

**THE RELATIONSHIP BETWEEN CORRUPTION  
AND MODIFIED AUDIT OPINION:  
CASE OF ALBANIA - BANKING SYSTEM**

**by:**

**Dren Bllaca, MSc**

**Thesis submitted for the degree of Master of Science**

**Department of Business Administration**

**Epoka University**

**February 2016**

## Approval Page

<b>Thesis Title</b>	The relationship between corruption and modified audit opinion: Case of Albania – Banking System
<b>Author</b>	Dren Bllaca
<b>Qualification</b>	Master of Science, MSc.
<b>Program</b>	Master of Science in Business Administration
<b>Department</b>	Business Administration
<b>Faculty</b>	Economics and Administrative Sciences
<b>Thesis Date</b>	February 2016

I certify that this thesis satisfies all the legal requirements as a thesis for the degree of Master of Science (MSc) in Business Administration.

(Assist. Prof. Dr. Mustafa Üç)

**Head of Department**

I certify that I have read this study that is fully adequate, in scope and quality, as a thesis for the degree of Master of Science (MSc) in Business Administration.

(Assist. Prof. Dr. Mustafa Üç)

**Supervisor**

## Exam Board of Thesis

**Thesis Title** : The relationship between corruption and modified audit opinion:  
Case of Albania – Banking System

**Author** : Dren Bllaca, MSc,

**Qualification** : Master of Science

**Date** : 01 February 2016

### Members

Assist. Prof. Dr. Mustafa Üç .....

Dr. Alba Kruja .....

Dr. Çetin Yurt .....

## **Abstract**

The study examines the relationship between corruption and modified audit opinions, based on the data of Corruption Perception Index (CPI) published by Transparency International and audited annual reports of banks operating in Albanian banking system in the period of 2009 to 2014. After conducting the Pearson Correlation Analysis, the results of the study indicate that there is a strong and positive relationship between CPI and modified audit opinions (MAOs). While, countries that have low score of CPI are more corrupted and countries with high score of CPI are less corrupted. Within this context, it can be concluded that high level of corruption is associated with decreasing number of MAOs.

The study also provides a review of information on audits performed by auditors during the examination period of the study from 2009 to 2014. During these years, ninety-two percent of banks are audited by big four audit companies, while only eight percent of the banks are audited by non-big four audit companies. In the deep review on the reasons of the modified audit opinion, violation of international accounting standards on foreign exchange translations, below minimum required limit of capital adequacy ratios and violation of going concern principle were reported.

**Key Words: Corruption, modified audit opinion, Albania, corruption perception index, banking system**

## Abstrakt

Studimi shqyrton lidhjen në mes të korrupsionit dhe opinionit të modifikuar të auditimit, bazuar në të dhënat e Indeksit të Përceptimit të Korrupsionit (IPK) publikuara nga Transparency International dhe raporteve vjetore të audituara të bankave që operojnë në sistemin bankar shqiptar në periudhën e viteve 2009 deri në vitin 2014. Pas kryerjes së Pearson Correlation Analysis, rezultatet e studimit tregojnë se ekziston një lidhje e fortë dhe pozitive ndërmjet Indeksit të Përceptimit të Korrupsionit dhe Opinioneve të Modifikuara të Auditimit. Derisa vendet me IPK të ulët janë më shumë të korruptuara, vendet me IPK të lartë janë me pak të korruptuara. Në këtë kontekst, mund të konstatohet se niveli i lartë i korrupsionit është i lidhur me rënie të numrit të opinioneve të modifikuara të auditimit.

Studimi gjithashtu ofron një rishikim të informacionit mbi auditimet e kryera nga auditorët gjatë periudhës së egzaminimit të studimit nga 2009 deri më 2014. Gjatë këtyre viteve, nëntëdhjetë e dy përqind e bankave janë audituar nga katër kompanitë e mëdha të auditimit, ndërsa vetëm tetë përqind e bankave janë audituar nga kompanitë jashtë katërshes së madhe të kompanive të auditimit. Në shqyrtimë të thellë për arsyen e dhënis së opinionit të modifikuar, shkelja e standardeve ndërkombëtare të kontabilitetit për transaksionet e këmbimit në valutë të huaj, mjaftueshmëria e kapitalit nën limitin e kërkuar dhe shqetësimi për vazhdueshmërinë e aktivitetit janë raportuar.

**Fjalët Kyqe: Korrupsioni, opinion i modifikuar i auditimit, Shqipëria, indeksi i përceptimit të korrupsionit, sistemi bankare**

## **Acknowledgements**

It is a genuine pleasure to express my deep sense of appreciations and gratitude to my supervisor Assist. Prof. Dr. Mustafa Üç, whose expertise, generous guidance and maximum support made my work easier to finalize a research in a unique and very attractive topic. As it is not the first time I am working with him, I also hope it will not be the last time because I believe I have a lot of things to learn from a person with a huge background and a great ideas toward future researches.

I am highly indebted and thoroughly thankful to my whole family, for their continuous support and inspiration toward me.

## **Declaration Statement**

I certify that the thesis, which I now submit for assessment on the program of study leading to the award of Master of Science Degree, is based on my own work. I ensure that the work is original, it has not been taken from the work of others and all the sources have been quoted and acknowledged by means of complete references.

Dren Bllaca

February 2016

## Table of Contents

Approval Page .....	i
Exam Board of Thesis .....	ii
Abstract.....	iii
Abstrakt.....	iv
Acknowledgements.....	v
Declaration Statement.....	vi
List of Tables .....	ix
List of Appendixes.....	x
List of Abbreviations .....	xi
Introduction.....	1
CHAPTER 1:.....	3
<i>THEORITICAL BACKGROUND OF CORRUPTION AND AUDIT OPINION</i> .....	3
1.1 What is auditing?.....	3
1.1.1 Types of audits and their functions.....	3
1.1.2 Types of Auditors and their role.....	4
1.1.3 Auditor’s Report and Opinion .....	4
1.2 What is corruption?.....	5
1.2.1 Factors that promote corruption.....	7
1.2.2 Measurement of Corruption.....	8
1.2.2.1 The Corruption Perception Index (CPI) – Transparency International .....	9
1.2.2.2 The Bribe Payers Index .....	10
CHAPTER 2:.....	14
<i>GENERAL VIEW OF BANKING SYSTEM IN ALBANIA</i> .....	14
2.1 Brief description of the Albanian Economy .....	14
2.2 Banking System in Albania .....	15

CHAPTER 3: .....	18
<i>LITERATURE REVIEW ON CORRUPTION AND AUDIT OPINIONS</i> .....	18
3.1 Prior Research on Corruption and Audit opinions .....	18
CHAPTER 4: .....	20
<i>THE RELATIONSHIP BETWEEN CORRUPTION AND MODIFIED AUDIT OPINION: CASE OF ALBANIA</i> .....	20
4.1 Research Design and Data .....	20
4.1.1 Sample selection and data source .....	20
4.1.2 Information on the number of banks audited by Big Four .....	21
4.1.3 Empirical results .....	22
4.1.3.1 Reasons for qualification of opinions .....	23
4.1.4 Limitations .....	23
Conclusion and future research .....	24
References: .....	30

