

I. INDEPENDENT AUDITOR'S REPORT

To the Steering Group of the Regional Anti-Corruption Initiative (RAI)

Opinion

We have audited the financial statements of the Regional Anti-Corruption Initiative Secretariat (hereinafter: RAI Secretariat), which comprise the statement of financial position as at 31 December 2017, related statement of the income and expenditures and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special purpose financial statements of the RAI Secretariat for the period 1st January 2017 to 31st December 2017 indicating are prepared, in all material respects, in accordance with the financial reporting provisions set out in the Secretariat's Finance Management Manual and in compliance with the Steering Group of the Regional Anti-Corruption Initiative requirements.

Furthermore, based on our audit, nothing has come to our attention that causes us to believe that:

- *the Internal Control System (ICS) is not adequately or effectively organized,*
- *the mandate execution is not in conformity with the mandate objectives and does not adhere to the donors' requirements,*
- *the business is not economically conducted and the financial resources are not effectively used."*

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are independent of the Secretariat in accordance with the Code of Professional Conduct for Registered Auditors issued by International Board for Ethical Standards of Accountants, and we have fulfilled our ethical responsibilities in accordance with the requirements of International Ethics Standards Board.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2. to the special purpose financial statements, which describe the basis of accounting. The special purpose financial statements are prepared to assist the RAI Secretariat to provide information to the RAI Steering Group. As a result, the special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the RAI Secretariat and the RAI Steering Group and should not be distributed to or used by parties other than the RAI Secretariat and the RAI Steering Group. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charges with Governance for the financial Statement

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions set out in the Secretariat's Finance Management Manual and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the RAI Secretariat's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Secretariat or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Secretariat's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

To the Steering Group of the Regional Anti-Corruption Initiative - continue

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatements of the financial statement, whether due to fraud or error, design and perform audit procedures responding to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of the Managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Secretariat's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the RAI Secretariat to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For the Audit Firm:



Azra Krajšek, Directress
Licensed Auditor



MERFI d.o.o. Sarajevo
Authorized auditors
Porodice Ribar 37
71000 Sarajevo
Bosnia and Herzegovina
Sarajevo, 3 April 2018

Licensed Auditor:



Adnan Mataradžija
License number: 3090017116

Notes to special purpose financial statements for the year ended 31 December 2017

1. General information on auditee

The RAI Secretariat is the executive body of the Regional Anti-corruption Initiative and serves as the main focal point and reference Centre for interaction and coordination on anti-corruption issues among the representatives from the regional states, and between the regional states and the other international partners.

According to the Working Plan and upon to the decision of the Steering Group, the RAI Secretariat organizes anti-corruption regional meetings, including specialized trainings, and regional information exchange through its web site. Sarajevo based RAI Secretariat serves as the Centre for regional anti-corruption cooperation in South Eastern Europe through coordination, facilitation and dissemination of best practices and lessons learned.

The RAI Secretariat is registered under its current name with Federation of Bosnia and Herzegovina Ministry of Finance on March 20, 2009 under tax number: 4200913470005. Also, on March 20, 2009 Secretariat is registered with Federation of Bosnia and Herzegovina Bureau of Statistics, Sarajevo as an extraterritorial organization with activity code 99.000.

The legal status and privileges or immunities of the RAI Secretariat's international staff is governed by the provisions of the Agreement made between the Government of Bosnia and Herzegovina (BiH) and the Stability Pact, signed in Brussels on September 15, 2003.

BiH national staff will not enjoy any form of privileges or immunities normally accorded the diplomatic or administrative and technical (A&T) staff of an embassy or international organization.

The RAI Secretariat is committed to compliance with all applicable B&H laws, including any pertaining to health and safety, non-discrimination and affirmative action. Any questions regarding existence or applicability of bilateral agreements and B&H laws, conflicts of the RAI Secretariat's policy with applicable law, or rights and responsibilities under the law should be brought to the attention of the Head of the Secretariat.

Steering Group

The Steering Group is the decision-making body of the Regional Anti-corruption Initiative. It is composed of high level representatives of South Eastern European (SEE) member countries. Other countries, international organizations or international financial institutions could join the organization or be granted an observer status.

