

*Honorable Chairperson of the Committee on Economy, Employment and Finance,
Honorable Ladies and Gentlemen Deputies, Members of the Committee,
Honorable Mr. Minister,*

ALSAI has prepared the report “On the implementation of the 2024 State Budget” in accordance with the Constitution of the Republic of Albania, Article 164 of Law No. 154/2014, dated 27.11.2014 “On the organization and functioning of the Supreme State Audit Office”, Law No. 9936/2008 “On the Management of the Budget System in the Republic of Albania”, as amended, Law No. 10296/2010 “On financial management and control”, as amended, and Law No. 97/2023 “On the 2024 Budget”, as amended.

This report is based on the International Standards of Supreme Audit Institutions (ISSAIs), such as: the Lima Declaration, which is the guideline for government auditing, ISSAI 100 “Fundamental Principles of Public Sector Auditing”, ISSAI 4000 “Compliance Auditing Standards”, as well as other principles and standards of external public sector auditing.

In this regard, ALSAI, by presenting to the Assembly the Report on the implementation of the 2024 budget, together with the relevant conclusion, fulfills its constitutional and legal obligation, in accordance with legal requirements and International Auditing Standards and the relevant deadline.

The ALSAI report on the implementation of the 2024 budget aims to review and assess the Report prepared by the Ministry of Finance “On the implementation of the annual budget, the macroeconomic and fiscal situation during 2024”, and the report on the functioning of the public internal financial control system and on public debt.

ALSAI has conducted audits in the Ministry responsible for finance, its subordinate units responsible for revenue administration, units responsible for the administration of Special Funds, as well as on the results of individual audits pertaining to the economic and financial activity of several spending units for 2024, a total of 106 audits. The report was prepared based on the results of audits on revenue, expenditure, budget deficit and its financing, arrears and contingent liabilities, budget planning, implementation, monitoring and reporting issues, good management of public funds, including the reserve fund and contingency, public debt, public internal financial control, internal audit, as well as issues related to accounting, public financial management, etc.

Based on the results of these audits, their degree of materiality and prevalence, on the implementation of the Budget for 2024, the following issues have been identified:

- **In the planning phase** of the 2024–2026 MTBP documents and the 2024 draft budget, legal deadlines were exceeded in several links of the process, documentation was not updated and budget requests above the established ceilings were found, without a unified analysis of priorities and especially capital expenditures.
- Frequent changes to the initial budget through normative acts continue to be identified, throughout the budget year, with a high concentration in the month of December, actions that have violated the quality of planning, liquidity management and budgetary discipline in the receipt and registration of commitments for investment projects.