## List of Tables

Table 1: Briber Payers Index Ranking 1991.....	11
Table 2: Bribes in Business Sectors.....	12
Table 3: Bribe Payers Index 2011 .....	13
Table 4: Banking systems total assets and loan portfolio's share in GDP .....	16
Table 5: Bank's specific shares in the banking system .....	16
Table 6: Main profitability ratios (in % cumulative).....	17
Table 7: Corruption Perception Index data for Albania .....	20
Table 8: Statistics on Banks Audit Opinions.....	21
Table 9: Information on audits performed by auditors.....	21
Table 10: Descriptive Statistics .....	22
Table 11: Correlations results.....	22

## List of Appendixes

Appendix 1: TI Corruption Index 1995 .....	25
Appendix 2: TI Corruption Perception Index 2014.....	27

## List of Abbreviations

CPI	Corruption Perception Index
TI	Transparency International
MAO	Modified Audit Opinion
BPI	Bribe Payers Index
BPS	Bribe Payers Survey
GDP	Gross Domestic Produce
BoA	Bank of Albania
USD	US Dollar
NPL	Non-Performing Loans
CAR	Capital Adequacy Ratio
ROAA	Return on average assets
ROAE	Return on average equity

## Introduction

According to Teck-Heang and Md.Ali (2008) audit as a word has its origin from the Latin word *audire*, which means “to hear”. Audit as the first factor to be analyzed in this study has evolved through a number of stages, but today it can be said that the only audit function is not to enhance credibility of financial statements but also to provide value added services. There are different stages and procedures to be followed while auditing and the process depends on many variables, auditor as an element that adds value to the marketplace stands all above (Sorin, Monica , & Raluca, 2008). There is no any limit how much audit process should last, it depends from different variables like turnover of the company, quality of internal control of the company, auditor etc. (Collins, 2011). The main goal of the auditor is to form and communicate an opinion on the financial statements as a whole based on rules and regulations required by law (Sorin et al, 2008). There are several types of audit opinions but generally separated as qualified and unqualified audit opinion. Unqualified audit opinion is also known as clean opinion which is an audit report issued when an auditor defines that all financial statements are presented properly and there is no any misrepresentation. Qualified audit opinion which together with adverse and disclaimer opinion can be used as synonym of modified audit opinion (MAO) (Hayes , Dassen, Schilder , & Wallage, 2005) is issued when an auditor determines that financial statements are not prepared and presented according to laws and regulations or there is any misrepresentation of financial statements (Henderson, 2011). Objectives and techniques of auditing have changed over the years in order to suit the needs and expectations of society, which are directly influenced by political and economic factors.

The second factor to be analyzed in this study is considered as one of the most popular factor preventing the economic development. Defined in many different ways for many years, very difficult to describe but easy to recognize when observed, corruption is simply known as the *abuse of public power for private benefit*. This is just one of the definitions mostly used, but it does not mean that there is no corruption in private sector. As one of the main indicator for economic development mostly in developing and emerging economies, private sector is familiar with corruption (Rose-Ackerman, 2007). In the other hand according to Tanzi (1998) it is not possible to measure corruption, but perception of corruption can be measured. Corruption Perception Index (CPI) prepared annually by

Transparency International (TI) is the most effective and famous corruption evaluation tool (Brown, Orme, & Roca , 2010 ; Hayes et al, 2005).

There are different studies for corruption and audit separately as topics, but this is the first time corruption and modified audit opinion (MAO) will be described and analyzed in order to see the influence of corruption on issuing MAO. What is the relationship, direction and strength between CPI and MAO is the research question used in this study. Empirical testing of the two above described factors is the aim of this study. The study also will provide a review of information on audits performed by auditors during the examination period of the study from 2009 to 2014.

The study is organized in a way to clarify everything about these factors before starting the analysis of how does corruption influences modified audit opinion. Theoretical background of corruption and audit opinion will be covered in the first chapter of this paper. Basic explanations, definitions and characteristics of corruption and audit will be treated in the first chapter. General view of banking system in Albania, including brief description of the Albanian economy will be covered. The third chapter will cover the literature review on prior research on corruption and audit opinions. The last chapter will be composed of research design and data, the choice of method or data collection, data analysis and interpretation of results, and information on audits performed by Big Four audit companies. After finishing all these steps, conclusion and future research will be provided.

## CHAPTER 1:

### *THEORITICAL BACKGROUND OF CORRUPTION AND AUDIT OPINION*

#### **1.1 What is auditing?**

*“Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested users”* (American Accounting Association, 1971).

The main goal or objective of auditing is to give credibility to financial statements of companies and all institutions that are subject of the audit process. By subjecting the audit process, the value and usefulness of financial and non-financial information is increased. In order to perform an auditing function a significant expertise is required. The auditor should know exactly evidences needed to form and communicate the audit report at the end of the process. Financial statements are analyzed and compared by auditor generally to standards in the reporting country like International Financial Reporting Standards (IFRS), generally accepted accounting principles (GAAP) as in the USA, national company law as in Europe, or the tax code (Hayes et al, 2005).

##### *1.1.1 Types of audits and their functions*

According to Hayes et al. (2005) there are three types of audits:

➤ *Audits of financial statements*

Based on examination of financial statements of the company or institution, audits of financial statements concludes if they fairly presents financial statements in comparison to IFRS, GAAP or other criteria in the reporting country.

➤ *Operational audit*

Operational audit reviews and analyses all parts of the organization’s operating procedures in order to make a communication on how effective and efficient the organization is performing. These procedures are measured in order to see if the

organization is achieving its goals and objective, and also to see how well it uses its resources to achieve these goals and objectives.

➤ *Compliance audit*

A compliance audit reviews organization`s procedures to see if procedures, rules or regulations set by higher authorities are followed.

### *1.1.2 Types of Auditors and their role*

Generally auditors are separated as:

- *independent external auditor*
- *internal auditors*
- *governmental auditors*

The role of internal auditors is changing day to day. Their role is not anymore just performing traditional internal audit function, but it is being focused also on providing consultancy in different activities of organization (Brody & Lowe, 2000). According to The Institute of Internal Auditors (2015) internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Hayes et al, 2005).

The role of external auditors is to examine financial statements of the organization and at the end to create and communicate in written the audit opinion on financial statements after considering all available evidences.

Governmental auditors perform the function of both above mentioned types of auditors. Internal auditors are employed mostly by large companies in order to investigate the efficiency of operations performed in the company (Hayes et al, 2005).

### *1.1.3 Auditor`s Report and Opinion*

The audit opinion in an audit report generally is very brief, composed of few paragraphs. Depending from different factors, audit as a process may be quite long one, but as a report which is communicated in written form is very short. Even though it is usually a long

process, the auditor based on found evidences should be able to communicate a short and clear written opinion on the financial statements (Hayes et al, 2005).

The Auditor`s Report contain the following elements:

- title
- addressee
- opening paragraph
- score paragraph
- opinion paragraph – expression of auditors opinion on financial statements
- the date of the report
- the auditors address
- auditors signature

The most important element of Auditor`s Report is the opinion paragraph, which express the opinion of the auditor rather financial statements are presented in a fair view or not.

