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THE VALUE PROPOSITION OF INTERNAL AUDIT IN UPGRADING GOOD GOVERNANCE IN PUBLIC ADMINISTRATION: THE CASE OF ALBANIA

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Abstract

Public institutions are under increasing pressure to be accountable and restore trust in governmental operations. The internal audit unit, a crucial component of public institutions, has stepped up, providing assurance, educational and advisory services to decision-makers and senior officials. This role is pivotal for sustaining and enhancing good governance in public administration. In the context of the expanding global role of internal audit in public institutions, this paper explores its value proposition in promoting good governance in Albanian public management. Our qualitative methodology, primarily based on interviews with public internal auditors in Albania, reveals that the absence of a conducive environment, frequent changes of

decision-makers, and political resistance to change impede internal auditors from delivering their educational and advisory services. However, this should not deter us. Our findings suggest that efforts to disseminate, enhance the quality, and promote internal audit services in Albanian public administration will yield valuable insights that will significantly contribute to good governance.

Keywords: *internal audit, internal controls, public management, good governance, three lines of defense*

1. INTRODUCTION

The internal audit is considered an independent, objective, and assurance activity designed to improve organizational operations, including public ones. It supports central and local public institutions in meeting their objectives through a well-organized and well-ordered approach to evaluate and improve risk assessment, internal control, and efficiency of good governance. Within public management organizations, the objective of the internal audit is to reassure the decision-making authorities of organizations with adequate and frequent information on their goals while maintaining ongoing resource efficiency and transparency in the financial management of state-owned assets (Hay & Cordery, 2021). In public administration, this means having a high degree of transparency in public spending and decision-making, a critical element in maintaining public trust and accountability, while maintaining full compliance with the current legislation, policies, and procedures under which the state operates. In addition, the proper implementation of internal audit practices in public management conveys a high degree of assurance that the government operates under good governance, risk management procedures, and multilevel control lines to deliver successful services to its citizens (Narantzidis et al., 2020).

To citizens, operations and service delivery in public management are becoming more complex and unpredictable, given the numerous and diverse relationships with stakeholders required to be frequently consulted on program design, strategy preparations, and budget planning. As such, public management faces an increasing demand for good governance.¹ This is especially true regarding principles of efficiency and effectiveness, ethical conduct, sound financial management, and accountability (Gørrissen, 2020).

Public institutions are experiencing an ever-increasing demand for a higher degree of accountability, which is needed to restore trust in governmental operations through appointed authorities mandated to assess, review, examine, and provide recommendations on their performance. Among the most prominent public authorities are the internal auditors responsible for overseeing operations in public institutions, including, among others, staffing, procurement, regulatory

¹ The European Label of Governance Excellence is awarded to governments that have achieved a high level of good governance measured against a Council of Europe benchmark that includes Twelve Principles of Good Democratic Governance. <https://www.coe.int/en/web/good-governance/12-principles>

compliance, management of payment transfers, the accuracy of financial statements, and the effectiveness of economic departments in the corresponding institutions (Parker et al., 2021).

Internal auditors rely on the three lines of defense to provide sound guidance on efficient risk management and adherence to principles of good governance in public management (Figure 1). The first line of defense is management. It includes both senior and middle-level managers responsible for establishing and monitoring the system of internal control that is used to manage risks, accomplishing the overall objectives of the public administration. The second line of defense refers to advisory and supporting units that actively engage in building and monitoring the first line of defense controls (Betti and Sarens, 2021). In most public management institutions, these functions include financial control, quality control, inspection, risk management, and compliance. Among these functions, risk management and compliance are the backbone of this defense line. The third line of defense is the internal audit unit performing an independent and objective examination of public institutions' governance, risk management, and control systems (Schillemans et al., 2018). The internal audit unit provides assurance and advisory services to senior and middle management on sustaining and improving these systems toward a higher degree of good governance. Albanian public management also presents a similar system (Figure 1).

Following the three lines of defense model, most public sector leaders are working on operational realignments to improve transparency, enhance the quality of delivered service, and increase the value of public money.

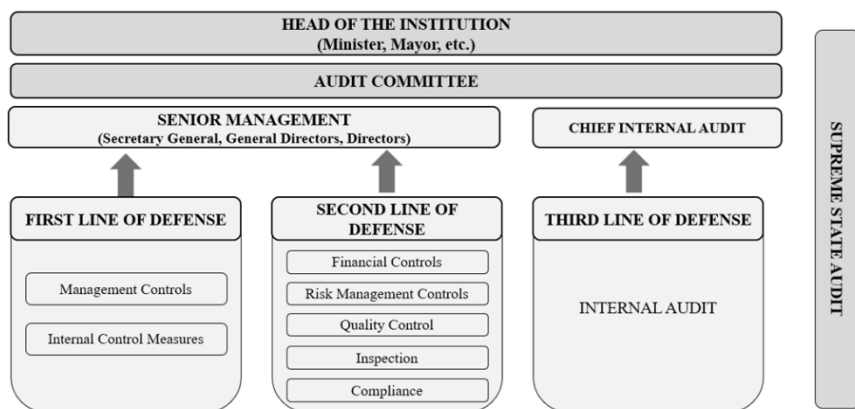


Figure 1 The three lines of defense model in public internal audit in Albania

Source: Adopted by authors

The demand for greater public accountability and resource efficiency has transformed the role of internal audits from “guardians” of the institution to more complex ones (Cowle & Rowe, 2022). Internal audits are seen as public sector leaders' protectors, educators, and advisors.