- Changes in the priority of the selection of new projects, foreseen in the MTBP or newly proposed projects, without going through the investment planning and approval process in this document, opening of projects outside the 20/30/30 rule, spread over a multi-year period, are noted. These actions have increased the risk of not advancing ongoing projects, where for some of them it has been found that the value of the investment commitment has been pushed beyond the 3-year budget approved by the annual budget law, with the effect of creating new arrears.
- Regarding budget monitoring, there is a lack of reallocation of funds committed to projects with slow implementation and not according to the payment plan or with zero implementation, towards other priority projects or sectors of the economy, in need of these budget funds or, for payments in favor of reducing the stock of arrears.
- In 23 cases of the audited projects, contracting authorities have initiated procurement procedures for values higher than the funds available according to the 3-year distribution of the approved budget, contrary to the provisions of Article 50 of the Law on Budget System Management. In 20 cases of the audited projects, the procurement/commitment procedure was carried out beyond the legal deadline of October 15, as the deadline for undertaking new commitments in accordance with Article 51 of the Law on Budget System Management. In 19 cases, the audited projects were found to have concluded contracts beyond the available funds, contrary to the provisions of Article 50 of the Budget System Management Law.
- According to the Standard Budget Implementation Guide, the details/revisions of budget funds in or between projects become valid and produce effects for the following periods only after registration in the Government Financial Information System (GFIS). The audit found records of these reviews with retrospective accounting dates from the dates of the normative acts with which these reviews were formalized. Furthermore, records were found for changes to the budget plan during the months of December 2024 to February 2025, at the same time or in excess of the deadline set for the execution of expenditures, this is not in accordance with the law on budget system management.
- **In the area of revenues**, the total realization is below the plan, mainly due to the non-realization of customs revenues and grants, while their reporting continues to include collections for prepayments not related to a tax obligation or other non-tax items, in the accuracy, comparability and analysis of the realization of fiscal indicators. Also, the revenue plan does not appear to have taken into account the effects of tax and customs debt collections, which, despite the payments made during the year, respectively show an annual increase of 7.4 billion ALL for tax debt and about 1 billion ALL for customs debt.
- **Regarding the contribution of local self-government units** to revenue, deficiencies were found in the administration of property and its use through rental contracts, inaccuracies in the infrastructure impact tax, non-collection of debtors for all categories, families or entities, and the collection of other non-tax liabilities under the administration of local units.
- **Special funds** show problems related to non-declaration and non-payment in full or on time of payrolls submitted by general government institutions and public entities, with the effect of increasing the stock of liabilities of entities towards social and health insurance schemes,

where at the same time, debt management at the end of 2024 has not been accompanied by standardized measures for prosecution and execution.

- **Revenues from contributions by the Social Security Institution**, despite realization, have not been sufficient to cover the expenses of the urban and rural pension scheme, resulting in a continuous deficit, which compared to 2023 appears to be decreasing.
- The audit of **debtors for social security contributions** has found a significant increase in them, especially from the private sector, reflecting difficulties in collecting obligations and a risk to the sustainability of the scheme. Deficiencies in inter-institutional cooperation between the SSI and the GDT, problems in data transmission and collection of payrolls, as well as a lack of inspections in some regional directorates have been identified.
- **The audit of the pension scheme** found problems related to the planning and financing of the pension bonus, deviation from planning due to the redistribution of funds and the shift of the weight of expenditure from pension indexation to the bonus for pensioners, as well as the calculation of indexation at a lower level than the previous year.
- The budget allocated to the health sector resulted underfunded, with procedural delays, combined with irregularities throughout the process of administering medicines, supervising supplies, and the lack of monitoring by the responsible bodies.
- The audit conducted on the process of administering and controlling the List of Reimbursable Medicines (LRB) for 2024 resulted in the Compulsory Health Care Insurance Fund (CHCIF) and its implementing structures not guaranteeing an effective mechanism for supervising and monitoring the supply chain and circulation of medicines. Deficiencies were identified in the implementation of legal and contractual provisions, including the failure to verify reference prices and the lack of physical control of invoices, which made it impossible to objectively assess compliance and implement the provisions for terminating contracts in the event of repeated violations. The inventory process in pharmaceutical warehouses was inaccurate and undocumented, with discrepancies between physical and electronic data in the “e-Depo” system, as well as with incorrect use of drug codes and incorrect declarations of status, increasing the risk of inaccuracies and lack of transparency. Also, the lack of regular controls in pharmaceutical warehouses, penalties for contractual violations and verifications for hospital drugs distributed in the open network, evidence of weaknesses in the internal control system and a lack of administrative response to repeated deviations.
- **The Contingency Fund and the Reserve Fund** were not fully used for the purposes for which they were created, but to cover expenses that were foreseeable.
- In the budget implementation phase, problems were found in the recording of expenditures in the Treasury GFIS system, not in accordance with the rules of fiscal discipline. Specifically, registrations of contracts beyond the legal 5-day deadline were found, delays beyond the legal 30-day deadline in submitting invoices to the Treasury, partial payment of invoices, etc. In addition, incorrect classifications were found between current expenditure items and those for investments, such as in the case of projects financed by the Reconstruction Fund, or projects with foreign financing.
- **The budget deficit** was projected at a higher level and was revised downwards by normative acts due to the expectation of increased revenues and the expectation of reduced

disbursements from foreign borrowing. Meanwhile, the realization of the deficit only in December was conditioned by the concentration of expenditures in this month, where 21% of the annual total was carried out. Also, this result was influenced by several non-unified accounting treatments such as transfer income from expropriations and transfer of the financial result of the Social Security Institution.

