



## **ANSWERS TO THE MOST FREQUENT QUESTIONS OF POLITICAL PARTIES**

By reviewing and auditing the annual financial statements for 2004 and 2005 and by controlling the annual financial statement for 2006, which is still in progress, it has been established that most political parties do not obtain funds in accordance with the Law on Political Party Financing, furthermore that they do not fill in the financial statements in accordance with the Rulebook on annual financial statements of political parties.

Out of nine (9) political parties whose 2004 financial statements were audited, violations of the provisions of Article 11 of the Law on Political Party Financing were established in all nine cases. Likewise, out of fifty-nine (59) political parties whose 2005 financial statements were audited, nineteen (19) filled in the financial statement forms properly. The situation is similar with the 2006 financial statements, where numerous irregularities have been established as well.

Due to the above mentioned reasons, the BiH Central Election Commission has considered it necessary to organize education for all political parties. November was set as the date for the training, in order to prevent that political parties repeat the same mistakes and omissions while preparing and submitting the annual financial statements for 2007.

Representatives of political parties authorized for financial statements who attended the education have taken advantage of the possibility provided to them by the staff of the Audit Department, and they have asked numerous questions regarding political party financing and financial statements.

Although the answers to these questions were provided during the education, the BiH Central Election Commission believes that it would be useful to submit the answers to the questions asked during the education organized at four locations in written form to all political parties. The following were among the most frequent questions:

***1. The notification about illegal political party financing which the BiH CEC directed to all levels of government in Bosnia and Herzegovina caused confusion and produced the following results:***

- municipalities are asking political parties to submit reports about the way they spent the funds appropriated to them from the budget;***
- parliamentary groups are opening bank accounts where budgetary funds are paid in directly.***

***a) Who is supposed to state these funds in the financial statement and in what manner?***

***b) Are budgetary funds meant for the financing of parties, or parliamentary groups?***

***Answer:*** Article 3, paragraph (1), item d) of the Law on Political Party Financing (“Official Gazette BiH”, no. 22/00) provides that a political party may obtain funds from the budget of Bosnia and Herzegovina for financing parliamentary groups in accordance with Article 10 of this Law, as well as from the budgets of the Entities and from all their lower units pursuant to the Entities’ laws. Article 10 of this Law provides in what proportion the funds from the budget shall be allocated for financing parliamentary groups represented in the Parliamentary Assembly of BiH. In accordance with Article 19 of the Rulebook on annual financial statements of political parties, income from the budget has to be included in form 3-f.

***c) Who will report funds received by a parliamentary group which was formed as a citizens association? Can a parliamentary group have the status of a legal entity?***

***Answer:*** As already stated in the answer to the questions under a) and b), a political party has to report income from the budget in forms 3 and 3-f of the financial statement.

According to the Rules of Procedure of both Houses of the BiH Parliamentary Assembly, ***parliamentary groups*** are formed as a form of activity of delegates in the Houses of the BiH Parliamentary Assembly.

***2. When paying in the funds from the budget for the activities of the political parties, municipalities do not submit the relevant decisions, the bank statement usually says “Regular tranche payment” and because of that the parties cannot include the number and date of the decision in the form (form 3-f).***

***Answer:*** In accordance with the provisions of Article 19, paragraph (2) of the Rulebook on annual financial statements of political parties (“Official Gazette BiH”, no. 61/06), a political party is obliged to include the following information in form 3-f (income from the budget): name of the organizational part of the political party, authority level, number and date of the decision and the total amount of the income.

***3. The problem consists in the identification of legal entities and natural persons and filling in the Registration Number and Personal Identity Number into the financial statement forms. The banks do not require writing the Registration Number and Personal Identity Number on the payment slip when paying in money, and the party has a problem with filling in the financial statement. There is also a problem if the party gets a contribution larger than the amount allowed by law, because it does not have information on the person who made the payment, and thus does not have the possibility to return the funds which exceed the limit set by law.***

***Is it necessary to return the funds which exceed the limit set by law, or the total amount of the donation in order to respect the provisions of the Law?***

***Answer:*** In accordance with the provisions of Articles 14 and 15 of the Rulebook on annual financial statements of political parties (“Official Gazette BiH”, no. 61/06), the

donator's Personal Identity Number or Registration Number are filled in forms 3-a and 3-b. This information is used for official purposes only and is not made available to the public. If a political party receives funds in an amount which exceeds the limit to donations set by law, the amount which exceeds the limit has to be returned to the donor in the same calendar year in order to respect the provisions of the Law on Political Party Financing. We wish to stress that the limit to donations is set by the provisions of Article 5, paragraph (1) of the Law on Political Party Financing.

***4. a) Should the number of members who paid the membership fee, or the number of members of the party be filled in form 3?***

***Answer:*** In accordance with the provisions of Article 13, paragraph (1) of the Rulebook on annual financial statements of political parties ("Official Gazette BiH", no. 61/06), information about totally charged membership fees and the number of party members who paid the membership fee has to be included into form 3. Pursuant to the provisions of Article 3, paragraph (3) of the Law on Political Party Financing, only an amount paid regularly by a party member according to the provisions of the Statute of the political party is considered a membership fee.

