



## **KOSOVO CREDIT GUARANTEE FUND FINANCIAL MANAGEMENT POLICY**

### **1. Purpose and Scope**

The purpose of this policy is to establish guidelines for developing financial goals and objectives, making financial decisions, reporting the financial status of KCGF, and managing KCGF's funds.

### **2. Financial Responsibilities**

It is the responsibility of the Board of Directors to approve financial policies and review operations and activities on a periodic basis. This responsibility is shared through delegation to the KCGF Managing Director and the Senior Finance Manager.

The Managing Director makes all management and operational decisions for the KCGF and is responsible to:

- Represent and manage the affairs of KCGF and implement the policy decisions of the Board of Directors.
- Make recommendations to the Board of Directors regarding improvement of the operations of KCGF and compliance with the Law and other applicable rules and requirements.
- Prepare and propose the financial plan, including the level of the fees to be assessed to the financial institutions, and submitting the annual financial statements for approval.
- Make recommendations to the Audit Committee on initiation of process of recruitment of the KCGF's external auditor.

The Senior Finance Manager with oversight by the Managing Director has the day-to-day operations responsibility for managing KCGF's funds, ensuring the accuracy of the accounting records, adherence to internal controls, financial objectives and policies, financial statement preparation, bank reconciliation review and approval, and reporting to the Central Bank of Kosovo, Board of Directors, etc.

The Senior Finance Manager is responsible for the preparation of the Chart of Accounts, Reporting Formats, Accounts Payable Processing, Payroll input and Payroll processing, Cash Receipts input, Journal Entries for General Ledger, as well as Bank Reconciliations.

### **3. Budgeting Process**

The Managing Director and the Senior Finance Manager shall be responsible for preparing an annual operating budget draft sixty (60) days prior to the end of the fiscal year and thirty (30) days prior to its submission to the Board of Directors. The Managing Director and the Senior Finance Manager shall review the recommended fiscal year budget revenues, expenditures and cash flow, and submit it for approval to the Board of Directors. The budget shall contain revenues and expenses forecasted by quarter. The Board of Directors should review the proposed budget before the end of the year.

## 4. Financial Statements

KCGF shall prepare annual financial statements in accordance with IFRS. The KCGF's financial statements shall be audited and published without delay, but not later than April 30 for the previous year. KCGF shall submit audited financial statements to the Board of Directors for approval. The Managing Director shall ensure that the Board of Directors is provided with the audited financial statements of the KCGF at least 15 days prior to April 30.

## 5. Audit

KCGF will have an external audit of its financial statements performed annually according to IFRS, by an independent external auditor from the approved list of statutory auditors and auditing firms of the Kosovo Financial Reporting Council, and appointed by the Board of Directors. The same external auditor or firm cannot be used for more than three (3) consecutive years. The final, approved audit will be submitted to the CBK by April 30 for the preceding fiscal year. The Managing Director and the Senior Finance Manager shall have direct responsibility in overseeing the implementation of the Annual Financial Audit. The Audit Committee shall provide Board oversight. The Managing Director and the Senior Finance Manager shall recommend the auditing company to the Audit Committee for approval. In addition, the Audit Committee shall assist when necessary in the audit preparation, and report the final results to the Board of Directors. A representative of the audit firm shall be invited to attend the annual presentation to the Audit Committee, and shall be required to make a presentation to the Board if the audit report is other than unqualified, or if the auditor's report includes material weaknesses in internal controls or reportable conditions. The annual audit must be completed in time to be reviewed and approved by the Board prior to submission of the final audit report to the CBK by April 30.

## 6. Signature Policy

The Managing Director and the Senior Finance Manager (two signatures) shall, unless otherwise decided by the Board, sign all orders for payment of money, contracts, and commitments for services issued in the name of KCGF. In the absence of either individual, the signature of the authorized person (second level of authorization) must be obtained.

## 7. Compensation and Payroll

(the following applies to procedures after conclusion of the ECS program). Payroll is executed monthly. Direct deposits will be provided to each employee by the Senior Finance Manager. Monthly payroll expenses shall be verified against payroll reports and direct deposit reports and reconciled with checking account reports. The Senior Finance Manager will make all necessary withholdings and make all necessary filings and payments to the authorities including personal income tax, pension contributions, etc.

## 8. Purchasing

Any expenditure in excess of an amount determined by the Board of Directors for the purchase of a single item should have bids from three (3) suppliers if possible. These bids are reviewed by the Senior Finance Manager and the bid award must be specifically approved in advance by KCGF's Managing Director and Senior Finance Manager. Purchases of less than the approved amount may be made at the discretion of the KCGF's Managing Director or Senior Finance Manager without competitive bids. However, for fixed assets, reasonable diligence should be exercised to comparatively shop for available sources.

## 9. Leases and Other Contractual Agreements

Leases and other contractual agreements are negotiated by the Senior Finance Manager and executed with the approval of the KCGF's Managing Director. KCGF's Managing Director and the Senior Finance Manager are authorized to develop and enter into contractual agreements with vendors, bankers, and third parties for the purpose of ensuring the KCGF's general operations.