In general there are two types of audit reports:

1. Unqualified audit report, and
2. `Other than unqualified audit report`

More than 90% of audit reports are standard unqualified audit report. In the group of `Other than unqualified audit report` are included reports that express: an adverse opinion, disclaimer of opinion, and qualified opinion (Hayes et al, 2005). MAOs are expressed when based on the evidences found the auditor concludes that there are material misstatements in presented financial statements or sufficient appropriate evidences cannot be obtained from the auditor to conclude that there is no any material misstatement in presented financial statements (IFAC, 2010).

## **1.2 What is corruption?**

Corruption as a phenomenon has been treated and studied in many different ways. A lot of definitions exist but the most known one is *the abuse of public power for private benefits*. This does not mean that corruption is found only on public companies or institutions, it can be found in a lot of private companies in different form, starting from the simplest process of hiring employees. During the last years a lot of conferences and

meetings were done for the issue of corruption especially in the 1990s by treating and defining corruption in different ways but somehow each lacking in some aspects (Tanzi , 1998).

Corruption as a complex and multi-disciplinary issue has been studied as structural, political, economic and moral underdevelopment problem. Even though most of researches are done for corruption in developing countries, this does not mean that corruption disappear as countries develop, but simply corruption takes another form (Andvig, Fjeldstad, Amundsen, Sissener, & Søreide, 2001). Even though the corruption can take many forms, as the definition mentioned above, mostly is dealing with activities linked with government. Most of studies are done in this aspect because the effect in the whole economy or other area of the state is higher. As we know government has a lot of power in controlling and coordinating activities where corruption may take place. The existence of corruption automatically affects growth rate of the state in different areas but mostly in economy (Leite & Weidmann, 1999).

Due to the fact that the efficiency of government institutions and corruption is not easy to be quantified, empirical analysis has been limited even though the study for corruption in economics was not absent (Mauro, 1996).

According to Andvig et al. (2001) the main forms of corruption are:

- Bribery
- Embezzlement
- Fraud
- Extortion

One of the most spread forms of corruptions is bribery. It takes place in almost all corruption cases as the essential in the corrupt relationship. It is a payment of money or goods to people who have influence to give payer unfair or undeserved benefits in different forms. The process of bribery is mostly used in order to pass things swifter, not to lose time or to guarantee the benefit through the public or private institutions.

Embezzlement is a disloyal act of people who steal private or public resources from their employers. Stealing resources is a serious offence from private or public employers who have been employed to administrate those resources on behalf of someone else.

Fraud is broader term than bribery and embezzlement. It is considered as economic crime which manipulates information or other facts for private gain.

Extortions considered as act of mafia or criminals who force people to pay money or other resources usually by threat.

As mentioned before, corruption is a huge topic which is classified and separated in different forms and types, but another important distinction is between grand corruption and petty corruption. Corruption involving big and significant amount of money or resources is classified as grand corruption, while corruption involving small amounts or less important sources is classified in the group of petty corruption (The World Bank, 2006).

### *1.2.1 Factors that promote corruption*

There are a lot of factors which may provide corruption. Corruption together with its effect in economy, politics and other fields has been studied a lot by providing some factors which may promote corruption. Mele (2014) has listed ten (10) cases which may influence corruption, listed as below:

1. Personal greed
2. Decline of personal ethical sensitivity
3. No sense of service when working in public or private institutions
4. Low awareness or lack of courage to denounce corrupt behavior and situations conducive to corruption
5. Cultural environments that condone corruption.
6. Lack of transparency, especially at the institutional level, but also in less formal organizations
7. Regulations and inefficient controls.
8. Slow judicial processes
9. Lack of moral criteria in promotions
10. Downplaying or reacting mildly to corruption charges

He has classified the first four reasons as personal, fifth and sixth as cultural, seventh and eighth as institutional and the last two cases as organizational.

In the other hand Tanzi (1998) has divided factors that promote corruption in two main categories:

- Direct Factors
  1. Regulations and authorizations
  2. Taxation
  3. Spending decisions
  4. Provisions for goods and services at below market prices
  5. Financing of parties
- Indirect Factors
  1. Quality of the bureaucracy
  2. Level of the public factor wages
  3. Penalty systems
  4. Institutional control
  5. Transparency of rules, laws and processes

### *1.2.2 Measurement of Corruption*

Having a primary source data observed directly by people who are familiar with the area observed in unbiased situation makes the study ideal. There are very little studies of this kind because researchers in most of the time do not have access in these corrupted situations, or there is no any appropriate system checking these corrupted transactions (Andvig et al, 2001).

According to Tanzi (1998) it is almost impossible corruption to be measured, otherwise it could be eliminated. In case bribes paid are measured, results cannot be considered as corruption level because it would ignore other forms of corruption. Although corruption cannot be measured directly, there are several alternative indirect ways gathering data in order to measure corruption.

- a. There are a lot of reports regarding corruption available from newspapers and internet sources.
- b. Different case studies for different public or private sector, even though most of them are kept internally with low ability to access by external users.
- c. Different questionnaire based surveys which measure perception of corruption.

It is important to notice that indexes which are obtained from questionnaire based surveys shows the perception on corruption and not actual measurements of corruption. Even though indexes are just perception on corruption they are widely used by researcher.

### *1.2.2.1 The Corruption Perception Index (CPI) – Transparency International*

The Corruption Perception Index (CPI) is the most effective and famous corruption evaluation tool prepared and reported annually by Transparency International (TI) since 1995 (Roca & Alidedeoglu-Buchner, 2010 ; Brown et al , 2010).

In order to understand the real corruption level of a country, TI has developed a methodology, which is composed of reliable data with international surveys on perceptions as the most credible factor ranking nations for corruption. All data are taken and analyzed from different independent institutions before being qualified for inclusion. Providing ranking of nations and measuring the overall extend of corruption are the main criteria for inclusion (Lambsdorff, 2005). Now, more than 100 countries, TI is a non-government organization, originally founded in Germany in May 1993 as a non for profit organization sharing one vision: a world in which government, business civil society and the daily lives of people are free of corruption (Transparency International).

In 1995 when the first CPI was published by TI there were 41 countries ranked as illustrated in Appendix 1.

CPI prepared by TI ranked countries using a 1 -10 scale (Roca & Alidedeoglu-Buchner, 2010) until the year of 2011, and after this year they started to use a 0-100 scale (Transparency International, 2014). According the scoring in the scale, countries with high score are less corrupted, while countries with low score are more corrupted. The analysis of data which are included in the methodology is done every year. According to (Transparency International, 2014) construction of the CPI for 2014 was composed of twelve different data sources as listed below:

- African Development Bank Governance Ratings 2013
- Bertelsmann Foundation Sustainable Governance Indicators 2014
- Bertelsmann Foundation Transformation Index 2014
- Economist Intelligence Unit Country Risk Ratings 2014
- Freedom House Nations in Transit 2013

- Global Insight Country Risk Ratings 2014
- IMD World Competitiveness Yearbook 2014
- Political and Economic Risk Consultancy Asian Intelligence 2014
- Political Risk Services International Country Risk Guide 2014
- World Bank - Country Policy and Institutional Assessment 2013
- World Economic Forum Executive Opinion Survey (EOS) 2014
- World Justice Project Rule of Law Index 2014

In the last annual report of CPI for 2014 there are 176 countries ranked from different parts of the world as illustrated in Appendix 2.