***4. b) Will it be a problem if the income from the membership fee is included in form 3 in the financial statement, while it is represented with incomes from earlier years in the books of account (because it refers to charged membership fees from earlier years)?***

***Answer:*** Parties have to keep their books of account in accordance with the Law on Accounting and Audit and international accounting standards. According to the provisions of the Law on Political Party Financing, parties have to present their income on forms prescribed by the BiH Central Election Commission, and for that reason it may come to inconsistencies between certain income positions in the balance of success and income positions in the financial statements, which the political party is obliged to submit according to the Law on Political Party Financing. Generally speaking, the total income in the financial statements of political parties has to correspond to the total stated income in the balance of success.

***5. Is the limit established separately for each contribution of a natural person?***

***Answer:*** In accordance with the provisions of Article 5, paragraph (1) of the Law on Political Party Financing, the total amount of a single contribution of legal entities and natural persons shall not exceed eight average worker's salaries according to the official data by the BiH Statistics Agency in one calendar year and may not be made more than once a year.

***6. How should contributions received at a „fundraising dinner” and from collecting boxes be treated?***

***Answer:*** All contributions from legal entities and natural persons, no matter how they were raised, are treated in accordance with the Law on Political Party Financing and they have to be reported in the financial statement in accordance with Articles 14 and

15 of the Rulebook on annual financial statements of political parties (“Official Gazette BiH”, no. 61/06).

**7. a) *Should the difference between the market price of the rent and the price set by the municipality for the political party be expressed, and in what way is this to be done?***

**b) *In case a party gets business premises as a gift from a municipality, what is the right way to proceed?***

**Answer:** If a municipality leases business premises to a political party at a price lower than the market price, or the price determined by the municipality with the Decision on means of payment and height of rent for business premises for other customers, the political party is obliged, in accordance with the provisions of Article 13, paragraph (1), item f) of the Rulebook on annual financial statements of political parties (“Official Gazette BiH”, no. 61/06), to state the difference between the rent the party is paying to the municipality and the market value of the rent as an income in form 3 and form 3-e of the financial statement. In case a political party receives business premises as a gift from a municipality, it also has to state the value of that gift in accordance with the provisions of Article 13, paragraph (1), item f) of the Rulebook on annual financial statements of political parties (“Official Gazette BiH”, no. 61/06).

We need to point out that according to Article 8 of the Law on Political Party Financing, state, entity and cantonal bodies, municipal and local community bodies, public institutions, public enterprises, humanitarian organizations, enterprises which are by the virtue of their activities exclusively non-profit, religious communities, as well as economic associations in which public capital has been invested to the amount of at least 25%, are not allowed to finance political parties, i.e. a political party is in accordance with this provision of the Law not allowed to accept business premises as a gift from municipal bodies.

**8. a) *A political party uses business premises for the activities of the municipal board without paying for it. How to estimate the amount of the rent in order to state it as a contribution to the political party on form 3-e?***

**Answer:** In accordance with the provisions of Article 4, paragraph (2) of the Law on Political Party Financing (“Official Gazette” no. 22/00), legal entities or natural persons that provide a service or sell a product to a political party must issue an invoice to the party, without any regard to who is paying for the service or product, and/or without regard to whether the service has been provided or the product given free of charge. Therefore, if a political party is using business premises free of charge, it is making income from gifts and services it is not obliged to pay for, and has to state the amount of the income according to the market price which other persons pay for such or similar premises, or according to the price which every municipality sets with the Decision on means of payment and height of rent for business premises in the area of its municipality. (Such decisions are published in the official gazettes and the municipalities’ bulletins.)

**b) *How do political parties record contributions which the party is not obliged to pay in the financial statement and in the books of account?***

**Answer:** According to the provisions of Article 4, paragraph (1) of the Law on Political Party Financing, a contribution made by a legal entity or natural person also includes free services or provision of services to a political party or the members acting on its behalf, under conditions by which that party is put in a favoring position with regard to other parties. Paragraph (2) of the same Article says as follows: “Legal entities or natural persons that provide a service or sell a product to a political party must issue an invoice to the party, without regard to who is paying for the service or product, and/or without regard to whether the service has been provided or the product given free of charge.” Donations in kind and bills that the political party did not have to pay are stated on form 3-e in the financial statement.