- During 2024, **with regard to sub-loans, state guarantees and other loans**, the audit found that the state's rights to collect from beneficiaries, mainly in the energy, water supply and sewage sectors and local self-government units, continued to increase, as a significant part of the entities did not respect the contractual repayment terms and did not take effective measures to recover their obligations. As a result, payments were made from the state budget to cover the insolvency of beneficiaries through budgetary guarantees, increasing fiscal exposure. Despite the establishment of the Agency for the Management of Guarantees and Non-Broken Loans, shortcomings in administrative and legal follow-up, the lack of a unified methodology for monitoring sub-loan agreements, delays in reconciliations, as well as the lack of effective mechanisms for insurance, collateral and timely applicable sanctions, have not enabled the recovery of these obligations. Thus, during 2024, 40.5 billion ALL principal and interest were paid from the state budget on account of the state loan and guarantee.
- **Regarding liquidity**, although the TSA's balance on 31.12.2024 resulted within the approved limit, with the inclusion of special accounts, this limit is exceeded by about 25.1 billion ALL. Throughout the year, high liquidity surpluses were maintained, losses from exchange rates and from deposit investments, limitations on available operational instruments, lack of notifications from General Government Units for foreign exchange transfers above the threshold, accompanied by a lack of analysis on the optimal way of using and converting currencies.
- **In terms of accounting and financial reporting**, despite the obligation provided for in Article 63 of the Law on Budget System Management, the annual consolidated statements of the state's financial transactions for 2024 have not been drafted and submitted, which has made it impossible to express a financial audit opinion on them. Despite this limitation, in the individual financial audits conducted by ALSAI, in addition to deficiencies in the form and deadlines for the preparation of financial statements by the audited institutions, incorrect classifications in the positions of the financial statements have also been found, not only due to the lack of accounting documentation but also due to the lack of a regulatory framework for financial reporting.
- **Fiscal risks remain high**, as exposure to public enterprises, especially energy, has increased due to outstanding and pre-agreed mutual obligations. Meanwhile, the stock of arrears and contingent legal cases also remain at high levels. The stock of liabilities by the end of December 2024 results in 7.32 billion ALL, of which central government liabilities are about 2.66 billion ALL, local government liabilities are about 3.26 billion ALL and VAT reimbursement liabilities are about 1.4 billion ALL. Actual and contingent liabilities for ECtHR decisions are reported at a value of about 18 million euros, which belongs to 10 decisions that are overdue for 3 months and risk interest payments for late liquidation. While the reports of the International Court of Arbitration Decisions until the end of 2024, for actual and contingent liabilities are presented in the amount of about 180 million Euros.

Regarding concession contracts/PPP with budget support, discrepancies were found in the payment plan and reporting, fragmented financing outside the relevant programs, insufficient monitoring of payments for unrealized volumes and lack of annual performance reporting.