In order to make a comparison between countries, or to compare the CPI of a country in different years, score of the country needs to be compared and not ranking position, because the number of ranked countries is changing almost every year (Transparency International, 2014). In CPI each country is not necessary covered by all sources, but it should be covered by at least three surveys from three different institutions with data not more than three years old (Andvig et al, 2001).

#### *1.2.2.2 The Bribe Payers Index*

The Bribe Payers Index (BPI) is a special tool created and developed by a non-government organizations dealing with the issue of corruption named Transparency International. It is a tool measuring the perception of bribe paid by private exporting companies from the largest economies in the world when they do business abroad. Data for BPI are taken from Bribe Payers Survey (BPS). In 1991 when the first BPI was published, a survey was conducted to 779 leaders in 14 emerging market economies which composed approximately 60% of import of all emerging market economies. The interview was conducted by professionals in high confidentiality (Transparency International, 2000).

**Table 1: Briber Payers Index Ranking 1991**

---

1999 Transparency International Bribe Payers Index (BPI)

Ranking 19 Lending Exports

“In the business sector with which you are familiar, please indicate whether companies from the following countries are very likely, quite likely or unlikely to pay bribes to win or retail businesses in this country”

<b>Rank</b>	<b>Country</b>	<b>Score</b>	<b>Rank</b>	<b>Country</b>	<b>Score</b>
1	Sweden	8.3	11	Singapore	5.7
2	Australia	8.1	12	Spain	5.3
2	Canada	8.1	13	France	5.2
4	Austria	7.8	14	Japan	5.1
5	Switzerland	7.7	15	Malaysia	3.9
6	Netherlands	7.4	16	Italy	3.7
7	United Kingdom	7.2	17	Taiwan	3.5
8	Belgium	6.8	18	South Korea	3.4
9	Germany	6.2	19	China	3.1
9	United States	6.2			

---

**Note:** the questions related to lending exporters paying bribes to senior public officials. The standard error in the result was 0.2 or less. In scoring 10 represents a perceived level of negligible bribery, while 0 represents responses indicating very high levels of bribery. Questioning found that many respondents said it was difficult to distinguish between mainland and Hong Kong companies since a growing number of mainland companies now operate from Hong Kong. Accordingly, the survey used the term ‘China including Hong Kong’.

*Source: Transparency International*

Bribe Payers Survey provides data also for ranking of sectors exporting companies which are ready to pay bribe.

**Table 2: Bribes in Business Sectors**

---

“Which are the sectors in your country of residence where senior public officials would be very likely, quite likely, unlikely to accept or extort bribes?”

---

Public works contracts and construction	1.5
Arms and defense industry	2.0
Power ( including petroleum and energy)	3.5
Industry ( including mining)	4.2
Healthcare / Social work	4.6
Telecommunication, post ( equipment and service)	4.6
Civilian aerospace	5.0
Banking and Finance	5.3
Agriculture	6.0

---

*Source: Transparency International*

TI periodically updates the results by conducting surveys. Until now these results have been updated 4 more times in 2002, 2006, 2008 and 2011. In the report that represents the fifth BPI published in 2011 ranked 28 countries. In BPI of 2011 there were more than 3,000 business executives asked about their view on this issue. The results are based on the perception of these respondents who were in contact with companies from respective countries (Transparency International, 2011).

**Table 3: Bribe Payers Index 2011**

Rank	Country/ Territory	Score	Rank	Country/ Territory	Score
1	Netherlands	8.8	15	Hong Kong	7.6
1	Switzerland	8.8	15	Italy	7.6
3	Belgium	8.7	15	Malaysia	7.6
4	Germany	8.6	15	South Africa	7.6
4	Japan	8.6	19	Taiwan	7.5
6	Australia	8.5	19	India	7.5
6	Canada	8.5	19	Turkey	7.5
8	Singapore	8.3	22	Saudi Arabia	7.4
8	United Kingdom	8.3	23	Argentina	7.3
10	United States	8.1	24	UnitedArab Emirates	7.3
11	France	8.0	25	Indonesia	7.1
11	Spain	8.0	26	Mexico	7.0
13	South Korea	7.9	27	China	6.5
14	Brazil	7.7	28	Russia	6.1

*Source: Transparency International*

According to the data from survey in 2011, public works contracts and construction sector with score of 5.3 is ranked at the bottom of the list, while agriculture is again ranked first with score of 7.1 together with light manufacturing sector.

## CHAPTER 2:

### *GENERAL VIEW OF BANKING SYSTEM IN ALBANIA*

#### **2.1 Brief description of the Albanian Economy**

Albania has passed through different types of economies. Before 1990s it was a closed, centrally planned state economy (Index Mundi, 2014). In the 1990s the economy of the state had a rapid growth and experienced a rescue from near collapse in 1992. In 1990s, Albania had the highest rate of sustained economic growth of all transitions economies. Apart of the other facts, remittances were the most influential factor in the rapid growth of the economy of the state during those years. Due to high inflow of remittances, pyramid investment schema raised and helped the rapid growth of economy before the collapse in 1997 (Korovilas, 1999).

Before the crises in Europe, statistics show that Albanian economy was doing quite well, with the average of annual real growth rate of 6 percent, followed by huge and fast reduction in poverty rates. During the crises of 2008, even though big countries of Europe were deeply in crisis, Albania as a middle income country has been able to maintain a positive and stable economic growth. From 2008 Albanian economy started to decrease the performance, affecting the unemployment rate reaching to 16.9% during the year of 2013 (World Bank, 2013).

According to Bank of Albania (2004), the performance of Albanian economy, as an open market economy was quite satisfactory in 2004. In this year, twenty five percent of the Gross Domestic Product (GDP) was composed on the investment in economy, eighty percent of which were private investments. The contribution of financial sector, by increasing lending and different types of service provided has helped reach this development.

Crisis in Europe, especially in Greece and Italy affected the economic growth of the Albania. Export in these countries, remittances and Foreign Direct Investments (FDI) were the shocks preventing economic development (World Bank, 2015).

One of the main problems in Albanian economy is informality. Informal economy in Albania started from the first stages of entering in the open market economy. Especially during the years 1990-1992 when the country was passing through difficulties and people

were finding informality as an easy way to pass through this stage. Tax evasion and low declaration of profit were the biggest factor which developed informality in Albania (Boka & Torluccio, 2013).

As a factor preventing economic development, informality can be decreased but not disappear completely. Decreasing the informality will help Albania to create a well performed and stable economy. Lack of rules and competition are some of the concerns the Albanian economy has. Albania is in the process of integration in European Union (EU), and the decrease of informality helps pass the process easier (Bello, Cucllari, & Cini, 2011).

## **2.2 Banking System in Albania**

Due to non-existence of active capital markets in Albania, the financial markets are not diversified and there are only money market institutions. In the money market the banks are playing major role. As the main point of private sector for finding funds for development, banking system plays a huge role in the development of Albanian economy (Barbullushi, 2010).

In 2004 from sixteen (16) banks that were operating in Albania, just two of them were with entirely Albanian capital. In that year there were a lot of developments in Albanian banking system. Large amount of assets were acquired, lending was increased, number of products offered increased, and the most important is that the network of banks was spreading out (Bank of Albania, 2004).

According to Bank of Albania (2014) currently there are sixteen (16) banks, twenty two (22) non-bank financial institutions (NBFI's), 356 foreign exchange bureaus, 113 savings and loan associations and two (2) unions of savings and loans associations. During 2014 Albanian banking system experienced an increase in assets and loan portfolio, which is considered as a good step toward economic development in Albania.