Within public institutions, the internal audit strengthens good governance through oversight, insight, and foresight, bringing the most value when all these functions are simultaneously exercised, thus ensuring the quality of public services delivered to citizens (Fay & Ahrens, 2021).

1.1. Oversight: Internal audit as protector

In exercising oversight activities, the internal audit ensures that public institutions and their audit committees know the sufficiency and effectiveness of management systems, practices, and controls. When internal controls are weakening or at high risk of failing, an internal audit proposes essential improvements based on reliable and consistent information. Internal audit serves as a "pre-emptive measure" to safeguard the assets and interests of public bodies and allows management and audit panels to perform their oversight responsibilities effectively. This role refers mainly to the first line of defense as the internal auditors ensure that the public organization has the protocols, guidelines, and regulations to set accepted procedures essential for managing public finances and good governance (Bunn et al., 2018).

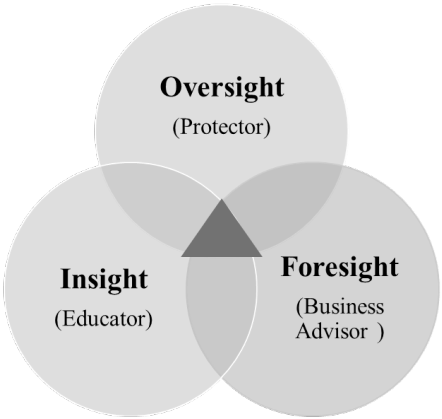


Figure 2 Value adding of internal audit in strengthening good governance.

Source: Adopted by authors based on the three lines defense model of Institute of Internal Auditors

1.2. Insight: Internal audit as educator

Internal auditing within the organization cultivates proficiency in management control mechanisms, risk management, and governance, all essential for efficient public management (Pierre et al., 2018). The internal audit function possesses a comprehensive understanding of the optimal practices and expectations in these domains. It utilizes these standards as a foundation for drawing inferences about the government's systems, practices, and cultures. This perception positions internal audit as a highly instructive endeavor, equipping the management with the knowledge and abilities required to fulfil responsibilities mainly in the first and in secondary lines of defense (Christopher, 2019).

Regarding the first line of defense, an internal audit can potentially serve as a potent catalyst for significant new management practices. As staff mobility increases and leaders take on new roles, internal audits are well-suited to impart education, direction, and insight into the requirements for adequate and efficient control to management in the first line of defense (Parker et al., 2018). Furthermore, internal auditing can act as a "tie-up," via annual reports or other means, cumulative data, and broader systemic issues that management might not receive from any other authoritative source (Mattei et al., 2021). In the second line of defense, the role of internal audit as an educator is to ensure that the documentation (protocols, guidelines, regulations, etc.) is understood and correctly implemented by employees in the public administration. Internal auditors provide ongoing guidance to employees in public administration for better implementation of the regulations, ensuring compliance with and adherence to international internal audit standards on which these regulations are based.

1.3. Foresight: Internal audit as business advisor

Internal audit standards explicitly establish the function as an assurance and an advisory function. Assurance services can take longer to make, but they can help predict the future if the auditors can use past evidence to make predictions. Regardless of the service provided, whether assurance, an internal audit can serve as a trusted advisor to the government by demonstrating expertise, objectivity, and knowledge of organizational risks and critical internal controls. This enables internal auditors to be reliable and relevant advisors, facilitating effective government operations (Cordery & Hay, 2021).

The internal auditing process is explicitly framed as an assurance and an advisory endeavor. Having a reliable and objective internal auditor specializing in management and control issues provides deputies and senior executives with objective, dependable, and pertinent guidance as they confront the ever-increasing pace of change in government operations (Ferry & Midgley, 2021). Public sector leaders always need independent assurance and advice to get trusted information. It helps them trust that the government is doing what it should be doing (Morin & Hazgui, 2016). This role is primarily relevant to the first line of defense as the high-

level management in the public administration is the decision-making authority. However, internal auditors also provide advisory services also to the second line of defense, especially on international best practices in public finance management, public procurement, and compliance, guiding and orienting middle-level public officials to better governance in the public sector.

Albanian public administration has been criticized for inefficient public finance management, including several high-level debatable cases in public procurement that made headlines in the press, such as constructions of roads, investments in agriculture, and the selection of providers for medical supplies in public hospitals. These cases raised many concerns about the efficiency of internal audits in detecting and preventing mismanagement of public funds and the constraints internal auditors face in exercising their roles according to international internal audit standards. Given the limited research on the internal audit model in public administration, this paper tries to narrow the gap in the literature by investigating how internal auditors in Albanian public administration perceive their placement within the three lines of defense model². The research answers two research questions.

1. *Which roles (protector, educator, advisor) in the three lines of defense model do internal auditors perceive themselves as performing within public administration?*
2. *In what ways can internal audit actions improve the three lines of defense model, thereby enhancing corporate governance in public administration?*

After introducing the three line of defense model, this paper continues with an extensive literature review highlighting how internal audits improve good governance in public administration and a detailed introduction of the developments occurring in Albania in the same area. It follows with a detailed description of the methodology and the main results from extensive fieldwork. Finally, the conclusions provide new recommendations on how regulatory, institutional, and operational changes can strengthen the role of the internal auditor, thus improving good governance in the public sector.

2. LITERATURE REVIEW

The internal audit unit has become a fundamental component of public expenditure and a tool for ensuring good governance in governmental institutions. Today, managing public sector operations is more complicated and requires internal auditors to enhance their professional competencies to help the government use scarce resources more efficiently and deal with the risks that come with it

² In this paper, the three lines of defense model is referred to instead of the three lines, as the current legislative and regulatory framework in Albania is based on the previous model.