When it comes to record-keeping, these business changes can be recorded in the business books in one of the following ways:

- I D costs / P suppliers  
D suppliers / P incomes  
or
- II D costs / P incomes

***9. How is the income obtained by selling business premises stated in the financial statement which is submitted to the BiH Central Election Commission?***

**Answer:** Resources obtained from selling part of the property are not considered to be incomes generated by property in the sense of Article 3, item 1 of the Law on Political Party Financing. If a positive difference between the value of the property stated in the business books and the selling of the property has been realized, only this difference is considered as income from selling property and it has to be stated on a ***special specification together with form 3 of the financial statement.***

***10. How is income from property and utility rates stated?***

**Answer:** Income from leasing business premises is considered to be income from property. In accordance with the provisions of Article 13, paragraph (1) and Article 16 of the Rulebook on annual financial statements of political parties (“Official Gazette BiH”, no. 61/06), a political party enters data on income from property into form 3-c. The utility rates foreseen by the leasing contract for which the party issues bills to the leaseholder is not considered to be income from property, but an obligation which the political party has towards the provider of the utility service.

***11. Do political parties have to submit information on their property separately for each calendar year?***

**Answer:** In accordance with the provisions of Article 11, paragraph (4) of the same Law, a political party is obliged to submit additional reports (e.g. information on property) as reasonably requested by the Central Election Commission of Bosnia and Herzegovina.

The obligation of a political party to submit information on its property to the BiH Central Election Commission arises from the provisions of Article 20 of the Law on Political Party Financing.

**12. Attention was drawn to the problem that on municipal level delegates from smaller parties leave their party and become independent councilors, take budgetary resources, because it is currently trendy to form parliamentary groups at municipal level, which is inadmissible. It was pointed out that the notification about illegal political party financing which the BiH CEC sent to all government levels in Bosnia and Herzegovina created confusion.**

**Answer:** According to the provisions of Article 1.9 of the BiH Election Law, a mandate does not belong to a political party, but to an individual, i.e. the elected office holder. According to the provisions of Article 10 of the Law on Political Party Financing, the detailed method for the allocation of funds from the budget of Bosnia and Herzegovina shall be regulated by the Standing Orders of the Parliamentary Assembly of Bosnia and Herzegovina, and parallel to that the detailed method for the allocation of funds from the budget of a municipality should be regulated by the Standing Orders of the Municipal Council.

**13. How to state the expenses for the credit interest if the interest statement is delivered quarterly?**

**Answer:** A political party states the expenses for the credit interest on form 4-1 (*Overhead-administrative and other expenses*).

We wish to point out that the financial statement is composed based on the accounting principle of accrual of business events (accrual basis), i.e. the effects of transactions and other events are stated when they occur (not when the money or its equivalent is received or paid out) and they are recorded in the business books and included in the financial statements for the period to which they apply.

**14. In case when business premises for the activities of a political party are leased from a natural person, how are telephone costs recorded?**

**Answer:** The contract on the lease of business premises concluded with either a legal entity or a natural person defines the conditions and manner of usage of the business premises and the manner of usage and payment of other services which are necessary when using business premises (costs of electricity, water, telephone, heating, etc.). If foreseen by the contract, the political party may directly pay the above-mentioned costs which include telephone costs to legal entities which provide such a service, and they state such expenses in the business books and in the financial statement.

**15. Where and on which form of the financial statement are accrued, but not paid out salaries, reimbursements and compensations for meals stated?**

**Answer:** According to the provisions of Article 23, paragraph (1) of the Rulebook on annual financial statements of political parties ("Official Gazette BiH", no. 61/06), a political party enters total debt liabilities which it has on a certain day into form 5 (*Loans, credits and debts*).

**16. a) Does the person authorized for submitting the financial statements need to have particular educational qualifications?**

**b) Who is the authorized person, is there one for the whole party or one for each respective board?**

**Answer:** According to Article 12 of the Law, a political party is obliged to appoint an authorized person responsible for the submission of the financial statements and record-keeping who is authorized to contact the BiH CEC, and also needs to inform the BiH CEC about appointing the authorized person or any change of the status of that person within three (3) days following his/her appointment or change of status. The authorized person signs all statements and is responsible for record-keeping regarding the statements, and the authorized person must submit reports for consideration upon the request of the BiH CEC. Information about the authorized person is entered into form **1 (General information about the political party)**.

According to Article 12 of the Law on Political Party Financing, a political party appoints one authorized person responsible for the submission of financial statements. This Law does not prescribe the conditions a person needs to fulfill in order to be able to perform the duties of the authorized person for financial statements.

**17. Can compensation for meals and traveling expenses be covered for volunteers?**

**Answer:** The rights of volunteers during voluntary work are prescribed by the FBiH Law on Work (“Official Gazette FBiH”, no. 43/99 and 32/00) and the RS Law on Work (“Official Gazette RS” no.70/2001 and 73/2001).

We are using this opportunity to inform you that all regulations which define and regulate political party financing and financial reporting, i.e. the Law on Political Party Financing, Chapter 15 of the BiH Election Law, the Rulebook on annual financial statements of political parties and the Rulebook on pre-election and post-election financial statements, as well as the forms of the financial statements, are available on the web site of the BiH Central Election Commission, [www.izbori.ba](http://www.izbori.ba). In case of any questions or dilemmas regarding political party financing and financial reporting, please contact the BiH Central Election Commission and its Audit Department.