Table 4, 5 and 6 in the following page show some important ratios, specific shares and profitability of the Albanian banking system.

Regarding the data in table 4 – banking systems total assets and loan portfolio's share in GDP, it should be mentioned that Bank of Albania (BoA) publishes data in Albanian

Leke (ALL), but the author has converted to US Dollar (USD) based on the exchange rate of BoA as per respective years.

**Table 4: Banking systems total assets and loan portfolio's share in GDP**

<b>Indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total assets (in \$ billion)	9.25	9.53	10.42	11.22	12.12	11.23
Total assets/GDP (in %)	77.50	81.00	86.10	89.61	91.13	91.56
Total loans/GDP (in %)	39.30	40.10	40.00	43.58	41.88	42.12

Source: Bank of Albania

**Table 5: Bank`s specific shares in the banking system**

<b>BANKS</b>	<b>December `14</b>				
	Total	Shareholder`s	Outstanding	Non-performing	Total
<b>Indicator in %</b>	B/S	equity	loans	loans	deposits
Raiffeisen Bank	20.9	20.6	20.5	23.4	21.4
United Bank of Albania	0.5	1.2	0.3	0.2	0.4
Veneto Bank	2	2.9	3.1	2.2	2
National Commercial Bank	24.3	21.9	17.7	8.7	23
Tirana Bank	7.2	7.9	7.4	14.4	7.3
International Commercial Bank	0.7	1.2	0.6	0.2	0.6
Intesa Sanpaolo Bank	11.2	14	7.9	9.6	11.3
ProCredit Bank	2.8	3.6	4	2.6	2.8
Credit Agricole Bank	1.9	1.8	2.9	5	1.9
National Bank of Greece	3.1	2.4	4.6	7.2	3
Alpha Bank	5.6	3.9	5.7	8.2	6.1
First Investment Bank	1.2	1.2	1.1	0.7	1.3
Credit Bank of Albania	0.2	1	0	0	0.1
Credins Bank	10.2	8.2	14.9	12.9	10.4
Societe Generale	5.4	5.9	6.8	2.9	5.5
Union Bank	2.7	2.3	2.5	1.7	2.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Bank of Albania

Table 5 shows some important ratios of each banks shares in the Albanian banking system. National Commercial Bank has the highest shareholders equity shares with

21.9%. Raiffeisen Bank has the highest percentage of outstanding loans with 20.5%, followed by National Commercial Bank with 17.7%.

According to (Albanian Association of Banks, 2014) at the end of 2014 total loans reached to 5,164.8 (in million USD) while total deposits reached to 9,305.1 (in million USD). Problem loans over total loans ratio has reached to 22.8 percent. In terms of non-performing loans (NPL), Raiffeisen Banks has the highest ratio with 23.4 percent of the market. National Commercial Bank has the highest percentage of deposits in the market with 23 percent.

**Table 6: Main profitability ratios (in % cumulative)**

<b>Indicators</b>	<b>December `14</b>	<b>June `14</b>	<b>December `13</b>	<b>June `13</b>	<b>December `12</b>	<b>June `12</b>
<b>ROAA</b>	0.89	0.88	0.54	0.25	0.33	0.42
<b>ROAE</b>	10.53	10.33	6.43	2.93	3.78	4.79

*Source: Bank of Albania*

Even though the banking sector has high NPL ratio, banks remain sound with an average Capital Adequacy Ratio (CAR) of 16.8 percent at the end of 2014 (World Bank, 2015), the minimum BoA requirement for CAR is 12 percent (Bank of Albania, 2014). Profitability ratios shows that bans have positive profitability. As shown in table 8, profitability of the banks operating in Albania is in an increasing trend. From Return on Average Assets (ROAA) of 0.42 percent as of June 2012, it has reached to 0.89 percent as of December 2014. Also Return on Average Equity (ROAE) has been incising in the last years, reaching to 10.53 percent at the end of 2014.

## CHAPTER 3:

### *LITERATURE REVIEW ON CORRUPTION AND AUDIT OPINIONS*

#### **3.1 Prior Research on Corruption and Audit opinions**

This study aims to examine the relationship between corruption and modified audit opinion. In existing literature, it was not found any study that has examined the relationship between these two variables. Therefore in the prior literature review, we will present some significant and interesting researches which are related to corruption and audit separately with other economic variables.

According to Vilsanoiu and Buzenche (2014) determining audit materiality is crucial in audit process. The authors have presented a structured approach in order to find a solution in improving the quality of audit process. Significant improvement can be done to the audit process by determining the performance materiality, which will lead to more effective audit process.

The study of Barkemeyer, Preuss, and Lee (2015) has analyzed anti-corruption disclosures based on 993 sustainability reports. The quality of corporate reporting is believed to have an important role on limiting corruption. The results show a clear country and sector level differences in the extent to which companies communicate their anti-corruption engagement. Based on the finding, companies which are more corrupted are less opened to communicate their actions against corruption.

According to Xu et al. (2011) during the global financial crisis from 2007 to 2009, in Australia the number of modified audit opinions issued related to going concern is increased proportionally. Based on the data of 8,382 Australian publicly listed companies from different industries for the period 2005 - 2009, among others the authors have found that even though the number of modified audit opinions related to going concern is increased during the global financial crises, most of the companies took recommended measures and prevented the fail.

Halbouni (2015) in the study investigated the similarities and differences internal and external auditors have regarding their responsibilities in preventing and reporting fraudulent activities in the United Arab Emirate, based on 53 surveys conducted during the year of 2012. The surveys were fulfilled by twenty five internal auditors, twenty four

external auditors and four auditors failed to specify the type of audit they perform. The findings of the study show that primarily responsible for detecting irregularities which may cause the fraud are internal auditors, while external auditors have slightly more rigorous procedures in finding and reporting fraud. Based on the findings of the study, the opportunity to commit fraud is high when the internal audit of the company is weak or does not exist at all. Internal auditors are more concerned about fraudulent activities in the company, which results that external auditors are less concerned about doubtful activities which may cause fraud. Both types of auditors are proactive in their efforts in identifying fraudulent activities during an audit.

The study of Chen et al. (2013) with sample size composed of all firms listed in Shanghai and Shenzhen stock exchanges has examined the influence of auditors on mitigating fraudulent activities in China from the period 2001 - 2008. As one of the largest emerging economies in the world, China has a very weak legal enforcement. The result of the study shows that when executives of the corporation have high degree of earnings manipulations, the corporation is receiving modified audit opinion. This illustrates that auditors can be used as a tool for decreasing the fraudulent activities in China. By strengthening the independence of the auditor, the interested investors will be more protected from manipulated financial information.

Examination of the relationship between audit opinion which was measured by auditor's tendency to qualify the opinion and earning management, measured by discretionary accruals has been studied by Tsipouridou and Spathis (2013). The authors have utilized a sample of firms listed in Athens Stock Exchange during the period from 2005 to 2011, a period characterized with financial crisis. After analyzing all qualified audit opinion, the authors have divided it into two categories: qualification of opinion because of going concern and the other category was composed based on the qualification of auditor's opinion for other reasons. Based on the findings of the study, there is no relationship between going concern qualification opinion and management earning, because the auditor does not inform the investors regarding the potential future problems of the firm.