(Yang 2021). Effective internal oversight and monitoring are fundamental to sound governance and efficient public financial management (Rana et al., 2021).

Internal audits are provided to assess individual systems and processes and, as a result, offer advisory services to senior public administration officials on optimizing internal operations. Internal audit is a fundamental component of any public finance management. It ensures that public expenditures are within the government budget-approved amounts disbursements adhere to established protocols, and timely reconciliation of accounts is ensured (Taminiau and Heusinkveld, 2017). The internal auditing function guides public sector entities for efficient and smooth operation and for evaluating and improving performance. This ensures that government officials and organizations make good decisions and are more open about their choices. This helps them deliver services well and draft proper development programs for overall welfare (Roussy & Perron, 2018).

The literature, which previously viewed internal auditors as inspectors or "watchdogs," has since widened to encompass a broader range of duties due to the introduction of performance auditing. Even in the latest research of Fery et al., (2022), Parker et al., (2021) and Yang (2021), when highlighting the changes in the role of internal auditors as protectors, educators, and advisors they refer to the early ones when the auditor's role was to monitor the financial management in public administration and not looking for irregularities or malpractices. However, today, the role of internal auditors has been the focus of numerous studies examining independence concerns and its contribution to improving good governance (Reichborn-Kjennerud & Johnsen, 2018). Consequently, the internal audit was transformed from routine and basic tasks into results-based auditing with internal auditors possessing both performance accountability and facilitation roles. Consequently, internal auditors are no longer perceived as guardians but rather as appraisers and modernizers (Cesario et al., 2020).

2.1. Internal audit and good governance in the public sector

As proficient advisors, internal auditors can supply government officials with valuable data on the optimal decision-making approach. In this regard, it is imperative to emphasize the substantial number of studies about the significance of internal audits in facilitating public governance (Triantafillou, 2020). Internal auditors in public administration have a significant role in strengthening public sector good governance corporate performance by carrying out performance audits, offering strategic advice, and joining management committees (Ferry et al., 2017). Hence, internal auditors now possess a dual focus, wherein they must consider and respond to government priorities and preferences and escalating apprehensions on desired outcomes (Mir et al., 2017). Furthermore, research of Cular (2019) identifies internal audit as an instrument to obtain organizational independence, objectivity, and cost-effectiveness in managing organizations. The primary focus of studies on the role of internal audits has been on their autonomy and their contribution to the advancement of good governance. Internal audit roles have

changed, and there are possible conflicts that this may cause, according to the literature (Hay & Cordery, 2018). Furthermore, the research reveals a highly unbalanced representation of the diverse range of nations and auditing methodologies, thereby necessitating the inclusion of evidence on internal audit in public management from standalone markets (Gustavson & Sundström, 2018).

Public sector internal auditing is not without its challenges. Limited independence can affect objectivity, while understaffing may constrain the complete execution of internal audit services. Navigating numerous and overlapping regulations makes it harder to fulfill assurance requirements, and external influences could adversely affect the objectivity of internal auditors. A divergent political agenda hinders the adoption of internal audit findings, reducing the perception of good governance procedures. Lacking skills, certifications, and expertise may restrict internal auditors' ability to assess and tackle upcoming risks and governance concerns. Ineffective data management practices can hinder thorough and data-driven audits, while effectively managing stakeholder expectations is essential for demonstrating the significance and influence of the internal audit function. The institutional mindset within the public administration is critical in supporting or hindering internal audit operations' effectiveness (Beasley et al., 2018). Public sector institutions must recognize and address these challenges, as doing so presents an opportunity for significant improvement in internal audit capabilities and governance practices.

By acknowledging and tackling these factors, public sector organizations can enhance their internal audit functions and boost governance. Good governance in the public sector fosters better decision-making, enhances resource management, and promotes accountability for the responsible use of public funds. Conversely, ineffective governance can harm the government and the community, eroding public trust in government institutions and exacerbating critical community issues. Therefore, good governance, underpinned by a capable and accountable government, is paramount for achieving positive outcomes and addressing societal challenges (Osagioduwa et al., 2022).

In this context, internal audit is essential to public sector governance, offering unbiased assessments of risk management, control systems, and governance procedures. It guarantees transparency, accountability, and the prudent management of public resources. By enhancing the effectiveness and efficiency of public sector operations, internal audits contribute significantly to overall governance. One key role is promoting good governance practices by monitoring adherence to principles and standards (Polonijo, 2019). By evaluating governance principles and processes, internal audits pinpoint areas for enhancement and ensure adherence to laws and policies, thus becoming a crucial element of effective institutional economics. Moreover, internal audits are vital in managing risks by evaluating control systems and identifying vulnerabilities and fraud risks. This helps prevent financial mismanagement and corruption, bolstering accountability and integrity in public sector organizations (Scott & Sarganis, 2018).

In public administration, internal audit is an indispensable function that promotes sustainable growth and governance. Internal audits are directly linked to the management of the state budget, which is primarily funded by tax payments. Effective management of public funds reduces corruption and ensures the implementation of strategic investments and citizen-friendly policies such as green cities and access to low-cost public education and healthcare, thereby enhancing the overall welfare of citizens. Internal auditors play a crucial role in enhancing transparency and equity, aiding in the fight against corruption, and ensuring that public procurement is cost-effective. A robust internal audit function is essential for overseeing public financial management. It must ensure that expenditure does not exceed budgetary limits, that transactions are conducted according to established protocols, and that financial records are reconciled promptly. Additionally, it should establish robust systems for the management and accounting of both physical and financial assets. Internal auditors are a vital component of government financial management and play a key role in enhancing performance and performance management in the public sector. They are instrumental in conducting value-for-money (VFM) audits, also known as performance audits. These audits assess the cost-effectiveness, efficiency, and overall impact of government expenditures or spending strategies. Ultimately, performance evaluation through internal auditing aims to determine whether organizations are achieving their goals in the most efficient and effective manner.

