this change the way both, Georgia and Moldova, review payments in recent years, with lower value less risky payments streamlined in the "green corridor" and subject to no central ex-ante checks.

## Wrap up

Ms. Nikulina thanked Mimoza and Aurela for sharing how Albanian Treasury is integrating risk management into its business processes and control framework. Ms. Nikulina highlighted upcoming TCOP events, including the November 22, 2022 videoconference during which the PEFA Secretariat will be presenting global trends in PFM and crisis budgeting based on the finding of the *2022 Global Report on Public Financial Management.* Going forward Ms. Nikulina indicated that the TCOP is hopeful of returning to face-to-face meetings in spring of 2023.