## CHAPTER 4:

### ***THE RELATIONSHIP BETWEEN CORRUPTION AND MODIFIED AUDIT OPINION: CASE OF ALBANIA***

#### **4.1 Research Design and Data**

##### ***4.1.1 Sample selection and data source***

In order to find the relationship between corruption and MAO, the sample of this study is composed of all banks operating in Albanian market between 2009 and 2014 and the CPI scores of Albania in this period. The lack of the capital markets in Albania, publicly available, corporate financial information in different sectors are very limited. The sample of banking system was selected due to access with ease to publicly available of audited financial statements as well as one of the most developed and monitored sector in Albania.

TI has started to publish CPI for Albania from 2002, we commenced initially to study the relationship between CPI for Albania and MAO for banks from 2002 until 2014, but due to the lack of information for MAOs of banks, the data used in the study was limited for 6 years, from 2009 to 2014. Between these years there were sixteen (16) banks operating in Albanian banking system. The study will analyze the data of fifteen (15) banks, because one bank's audited financial reports are not publicly available. In total the study was able to collect ninety (90) audit opinions of banking system between 2009 and 2014.

Banks are keeping in their web site audited annual report of last 5 – 6 years. In order to have a larger data set, an e-mail was sent to all banks for access in their audited annual report for earlier year, but most of them replied by directing to information provided in their website. Supervision Department of Bank of Albania was also contacted, but the required information was not available. Due to this, the study will analyze relationship between CPI and MAO for six (6) years.

**Table 7: Corruption Perception Index data for Albania**

YEAR	2009	2010	2011	2012	2013	2014
SCORE	3.2	3.3	3.1	3.3	3.1	3.3
RANK	95/180	87/178	95/182	113 /176	116/177	110 /175

*Source: Transparency International*

CPI prepared by TI measures the perceived level of public sector corruption by using a 1-10 scale until the year of 2011 when they started using a 0-100 scale. Countries with high score are less corrupted, while countries with low score are more corrupted. Due to this changed made from TI, in the study the data of CPI for the last three years are divided by ten in order to have the same scale for all six years.

**Table 8: Statistics on Banks Audit Opinions**

YEAR	2009	2010	2011	2012	2013	2014
Nr. of MAOs	1	2	0	1	0	1

As mentioned before, data for MAO are taken from audited annual report of the bank, which is available in the website of almost each bank operating in Albania. As it can be seen from the table above, 2010 was the year with the highest number of MAOs (2). While during 2011 and 2013 there is not a bank receiving MAO.

#### *4.1.2 Information on the number of banks audited by Big Four*

During the collection of data for MAO from audited annual reports of banks, the author has reviewed and presented in the table below the number of audits performed by each audit companies during these six years.

**Table 9: Information on audits performed by auditors**

YEAR	2009	2010	2011	2012	2013	2014
Deloitte	4	4	4	3	3	5
KPMG	5	5	3	5	5	5
PWC	3	3	4	3	4	2
E&Y	1	1	3	3	2	3
<b>Total</b>	<b>13</b>	<b>13</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>15</b>
Non Big Four	2	2	1	1	1	0

As it can be seen from the table above KPMG has audited twenty eight (28) banks or 31% of the total reports which are part of this study. Deloitte has performed twenty three audits (23) or 26%, while PWC and E&Y have audited fewer banks during these six years, with nineteen (19) and thirteen (13) audits respectively.

Total audits performed by big four companies during time interval which is taken in this analysis is eighty three (83) or around 92 %, while there are just seven (7) or around 8% of audits performed by non-big four companies.

#### 4.1.3 Empirical results

The study has analyzed the relationship between Corruption and MAO by conducting Bivariate Correlation Analysis – Pearson Correlation. By conducting this analysis we were able to describe the relationship, strength and direction between these two variables.

**Table 10: Descriptive Statistics**

	Mean	Std. Deviation	N
Corruption	3.2167	.09832	6
MAO	5.5567	5.01789	6

As an output of the empirical results a descriptive statistics (Mean, Standard Deviation and N) for the interested variables are provided as per data in the table above.

**Table 11: Correlations results**

		Corruption	MAO
Corruption	Pearson Correlation	1	.856 <sup>*</sup>
	Sig. (2-tailed)		.030
	N	6	6
MAO	Pearson Correlation	.856 <sup>*</sup>	1
	Sig. (2-tailed)	.030	
	N	6	6

\*. Correlation is significant at the 0.05 level (2-tailed).

After conducting the Pearson Correlation Analysis for the interested variables, we were able to conclude the relationship, direction and strength between CPI and MAO.

According to (Cohen, 1988) strength of the relationship between two variables can be classified as small if correlation coefficient is between 0.10 to 0.29, as medium if correlation coefficient is between 0.30 to 0.49 and as large if correlation coefficient is

between 0.50 to 1.0. Based on results, the study can conclude that there is a strong, positive relationship between CPI (M=3.2167, ST=0.09832) and MAO (M=5.5567, ST=5.01789),  $r(6) = 0.856$ ,  $p < 0.05$ . Low levels of CPI are associated with low number of MAO. We should be aware that low level of CPI means corruption is high, so finally we can conclude that based on our analyses high level of Corruption is associated with low number of MAO.

#### *4.1.3.1 Reasons for qualification of opinions*

Based on the authors finding, during the period from 2009 to 2014, from the total of ninety audit opinion, six of them are MAO.

Auditors have drawn attention to some issues in their final opinion, which have not allowed banks to receive clear opinion. In one of the cases, the bank did not receive clean opinion because the auditor drew attention to management for not fulfillment of the minimum level of CAR set up by BoA.

One of the banks received qualified audit opinion for On Going Concern Issue. Bank of Albania Supervision Department found out that the bank is not having an impact on the community and in the development of the financial system by recommending the sell the bank or increase its capabilities and impact on development of the financial system in Albania. Due to no action taken from management for this issue, external auditor qualified his opinion for this bank.

There were also bank receiving qualified audit opinion because of the violation of International Accounting Standard (IAS) 21 “The Effects of Changes in Foreign Exchanges Rate” by treating the shares of the banks as monetary items, and not as non-monetary items as the above mentioned law requires.

#### *4.1.4 Limitations*

Short time framework can be considered as limitation in this thesis. As mention before due to no collaboration of banks and Supervisory Department of Bank of Albania, the thesis has analyzed data for the last six years. A larger time framework, for more than ten years could output more precise results.

Another limitation can be considered that the thesis has analyzed only the data of banking system (due to lack of stock exchange in Albania), while in order to give a full statement for the relationship between CPI and MAOs it would be better if we could analyze also other sectors in Albania. Rules and regulations are not fully applied in Albania, which makes almost impossible to find audited financial statements of companies operating in Albania.

## **Conclusion and future research**

The initial aim of the study was to analyze the relationship between corruption and modified audit opinions in a time interval of at least ten (10) years, due to publicly availability of CPI data for Albania from 2002. The study planned to collect data for all companies operating in Albania which are obliged to be audited. Publicly unavailable of financial information for corporates operating in different sectors forced the study to be focused on Albanian banking system, where financial information are easy accessible. In the same time by estimating as one of the most monitored and well developed sectors in Albania was another reason the study selected sample size composed from data of banks operating in Albania.