The connection between internal audit and public sector governance also involves providing stakeholders with assurance. Internal auditors provide impartial assessments of risk management practices, control mechanisms, and governance procedures, confirming that they are both sufficient and effective. This assurance builds confidence among citizens, government officials, oversight bodies, and external auditors. Enhancing the connection between internal audit and public sector governance involves tackling various challenges (Osagioduwa et al., 2022). These include maintaining independence, securing adequate resources, navigating intricate regulations, handling political influences, addressing opposition to change, securing competent staff, enhancing data management, fulfilling stakeholder needs, fostering a positive organizational culture, and acting on audit recommendations. Effectively addressing these challenges strengthens the internal audit function's contribution to promoting good governance, risk assessment, and responsibility within public sector organizations. These elements of the three lines of the defense model make its proper application a prerequisite for good governance (Polonijo, 2019).

2.2. Internal audit in the Albanian public sector

Regarding Albania, the dictatorship regime was demolished in the early 1990s, and democratic institutions took over. Transforming and reshaping many central and local government public institutions was challenging and painful amidst a civil war in 1997. The internal audit came to attention only in the early

2000s. The first Decision of the Council of Ministers, “On the Financial Control of Public Institutions,” was approved in 2000, followed by the first drafted law, “On the Internal Audit in the Public Sector,”³ in 2003. The path through which the internal control structure has moved in the post-dictatorship years has had its ups and downs. These fluctuations are caused mainly by the lack of knowledge in structuring public institutions in a market economy and the turmoil that has dominated Albania during the last decades, with the first legal and regulatory acts available only in the early 2000s making internal audit in public administration one of the newest functions introduced in the market economy. The development of internal audit functions is closely related to the effective management of public institutions and a proper internal control system, mainly oriented on financial control induced by the Stabilization and Association Agreement signed in 2006 and entered into force in April 2009. Among the terms that dominate the regulatory framework are, among others, power of influence, authority, responsibility, rules and norms, methods of limitations, supervision and testing, influences, managerial instructions, etc.

The democratic system today in Albania requires, among other things, that governments effectively use public funds. Among many actors and authorities, such as regulators and media, a unique role belongs to monitoring and evaluation, which cannot be realized without appropriate procedures and standards and the role of internal auditors (Sulanjaku and Todri, 2015). The legislation governing internal audit practice adheres to international standards. The public sector's internal audit unit is established to enhance operational efficiency, maintain budgetary and fiscal discipline, and ensure compliance with legal and regulatory requirements. Each public sector entity must undergo regular, systematic, and thorough internal audits of its operations, data, and management and control systems (Xhani et al., 2020). The law on internal audits in the public sector creates an institutional framework to ensure practical internal audit functions. Its provisions aim to improve the efficiency of public sector entities, thereby enhancing services for users, beneficiaries, and Albanian taxpayers.

Improvements and increased attention to the internal audit function are fuelled by the European Integration process and the requirements that candidate states, including the Western Balkan ones, must fulfill for integration into the European Union. Adherence to rigorous internal audit requirements is essential for public administration bodies in prospective European Union (EU) member states to meet EU standards and achieve membership. These requirements ensure that public sector institutions manage resources effectively, maintain transparency, and uphold accountability, aligning with the EU's broader objectives of good governance and fiscal responsibility. To be considered for EU membership, Western Balkan countries, including Albania, must implement a robust internal audit framework that complies with international and EU standards. This includes adhering to the International Standards for the Professional Practice of Internal Auditing (IPPF) set by the Institute of Internal Auditors (IIA) and specific EU

³ Law No.9009 dated 13.02.2003, “On the Internal Audit in the Public Sector”.

regulations. The EU's requirements align with the three lines of defense model and ensure that internal audit functions are independent, objective, and well-integrated into the public sector's governance structure. EU membership requirements stipulate that internal audit departments should be adequately staffed with skilled professionals. This involves ensuring auditors possess the qualifications, training, and experience to perform their duties effectively. Western Balkan countries seeking membership must demonstrate that their internal audit teams can undertake comprehensive risk assessments, evaluate internal controls, and conduct performance audits that assess the economy, efficiency, and effectiveness of public spending. These requirements indicate that internal audit functions must operate with a high degree of independence from management to maintain objectivity and credibility. This independence is crucial for conducting unbiased assessments of public administration practices. The audit function should report directly to the highest level of governance, such as a parliamentary committee or an audit board, to ensure that findings and recommendations are taken seriously and acted upon.

Despite the positive developments of recent years, there is still no clear understanding of the role and responsibilities of internal audit units in the public sector, let alone in the private sector. In the current legal framework, several overlaps between the auditing activity of institutions, the Supreme State Control, internal audit structures, and financial inspection exist, especially in terms of audit scope and the techniques used by these services⁴. As such, in 2023, new amendments were proposed to ensure alignment with the general framework of the *Acquis Communautaire*, related to the adoption of internationally recognized frameworks and standards and public internal financial control based on decentralized managerial accountability (Kafia, 2015).