- **In the fiscal and tax administration area**, the audit found incorrect treatment of VAT exemptions, unauthorized construction works, discrepancies between physical and accounting inventories, lack of financial analysis of liabilities to partners, low declaration of salaries, sales below cost and market prices without justification, as well as incorrect VAT crediting for fuel. In addition, shortcomings were identified in the monitoring of entities with differences in tax declarations, repeated losses, delays in submitting financial statements, penalties not applied, risk of tax evasion and unfair benefits from VAT.
- The audit in the **customs administration** found incorrect application of the elements of the value of the goods, incorrect use of the transaction value without complete documentation, inconsistent revaluations for the same subject and item, declaration of prices below the cost of the raw material, failure to include discounts in the customs value and lack of documentary and physical control during import. In addition, non-unified treatments of customs violations, tariff misclassifications that affect the obligations for the plastic packaging tax, failure to comply with deadlines in the transit and storage regimes, as well as failure to include items in the lists of references for customs valuation were identified.
- **Regarding the functioning of internal control systems**, it was found that the internal audit service has not been extended to all units of the law and in some cases there has been a lack of complete documentation of inter-institutional agreements for service coverage. Human and professional capacities have proven to be insufficient, with gaps in coverage and certification, with audit plans submitted and approved outside the deadlines or without a documented risk analysis. Low implementation of the performance and IT audit plan was found, as well as low implementation of the recommendations given. Regarding financial management and control, quality assessments were carried out without clear deadlines and with a low annual coverage, in relation to the number of assessments carried out each year and the legal requirement for the periodicity of these assessments.

In view of the above, ALSAI assesses that increasing the quality of budget planning and reporting, in the function of accountability, accountability and transparency of public spending, as well as improving budget monitoring as a whole, management and good governance of increasing fiscal risks, including issues of financial management and internal control, are important for ensuring sustainable public finances and the credibility of the fiscal framework.

ALSAI, in its mandate, as the highest institution of economic and financial control, provides relevant recommendations for improving the situation, strengthening internal controls, in order to prevent problems and deficiencies identified, by requesting:

- Improving the budget planning process and strengthening fiscal discipline through respecting legal deadlines in drafting and executing the annual budget, justifying new or increased budget requests, based on continuous and informal monitoring of the progress of investment expenditures.
- Avoiding frequent changes to the budget plan with normative acts, respecting budget ceilings, so as not to invalidate the entire planning process, as an important element for

managing available public resources, according to the destination and priorities set in medium-term and strategic plans.

- Addressing problems in recording transactions in the government's financial information system, through improvements in integrated control systems, in order to prevent budget commitments from being made without available funds, avoiding delays in recording and non-compliance with budgetary discipline. In particular, for local government units, a more careful monitoring of the right to make expenditures, within the framework of inherited revenues, from own revenues or budgetary transfers is recommended.
- Reflection in the consolidated fiscal indicators of each plan distributed with the Council of Ministers throughout the year for general government units, to ensure coherence between the tables of the law, comparability and timely financing of needs and harmonization with the government's financial information system.
- Increased attention to the management of tax and customs debt, the drafting of concrete plans for its reduction, to avoid losses from the prescription of these obligations.
- Detailing of funds according to existing commitments and contractual calendars.
- Increased attention by institutions to inventorying, administering public property and carrying out registrations with the aim of fair presentation in the financial statements of institutions.
- Accelerate the process of approving and implementing the National Public Accounting Standards (NPAS) with the aim of drafting consolidated financial statements of the state.
- Improve the management of public debt and fiscal exposure to state credit and state guarantees by the Ministry of Finance and the responsible structure established for this purpose, ensuring effective follow-up of these obligations of sub-loan beneficiaries, with effective mechanisms for their recovery.
- Analyze and identify the needs for strengthening the pharmaceutical, hospital and concession contract control system, to guarantee the integrity of electronic data and implement sanctioning mechanisms for entities that violate contractual conditions.
- Strengthen the structures of internal audit units at all levels of government, through more effective monitoring by the responsible supervisory structure, to strengthen audit capacities and through the conduct of assessment processes, as a mechanism for identifying weaknesses.

In conclusion, I would like to emphasize that the mission of ALSAI remains to guarantee the effective, economical and efficient use of public funds, strengthening public accountability and transparency in the management of state finances.

ALSAI, while exercising its constitutional and legal mandate, through recommendations, continues to promote inter-institutional cooperation and good administration of the state budget, in the interest of the public and the sustainable development of the country.