Despite all efforts the study made to collect financial information of banks from 2002, the study was able to collect financial information of banks for the period from 2009 to 2014. During this time interval there were sixteen (16) bank operating in Albanian banking system, but one bank`s data were not publicly available.

The study has also reviewed and presented the information on audits performed by auditors. From a total of ninety (90) audits, eighty three (83) of them were performed by Big Four companies. During this period, twenty eight (28) banks have been audited by KPMG and twenty three (23) by Deloitte. PWC and E&Y have audited nineteen (19) and thirteen (13) banks respectively.

Data for CPI are taken from TI, a well-known organization measuring perceived corruption, while data for MAOs of banks operating in Albanian banking system are taken directly from audited annual reports of respective banks. In order to find the relationship, direction and strength between corruption and MAO, Pearson Correlation Analysis has been conducted. Before having the final results of the study, the author believed that there will be a negative relationship between CPI and MAO, but the study

shows that there is strong and positive relationship between these two variables, low levels of CPI are associated with decreasing number of MAOs. As mentioned in this study, countries with low score of CPI are more corrupted, within this context, it can be concluded that high level of corruption is associated with decreasing number of MAOs.

The author has also illustrated some of the basis for qualification of auditor’s opinion, and the most repeated one was the violation of International Accounting Standard (IAS) 21 “The Effects of Changes in Foreign Exchanges Rate” by treating the shares of the banks as monetary items, and not as non-monetary items as the above mentioned law requires.

It is believed that, this is an important topic to be deeply researched from academics and interested people in science. It is important when researching this topic to be included at least all sectors of a country, or in the best scenario a number of countries.

To interested people in continuing to research this topic, the author recommends to analyze the data for at least three countries that have stock exchange, which can be: a) one highly corrupted country according to TI rating, b) one middle corrupted country, and c) one low corrupted country. In case fulfilling this scenario, the authors strongly believes that the relationship, strength and direction between corruption and modified audit opinion can be concluded more precisely.

### Appendix 1: TI Corruption Index 1995

Rank	Country	Score 1995 ( max 10)	Number of Surveys used in ` 95	Variance in `95
1	New Zealand	9.55	4	0.07
2	Denmark	9.32	4	0.01
3	Singapore	9.26	7	0.21
4	Finland	9.12	4	0.07
5	Canada	8.87	4	0.44
6	Sweden	8.87	4	0.11
7	Australia	8.80	4	0.54
8	Switzerland	8.76	4	0.52
9	The Netherlands	8.69	4	0.63
10	Norway	8.61	4	0.78
11	Ireland	8.57	4	0.61

12	United Kingdom	8.57	4	0.17
13	Germany	8.14	4	0.63
14	Chile	7.94	3	0.97
15	USA	7.79	4	1.67
16	Austria	7.13	4	0.36
17	Hong Kong	7.12	7	0.48
18	France	7.00	4	3.32
19	Belgium/Luxemburg	6.85	4	3.08
20	Japan	6.72	7	2.73
21	South Africa	5.62	4	2.35
22	Portugal	5.56	4	0.66
23	Malaysia	5.28	7	0.36
24	Argentina	5.24	2	5.86
25	Taiwan	5.08	7	1.03
26	Spain	4.35	4	2.57
27	South Korea	4.29	7	1.29
28	Hungary	4.12	3	0.69
29	Turkey	4.10	4	1.33
30	Greece	4.04	4	1.65
31	Columbia	3.44	2	1.12
32	Mexico	3.18	4	0.06
33	Italy	2.99	4	6.92
34	Thailand	2.79	7	1.69
35	India	2.78	5	1.63
36	Philippines	2.77	5	1.13
37	Brazil	2.70	4	3.11
38	Venezuela	2.66	4	3.18
39	Pakistan	2.25	4	1.62
40	China	2.16	4	0.08
41	Indonesia	1.94	7	0.26

*Source: Transparency International (TI)*

## Appendix 2: TI Corruption Perception Index 2014

Rank	Country	2014 Score	Rank	Country	2014 Score
1	Denmark	92	85	Philippines	38
2	New Zealand	91	85	Sri Lanka	38
3	Finland	89	85	Thailand	38
4	Sweden	87	85	Trinidad and Tobago	38
5	Norway	86	85	Zambia	38
5	Switzerland	86	94	Armenia	37
7	Singapore	84	94	Colombia	37
8	Netherlands	83	94	Egypt	37
9	Luxembourg	82	94	Gabon	37
10	Canada	81	94	Liberia	37
11	Australia	80	94	Panama	37
12	Germany	79	100	Algeria	36
12	Iceland	79	100	China	36
14	United Kingdom	78	100	Suriname	36
15	Belgium	76	103	Bolivia	35
15	Japan	76	103	Mexico	35
17	Barbados	74	103	Moldova	35
17	Hong Kong	74	103	Niger	35
17	Ireland	74	107	Argentina	34
17	United States	74	107	Djibouti	34
21	Chile	73	107	Indonesia	34
21	Uruguay	73	110	Albania	33
23	Austria	72	110	Ecuador	33
24	Bahamas	71	110	Ethiopia	33
25	United Arab Emirates	70	110	Kosovo	33
26	Estonia	69	110	Malawi	33
26	France	69	115	Côte d'Ivoire	32
26	Qatar	69	115	Dominican Republic	32
29	Saint Vincent and the Grenadines	67	115	Guatemala	32
30	Bhutan	65	115	Mali	32
31	Botswana	63	119	Belarus	31

31	Cyprus	63	119	Mozambique	31
31	Portugal	63	119	Sierra Leone	31
31	Puerto Rico	63	119	Tanzania	31
35	Poland	61	119	Vietnam	31
35	Taiwan	61	124	Guyana	30
37	Israel	60	124	Mauritania	30
37	Spain	60	126	Azerbaijan	29
39	Dominica	58	126	Gambia	29
39	Lithuania	58	126	Honduras	29
39	Slovenia	58	126	Kazakhstan	29
42	Cape Verde	57	126	Nepal	29
43	Korea (South)	55	126	Pakistan	29
43	Latvia	55	126	Togo	29
43	Malta	55	133	Madagascar	28
43	Seychelles	55	133	Nicaragua	28
47	Costa Rica	54	133	Timor-Leste	28
47	Hungary	54	136	Cameroon	27
47	Mauritius	54	136	Iran	27
50	Georgia	52	136	Kyrgyzstan	27
50	Malaysia	52	136	Lebanon	27
50	Samoa	52	136	Nigeria	27
53	Czech Republic	51	136	Russia	27
54	Slovakia	50	142	Comoros	26
55	Bahrain	49	142	Uganda	26
55	Jordan	49	142	Ukraine	26
55	Lesotho	49	145	Bangladesh	25
55	Namibia	49	145	Guinea	25
55	Rwanda	49	145	Kenya	25
55	Saudi Arabia	49	145	Laos	25
61	Croatia	48	145	Papua New Guinea	25
61	Ghana	48	150	Central African Republic	24
63	Cuba	46	150	Paraguay	24
64	Oman	45	152	Congo, Republic of	23
64	The FYR of Macedonia	45	152	Tajikistan	23
64	Turkey	45	154	Chad	22