Legal amendments define specific criteria for the employment of internal auditors, such as certification and seniority, and solve one of the main problems: the employment of uncertified employees as internal auditors in the public sector. The law proposes the creation of audit committees by which public entities are given the right to have an Internal Audit Committee as an independent monitoring and advisory body for senior management, as well as support for the internal audit unit with decision-making rights. The Ministry of Finance remains responsible for increasing the awareness of high-level management on the importance of internal audit, strengthening the quality of audit capacities, and implementing control systems based on key performance indicators (Muceku and Bello, 2021).

The overall public sector audit in Albania is introduced in Figure 3. It encompasses internal and external auditing, with the leading institutions being the Supreme State Auditing and the Ministry of Finance and Economy. The central institution for external auditing is the Supreme State Auditing, which operates based on the Albanian Constitution and the corresponding legal framework (laws, bylaws, regulations, etc.). It is the only institution that reports to Parliament. Internal auditing is divided into centralized and decentralized audits. The Ministry

⁴ Law No. 114 dated 22.10.2015, "On the Internal Audit in the Public Sector".

of Finance represents centralized auditing, with the primary responsible authority being the Directorate of Centralized Harmonized Audit. This unit is responsible for the regulatory framework, including adopting international standards and European legislation. On the other hand, the internal audit and control units in the central (line ministries, agencies, etc.) and local (municipalities, communes, etc.) government institutions. The interconnection between the centralized and decentralized units is ensured through the Internal Audit Committee.

It is an independent body that prepares and gives evaluations and opinions on internal audit methods; evaluates and gives opinions on the legal and regulatory framework drafted on internal audit in the public sector; and internal controls in the audited organizations.

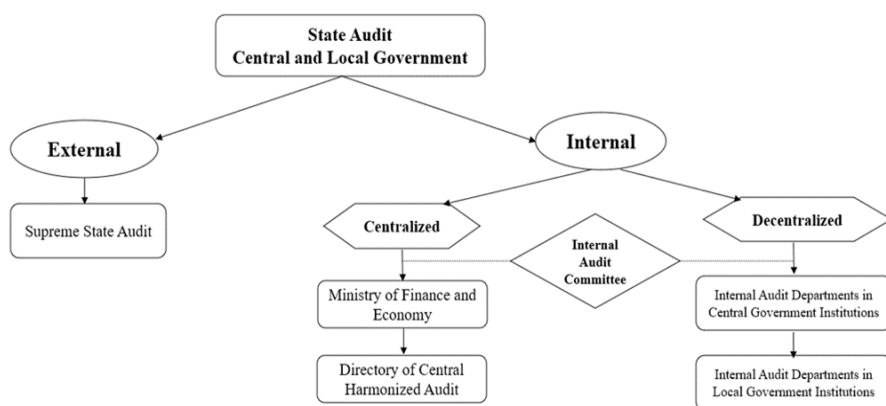


Figure 3 Internal audit in the Albanian public administration

Source: Prepared by authors

Several challenges hinder the effectiveness of internal audit units in detecting and addressing malpractices within Albanian public institutions. Firstly, a prevalent culture of centralization within these institutions influences how internal audit units plan and execute their audits (Muceku & Bello, 2021). This centralized institutional culture limits the autonomy of internal audit units in planning and conducting internal audits. In Albania, internal audit units operate with limited independence, compromising their ability to provide objective oversight. This lack of autonomy reduces institutional transparency and accountability, heightening the risk of corruption and undermining institutional integrity (Xhani et al., 2020). The significant control exerted over the operations of internal audit units diminishes accountability within institutions, particularly in areas with high levels of political influence. This also contributes to less transparency in specific sectors of institutions, creating favorable conditions for potential malpractice and corruption. Despite the regulatory and organizational changes in the public administration to strengthen the internal audit units with certified public officials, little effort has been made to implement the three line of

defense model in Albania fully. Similar challenges in implementing the internal audit in public administration are also faced by other Western Balkan countries (Trivunac et al, 2024). For example, one of the primary challenges in Bosnia Herzegovina is the inconsistent application of standards across different entities within the country, influenced by the complex political structure and decentralized governance. North Macedonia faces challenges integrating internal audit findings with external audits and ensuring consistent implementation of audit recommendations. A primary challenge in Serbia is maintaining the effectiveness of internal audits amidst frequent changes in public sector management and ensuring that audit recommendations are implemented. Like other Western Balkan countries, Kosovo struggles with integrating audit findings into broader governance frameworks and ensuring consistent application of audit standards across different public entities (Nimani et al., 2023).

Moreover, inadequacies in detecting risky practices erode public trust in public institutions and highlight deficiencies in institutional integrity as internal audit units often focus on minor aspects of institutional operations, limiting their overall effectiveness. Consequently, internal audit units typically conduct audits only after obtaining prior approval. This combination of a centralized organizational culture and legal ambiguity leads to different interpretations of how the law should be implemented, causing public sector leaders to prioritize lower-risk audits. It is important to note that Albanian law does not confine internal audit units to specific sectors of institutional work (Halili, 2016). Therefore, there is ample opportunity within the existing legal framework to broaden the scope and depth of their activities. This expansion could transform internal audit units into a robust democratic mechanism for checks and balances without overly encroaching on institutional leadership or operations.