## 10. Bank Accounts and Investment Accounts

The Senior Finance Manager shall maintain and oversee Bank and Investment accounts, and ensure the KCGF's day-to-day financial operations. Several accounts may be maintained by KCGF as follows:

1. Main Account
2. Other Current Account
3. Deposit Account

These accounts may be changed as the KCGF's financial conditions and requirements change.

## 11. Bank Reconciliations

Bank reconciliations shall be completed monthly by the Senior Finance Manager and cross-referenced with the cash and receipts logs and the monthly Financial Statements. The Financial Statements shall be compiled by the Senior Finance Manager. The Statements shall be then reviewed by the Managing Director. All Bank Statements, will be reconciled every month by the Senior Finance Manager, and records will be kept in the Finance office.

## 12. Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments. KCGF places its temporary cash investments as provided in the Law on KCGF.

## 13. Petty Cash

A petty cash fund provides a systematic method for paying and recording out-of-pocket cash payments too small to be made by bank transfer. KCGF shall maintain a five hundred EUR (€500.00) petty cash fund that is replenished as needed. The Senior Finance Manager shall maintain control of, and responsibility for, payments disbursed from the Petty Cash fund and all disbursement from the petty cash fund must be paid against paid receipts; however, amounts should not exceed an amount determined by the Board of Directors for each transaction. The Petty Cash account shall be reconciled at least on monthly basis.

## 14. Investments Reports and Investment Policy

Investments shall be reported with the monthly financial statements. The Managing Director and Senior Finance Manager shall review and determine the general investment strategy for all funds. The KCGF Capital Fund shall only be invested in accordance with the provisions of the Law and the approved investment policy approved by the Board of Directors in order to protect the Capital Fund for backing the guarantees, to generate income to support the sustainability of KCGF, and to maintain adequate liquidity. The investment policy of KCGF will be prepared by the Managing Director and be approved by the Board of Directors. Investment strategy shall be reviewed and evaluated annually, to ensure the portfolio's proper diversification, security and return on investments.

## 15. Fixed Assets and Equipment's

Fixed Assets and equipment shall be stated at historical cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. A Depreciation schedule shall be prepared and maintained by the Senior Finance Manager on a monthly basis, taking into consideration the annual furniture and equipment inventory. An Asset Removal Form shall be required for the removal of the KCGF's supplies and/or equipment from the KCGF's premises and there must be justification for removing an asset from inventory.

## 16. Equipment Installation, Maintenance and Disposal

Purchase, installation and maintenance of telephone equipment, telephone lines, office furniture and equipment, computer equipment, etc., shall be approved by the Senior Finance Manager after discussion and approval by the Managing Director. Staff Members shall be responsible for receiving and supervising the installation of equipment scheduled for their facility or working area, and for maintaining and protecting the equipment installed in their offices. If a piece of equipment is identified as being obsolete, damaged beyond repair, completely depleted/used, and the decision is to dispose the equipment, then the Senior Finance Manager should obtain written authorization for the dispose of the equipment from the Managing Director.

## 17. Confidentiality and Records Security

Financial records are restricted materials with limited access. Only the Senior Finance Manager (or others so authorized) shall have access to financial records (vendor files, journals, payroll, etc.).

## 18. Document Retention

Financial documents are retained for a period of time in compliance with the law.

## **Appendix 1**

### **Effective Systems of Internal Control**

#### 1. General

Internal control can be divided into two areas: accounting controls and administrative controls. Administrative controls deal with the operations of KCGF, whereas the accounting controls deal with accounting for such operations. Accounting controls should be designed to achieve the five basic objectives:

#### 2. Validation

Validation is the examination of documentation by someone with an understanding of the accounting system, for evidence that a recorded transaction actually took place and that it occurred in accordance with the prescribed procedures. As systems grow more sophisticated, validation is a built in component whereby the transactions test themselves against predetermined exceptions.

#### 3. Accuracy

The accuracy of amounts and account classification is achieved by establishing control tasks to check calculations, extensions, and additions and account classifications. The control objective is to be certain that each transaction is recorded at the correct amount, in the appropriate, account, in the right time period.

#### 4. Completeness

Completeness of control tasks ensures that all transactions are initially recorded on a control document and accepted for processing once and once only. Completeness controls are needed to ensure proper summarization of information and proper preparation of financial reports. To ensure proper summarization of recorded transactions as well as a final check of completeness, subsidiary ledgers and journals with control accounts need to be maintained.

#### 5. Maintenance

The objective of the maintenance controls is to monitor accounting records after the entry of transactions to ensure that they continue to reflect accurately the operation of KCGF. The control system should provide systematic responses to errors when they occur, to changed conditions, and to new type of transactions. The maintenance function should be accomplished principally by the operation of the system itself. Disciplinary control tasks, such as supervision and segregation of duties, should ensure that the internal control system is operating as planned.

#### 6. Physical Security

It is important in all organizations that the assets are adequately protected. Physical security of assets requires that access to assets be limited to authorize personnel. One means to limit access to both assets and related accounting records is through the use of physical controls. Protection devices restrict unauthorized personnel from obtaining direct access to assets or indirect access through accounting records that could be used to misappropriate assets. Locked storage facilities restrict access to inventories, and fireproof vaults prevent access to petty cash vouchers. Transaction recording equipment limits access to assets by limiting the number of employees involved in recording and posting transactions.