67	Kuwait	44	154	Congo, Democratic Republic of	22
67	South Africa	44	156	Cambodia	21
69	Brazil	43	156	Myanmar	21
69	Bulgaria	43	156	Zimbabwe	21
69	Greece	43	159	Burundi	20
69	Italy	43	159	Syria	20
69	Romania	43	161	Angola	19
69	Senegal	43	161	Guinea-Bissau	19
69	Swaziland	43	161	Haiti	19
76	Montenegro	42	161	Venezuela	19
76	Sao Tome and Principe	42	161	Yemen	19
78	Serbia	41	166	Eritrea	18
79	Tunisia	40	166	Libya	18
80	Benin	39	166	Uzbekistan	18
80	Bosnia and Herzegovina	39	169	Turkmenistan	17
80	El Salvador	39	170	Iraq	16
80	Mongolia	39	171	South Sudan	15
80	Morocco	39	172	Afghanistan	12
85	Burkina Faso	38	173	Sudan	11
85	India	38	174	Korea (North)	8
85	Jamaica	38	174	Somalia	8
85	Peru	38	174	Somalia	8

*Source: Transparency International (TI)*

## References:

- Mele, D. (2014, November 11). *IESE Buesinee School*. Retrieved June 30, 2015, from IESE Business School Web site: <http://blog.iese.edu/ethics/2014/11/06/corruption-10-possible-causes/>
- Albanian Association of Banks. (2014). *General Data For Banking System December 2014*. Tirane: Albanian Association of Banks.
- American Accounting Association. (1971). *A Statment of Basic Auditing Concepts*. Florida: American Accounting Association.
- Andvig, J., Fjeldstad, O.-H., Amundsen, I., Sissener, T., & Søreide, T. (2001). *Corruption. A review of Contemporary Research*. Chr. Michelsen Institute.
- Bank of Albania. (2004). *Banking Supervision Annual Report*. Tirane: Bank of Albania.
- Bank of Albania. (2014). *Regulation on "On Capital Adequacy Ratio"*. Tirane: Bank of Albania.
- Bank of Albania. (2014). *Supervision Annual Report 2014*. Tirana: BoA.
- Barbullushi, E. (2010). *Bank efficiency in Albanian banking system: Dea approach* . Dukagjini college.
- Barkemeyer, R., Preuss, L., & Lee , L. (2015). Corporate reporting on corruption: An international comparison. *Elsevier*.
- Bello, M., Cucllari, F., & Cini , M. (2011). On the development of Albanian informal economy.
- Boka, M., & Torluccio, G. (2013). Informal Economy in Albania. *Academic Journal of Interdisciplinary Studies*, 212-221.
- Brody, R. G., & Lowe, D. J. (2000). The new role of the internal auditor: Implications for internal auditor objectivity. *International Journal of Auditing*, 169-176.
- Brown, J., Orme, W., & Roca , T. (2010). *Fear and Loathing of the Corruption Perception Index: Does Transparency International Penalize Press Freedom?* Bordeaux: Universite Montesquieu - Bordeaux IV.

- Chen, J., Cumming, D., Hou, W., & Lee, E. (2013). Executive integrity, audit opinion, and fraud in Chinese listed firms. *Elsevier*.
- Cohen, J. (1988). *Statistical Power Analysis for the Behavioral Science*. New Jersey: Lawrence Erlbaum Associates.
- Collins, S. (2011, January 18). *Accounting Web*. Retrieved May 17, 2015, from AccountingWeb Web site: <http://www.accountingweb.co.uk/topic/business/how-long-and-how-much-do-audit/473442>
- Halbouni, S. S. (2015). The Role of Auditors in Preventing, Detecting, and Reporting Fraud: The Case of the United Arab Emirates (UAE). *International Journal of Accounting*, 117-130.
- Hayes, R., Dassen, R., Schilder, A., & Wallage, P. (2005). *Principles of Auditing: An Introduction to International Standards on Auditing* (Second Edition ed.). Pearson Education.
- Henderson, K. (2011). *SmallBusiness*. Retrieved May 17, 2015, from SmallBusiness Web site: <http://smallbusiness.chron.com/4-types-audit-reports-3794.html>
- IFAC. (2010). *Modifications to the Opinion in the Independent Auditor's Report*. International Federation of Accountants.
- Index Mundi. (2014). *Index Mundi*. Retrieved August 30, 2015, from Index Mundi web site: [http://www.indexmundi.com/albania/economy\\_profile.html](http://www.indexmundi.com/albania/economy_profile.html)
- Korovilas, J. P. (1999). The Albanian Economy in Transition: The Role of Remittances and Pyramid Investment Schemes. *Post-communist economies*, 399-415.
- Lambsdorff, G. J. (2005). *The Methodology of the 2005 Corruption Perception Index*. Transparency International and University of Passau.
- Leite, C., & Weidmann, J. (1999). *Does Mother Nature Corrupt? Natural Resources, Corruption and Economic Growth*. African and Research Departments. International Monetary Fund.
- Mauro, P. (1996). *The Effect of Corruption on Growth, Investment, and Government Expenditure*. International Monetary Fund.

- Roca, T., & Alidedeoglu-Buchner, E. (2010). *Corruption Perceptions: the Trap of Democratization, a Panel Data analysis*. Bordeaux: Universite Montesquieu - Bordeaux IV.
- Rose-Ackerman, S. (2007). *Measuring private sector corruption*. U4 Brief.
- Sorin, A., Monica , A., & Raluca, S. (2008). Auditing - History and Perspectives . *Annals of the University of Oradea, Economic Science Series*.
- Tanzi , V. (1998). *Corruption Around the World: Causes, Consequences, Scope, and Cures*. Budapest: International Monetary Funds.
- Teck-Heang, L., & Md.Ali, A. (2008). The evolution of auditing: An analysis of the historical development. (Yolanda, & Cathy, Eds.) *Journal of Modern Accounting and Auditing, Volume 4*.
- The Institute of Internal Auditors. (2015). *The Institute of Internal Auditors*. Retrieved June 10, 2015, from The Institute of Internal Auditors Web site: <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx>
- The World Bank. (2006). *Introduction to Corruption*. The World Bank.
- Transparency International. (2000). *Transparency International's Bribe Payers Survey 1991*. Transparency International.
- Transparency International. (2011). *Bribe Payers Index* . Transparency International.
- Transparency International. (2014). *Corruption Perceptions Index 2014: Full Source Discription*. Transparency International.
- Transparency International. (2014). *Curroption Perception Index 2014*. Transparency International.
- Transparency International. (n.d.). *Transparency International*. Retrieved 5 14, 2015, from Transparency International Web site: <https://www.transparency.org>
- Tsipouridou , M., & Spathis, C. (2013). Audit opinion and earning management. *Elsevier*, 38-54.

- Vilsanoiu, D., & Buzenche, S. (2014). Determining audit materiality in banking industry - a knowledge based approach . *Elsevier*.
- World Bank. (2013). *Woeld Bank*. Retrieved September 1, 2015, from World Bank Web site: <http://www.worldbank.org/en/country/albania/overview#1>
- World Bank. (2015). *Albania, World Bank Group Partnership - Program Snapshot*. World Bank.
- Xu, Y., Jiang, A. L., Fargher, N., & Carson, E. (2011). Audit Reports in Australia during the Global Financial Crisis . *Australian Accounting Review*, 22-31.