3. METHODOLOGY

The paper is based on qualitative research, with primary and secondary data gathered from public administration employees in Albania. Data collection is primarily based on semi-structured interviews with internal auditors in the public administration from September-October 2023. A similar methodology was followed by Roussy (2013), who conducted 42 interviews with internal auditors in Quebec, Canada, and Power & Gendron (2015), who introduced a methodological approach for interviews with internal auditors and Cular (2019) that collected and analyzed data from 150 auditors. The semi-structured interviews were selected as the main instrument for data collection. This type of interview has both closed and open questions, allowing the researcher to understand better how changes in the role of public sector auditors influence good governance in Albania. The interview had, in total, 20 open and closed questions categorized into four main areas reflecting the three roles of internal auditors and how these roles can improve good governance. Open questions targeted mostly challenges and opportunities for each role auditors need to perform. In contrast, closed questions consisted of a Likert

scale from 1 to 5 to assess the current level of implementation in each role. The categorization of questions is presented in table 1. After internal auditors in the public administration were identified, an interview schedule was prepared based on their availability. The interviews started with internal auditors in the Ministry of Finance and followed with other public institutions. Thus, 37 interviews were conducted with public auditors working in Albania's central government to respond to the paper's main research questions. Sample characteristics are summarized in table 2.

Table 1 Categorization of interview questions for internal auditors in the Albanian public administration.

No.	Area	Open questions	Closed questions	Average response time per section in minutes
1.	Oversight (Protector)	4	2	21
2.	Insight (Educator)	3	2	18
3.	Foresight (Business Advisor)	4	1	14
4.	How to improve good governance through the three lines of defense model.	4	0	16
5.	Total	15	5	69

Source: Prepared by authors

Public sector auditors working in municipalities, communes, etc., are not included in the sample as the authors are conducting a separate research project on local government institutions. Public sector auditors were selected based on the authors' previous experience as an employee in the public sector and snowball sampling techniques (Kacani and Shaqiri, 2024). Snowball sampling has its limitations. One major disadvantage is that it can lead to bias and diminish the sample's representativeness. This occurs because participants are not chosen randomly; instead, they are selected based on the personal networks and preferences of the initial contacts. Since snowball sampling typically depends on referrals from participants' networks, the resulting sample may not accurately represent the broader population. Consequently, the findings might not apply to other groups. However, the impact of these limitations in the research is minor. Public administration institutions have an organizational structure available to the public, indicating where internal auditors operate. Referrals in this research were used to identify the contacts of the people filling the predetermined positions in public administration.

Table 2 Main sample characteristics of public internal auditors in the Albanian public management

Indicator	Participant Characteristics	Frequency	%
Gender	Male	14	38%
	Female	23	62%
Age	20-29	5	13.5%
	30-39	14	38%
	40-49	12	32.5%
	50-59	6	16%
Education Level	Bachelor	8	22%
	Master	24	65%
	PhD	5	13%
Auditing Work in Public Management	1-5	7	19%
	6-10	18	49%
	11-15	9	24%
	15+	3	8%
Certification	International	5	13.5%
	National	31	84%
	Both national and international	5	13.5%
	In the process of certification	6	16%

Source: Prepared by authors

All interviews were carried out in person and recorded with prior consent. Secondary data, such as official regulatory documents, laws, statistics, etc., were analyzed to support the interviews. Before and after the interviews, secondary data were reviewed to contrast the information given by respondents with pertinent documents. During the interviews, participants supplied additional references to secondary data and copies of internal documents, which supported the empirical evidence. The interview matrix was an analytical tool employed to facilitate the analysis process and ensure no information was overlooked (Kacani et al., 2023).

To ensure transparency, the interviewees were provided beforehand with information regarding the research project. As previously mentioned, consent was obtained for the interviews to be conducted. Each interviewee was offered the option of anonymity before and after interviews. To preserve anonymity, code names were assigned to each participant; however, the essential data about comprehending the analysis was made public. Before conducting interviews, an audio recording was requested (Steccolini, 2019). During the interview, participants could pause their responses if they felt unsure or uneasy. Interviewees were also allowed to review and provide feedback on the interviews transcribed. Initially, interviews were transcribed and then transferred into NVivo. In analyzing interviews, several codes were created for each category, e.g., pre-emptive measure, professional education, instructive behavior, advisory role, professional certification, improved good governance, etc. The main results are introduced in

the next section. To guarantee the accuracy of the collected information, primary information was gleaned from conversations with officials at the central government, and additional inquiries were conducted with a few participants. The secondary data were examined with the same level of care as the primary data. Various data analysis methods facilitated the collection of diverse information types, enhancing the results' reliability (Ferry et al, 2022).

4. MAIN RESULTS

Most interviewees indicated that the internal audit profession's professional and cultural characteristics may be why internal auditors are not perceived as educators, business advisors, or promoters of good governance. As shown in Figure 4, most internal auditors (16) in the Albanian public administration perceive themselves as protectors of public assets, concentrating on preparing the necessary procedures, regulations, and protocols required by the law and respective amendments rather than ensuring proper implementation of such documents. This trend occurs mainly in senior internal auditors who have graduated during the dictatorship and received only national certification in public sector internal audits with limited knowledge of recent internal practices. Another reason why internal auditors exercise mainly the role of the protector to the first and second line of defense is due to insufficient governmental financial support allocated to pursue costly international certifications. The findings indicate that few internal auditors perceive themselves as performing more than one role, with protector still being one of them in 5 respondents. These respondents have over ten years of experience in the public sector but have acquired knowledge of the best international practices through local training delivered by global experts. These public sector internal auditors still feel more comfortable in the role of the protector and find it challenging to embrace a new one, either that of an educator or a business advisor. This occurred due to the pressure from frequent layoffs in public administration and the political agenda of decision-making public officials that conflicted with the three lines of the defense model. In addition, internal auditors, especially those with more experience and at an older working age, think of themselves as specialists in assessing problems rather than educators. Most public sector internal auditors argue that the analytical skills needed to be a good educator fundamentally differ from those needed to be a good auditor. They are mainly concerned about how educational roles might affect their ability to be objective in their work. The potential danger lies in that by disseminating knowledge regarding control expectations, auditors will effectively be responsible for designing or being perceived as designing these controls. In addition, internal auditors are not provided with opportunities to properly execute this role as the decision-makers and public officials are politically appointed and have little incentive to receive appropriate guidance from internal auditors as they strictly follow the political agenda that conflicts. However, the European integration process and the strict membership requirements allowed internal auditors to become educators or business advisors, enhancing good governance in public administration.

Surprisingly, internal auditors who perceive themselves as both educators and business advisors (2) are the ones who already have received or are currently pursuing international CIA (Certified Internal Audit) qualifications. These respondents have no intention of receiving the national certification of internal auditors as they perceive not fully aligned with the international ones. Only two respondents perceive they are performing all roles in the three lines of defense model. These internal auditors have over five years of experience in the private sector and made a career change by moving into public administration. However, their perception of implementing three roles is not entirely related to their responsibilities as internal auditors but rather to the support they provide to the young internal auditors in pursuing international certification and in informal suggestions they give to public employees in fulfilling the recommendations of the Supreme State Audit.

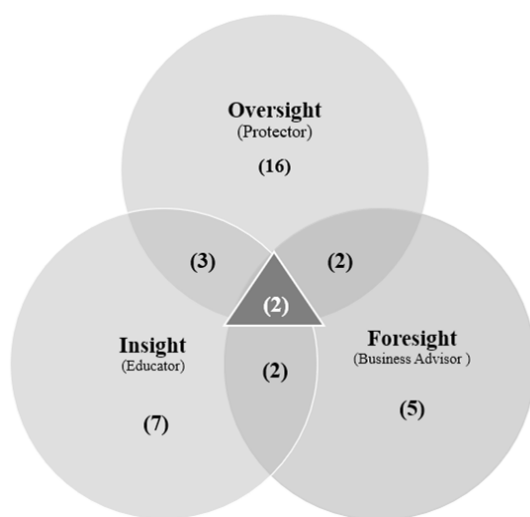


Figure 4 Perception of roles of internal auditors in the Albanian public administration. In parentheses is the number of respondents.

Source: Prepared by authors

Among public administration employees, low and middle management are much more open to receiving training from internal auditors. Currently, internal auditors have little room to execute their role of educator to decision-maker public officials, thus limiting their impact on improving good governance. However, 91% of participants claim that educational initiatives aimed at disseminating the knowledge and expertise of internal audit are significant to the organization in improving its operational performance and promoting good governance. They depend significantly on the European integration process to provide sufficient scope for fulfilling their advisory role in line with international internal audit standards. This includes reviewing processes and procedures, scrutinizing financial

records, assessing compliance with relevant laws and regulations, evaluating risks, making recommendations to enhance risk management, and investigating fraud.

Almost 97% of participants claim that the value of an internal audit as an advisor at the highest levels is achievable. This statement was stronger from public internal auditors of a younger age or with previous experience in the private sector, that aim to undertake an advisory role within public institutions. Indeed, our discussions with public sector internal auditors indicate that this position is imperative now, given the intricate nature of the job and the constant drive for change in the government. Unanimously, all interviewees agree that amendments made in 2023 in the Albanian legal framework of internal audits in public institutions indicate that internal auditors are portrayed as key advisors of managers and institutions, given their objective evaluation. The recent legislative changes suggest that an internal audit will guide senior public administration officials in achieving process optimization. Similar results were obtained in Serbia, which also underwent amendments in the legal framework for internal audit in 2023. The findings of Trivunac et al. (2024) indicate that even though internal audit activities usually do not report directly to the public, the proposed standards suggest that all internal audit work in the public sector should be conducted with the public's benefit and interest as a priority. Therefore, internal auditors must evaluate how well the organization delivers value to the public and improves overall good governance. Internal auditors in public management will also provide suggestions for improving policies and procedures to prevent budget funds from being used illegally, inefficiently, or ineffectively. They will also give suggestions for making the organization more accountable and efficient, thus helping public sector leaders adhere to good governance principles. The main challenge remains the political will and the frequent changes in the decision-making officials in the public administration to fully implement and create the necessary environment so that auditors can exercise their role as business advisors.

Furthermore, the legal amendments stipulate that the auditor's responsibility should not be restricted solely to conducting inspections. Hence, through interviews, we have discovered that, in terms of institutional and regulatory measures, Albania satisfies the international standards in the role of internal auditors within Albania's central government. Our conversations revealed, however, that there is no accurate alignment between the legislative mandates and the actual international accreditation standards. The responses we received were influenced by three distinct levels: personal working experience, autonomy perceived while performing the internal audit operations, and the work environment as an organizational factor at the macro level.

All interviewees claim that the role of the internal auditor is to improve best practices in the administration of public funds and mainly budget expenditure by providing independent recommendations and conclusions. Nonetheless, interviewees have noticed that government officials in Albania have implemented novel regulations aimed at appeasing international actors and meeting the criteria required for European integration, rather than focusing on establishing a solid

foundation for conducting performance audits in the country, thus improving the overall governance in the public administration. In the same line of findings is the research by Nimani et al. (2023) in the Republic of Kosovo, concluding that internal auditors are crucial for improving transparency and accountability in public administration. Through independent and objective audits of public sector entities, they offer trustworthy information and recommendations to enhance financial management and overall performance.

Finally, when asked about challenges in improving good governance, internal auditors stated they need to undertake basic internal audit tasks because internal control mechanisms within the Albanian central government are still weak despite the latest available regulatory changes. Understaffing within the internal audit units in public institutions is another challenge they must face in everyday operations. The introduction of performance auditing has made it challenging for a few internal auditors to thoroughly evaluate massive governmental entities' financial management, effectiveness, and efficiency.

5. CONCLUSIONS

The primary advantages of internal audit stem from its fundamental characteristics, namely professionalism, trustworthiness, independence, objectivity, and robust methodologies. Internal audit is strategically situated and professionally equipped to guide public administration officials' strategic deliberations and decisions. However, as previously observed, due to a lack of political will or frequent changes in decision-making by public officials, systemic resistance to changes in strategic planning may impede the profession in the contemporary public sector (Parker et al., 2021). Consequently, the business advisory role of internal auditors is partially implemented without making good use of international qualifications that a good fraction of internal auditors in the Albanian administration have.

To continue, the typically conservative culture and traditional competencies of auditors, especially those with only national certifications, may make it more challenging and uncomfortable for public to assume a more advisory role, thus serving only as protectors in the Albanian public administration. It is imperative to create a nourishing environment to implement the three defense models. An environment to facilitate the advancement of the internal audit profession in a manner that promotes execution simultaneously of the roles in the three lines of defense model: protector, educator, and business advisor. Solid professional practices are crucial and must not be compromised – failing to do so would undermine an essential internal audit value proposition component. The added value of internal audit, in all its capacities, is directly dependent on the openness of public institutions and the government it serves (Mattei et al., 2021). This, in turn, will strengthen the importance of internal auditing, improving good governance as the three roles enhance the performance at all levels of Albanian public administration.

In addition, while adherence to certification and internal audit guidelines is essential, recruiting unconventional viewpoints will provide the internal audit units with the skills necessary to address the numerous concerns facing public management today (Cowle and Rowe, 2022). In the public sector, there are opportunities to tap into other talent pools while emphasizing the intrinsic competencies of internal auditors, as the effectiveness of their communication skills is crucial for the value of a team of highly trained auditors closely following the international best practices in the field thus significantly improving transparency and objectivity in the decision making. The need for continuous training and skill development is highlighted in the research by Dimitrova et al. (2019) while comparing public sector auditing in North Macedonia and Montenegro.

The substantial contribution of internal audit services to public sector oversight cannot be disputed; however, further efforts are required to disseminate the valuable insights that emerge as a significant outcome of internal audit inquiry. Internal auditors in public management should become agents of transformation and excellence by teaching management about public sector governance, risk management, and controls (Yang, 2021). Numerous ways exist to accomplish this, such as creating instruction and direction and publishing periodic "audit intelligence" reports or briefs. The dissemination of such insights will significantly enhance the visibility of internal audits as valuable sources of organizational knowledge and will ensure a steady demand for this knowledge over time in developing countries like Albania.

Ultimately, the enhancements made to the law regarding the internal audit of the public sector, particularly its effective implementation, will benefit the public finances and the economy (Rana et al., 2021). By minimizing the waste and misuse of these funds, the efficiency of their utilization will increase, thereby benefiting the entire society. Furthermore, strengthening the internal audit units will enhance the services provided to the taxpayers, who will reap greater benefits from the services offered by the public administration budget operating under the principles of good governance. Even though this paper focused on the importance of internal audit in promoting good governance, several unexplored areas remain regarding its effectiveness and economic development. For example, a longitudinal study can be performed on how implementing the Committee of Sponsoring Organizations (COSO) framework, which started only in January 2024, has reduced the mismanagement of public funds. Another area is to examine the application of internal audit software in strengthening public finance management at the central and local government levels. These studies will not only highlight the importance of internal audit in optimizing operations in public institutions but will also narrow the gap in existing literature.

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VRIJEDNOST INTERNE REVIZIJE U UNAPREĐENJU DOBROG UPRAVLJANJA U JAVNOJ UPRAVI: SLUČAJ ALBANIJE

Sažetak

Javne institucije su pod sve većim pritiskom da budu odgovorne i vrate povjerenje u rad Vlade. Jedinica za unutarnju reviziju, ključna komponenta javnih institucija, ojačala je pružajući usluge osiguranja, obrazovne i savjetodavne usluge donositeljima odluka i višim dužnosnicima. Ova je uloga ključna za održavanje i jačanje dobrog upravljanja u javnoj upravi. U kontekstu rastuće globalne uloge interne revizije u javnim institucijama, ovaj rad istražuje njezinu vrijednost u promicanju dobrog upravljanja u albanskoj javnoj upravi. Naša kvalitativna metodologija, primarno temeljena na intervjuima s javnim internim revizorima u Albaniji, otkriva da nepostojanje poticajnog okruženja, česte promjene donositelja odluka i politički otpor promjenama sprječavaju interne revizore u pružanju obrazovnih i savjetodavnih usluga. Međutim, to nas ne treba obeshrabriti. Naši nalazi pokazuju da će naponi za širenje, poboljšanje kvalitete i promicanje usluga unutarnje revizije u albanskoj javnoj upravi dati vrijedne uvide koji će značajno doprinijeti dobrom upravljanju.

Ključne riječi: interna revizija, interne kontrole, javna uprava, dobro upravljanje, tri linije obrane.

JEL klasifikacija: M42, H83.