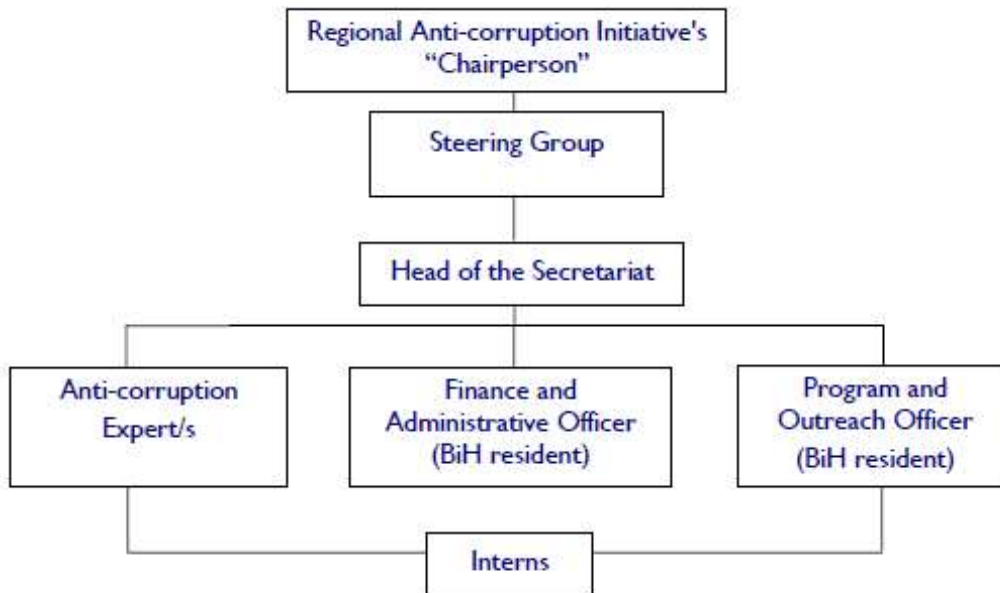
Currently, it is composed of representatives of 9 SEE member countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Montenegro, Romania, and Serbia).

RAI Steering Group Competence:

- Proposes, amends and approves the leading documents related to the status and the activities of the organization: Strategic Document, Terms of Reference of Chairperson and Secretariat, Work Plans;
- Approves the election or the renewal of mandate for the Regional Anti-corruption Initiative Chairperson, selection of Head of the Secretariat and Anti-corruption expert(s);
- Approves RAI annual operational and programmatic budget;
- Approves its activity and financial reports;
- Approves RAI work-plans.

Lines of accountability

Following organizational chart illustrates lines of accountability:



2. Accounting policies applied for preparation of financial statements

a. Basis of presentation

The Financial Statements are presented in EUR (currency of received contributions from member countries). The Financial Statements have been prepared under the cash cost convention. The accounting policies have been consistently applied.

b. Revenue recognition

Revenue is measured at the nominal value of the cash funds received from donor.

c. Foreign currency transaction

Exchange rate between EUR and BAM is: EUR 1 = BAM 1,955830.

d. Property, plant, equipment and inventories

Property, plant, equipment and miscellaneous inventory are written off when put in use. Valuation of costs comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

e. Trade and other receivables

Receivables are stated at their nominal value.

f. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at the bank. The carrying amount of these assets approximates to their fair value.

II. REPORT ON PROCEDURES PERFORMED AND FACTUAL FINDINGS

Field work

We performed field work in the period from February 22 – 23, 2018.

Documentation of reference

We reviewed documentation of reference as follows:

- Memorandum of Understanding concerning cooperation in fighting corruption through the South Eastern European anti-corruption initiative;
- Agreement between BiH and the Office of the Special Coordinator of the Stability Pact for South Eastern Europe;
- Budgets, financing plans, programs of project activities (i.e. Secretariat's core activities);
- Secretariat's Finance Management Manual.
- Secretariat's Office Policies Manual
- Procurement Manual
- Accounting documents subject to the financial review;
- Financial and operational reports concerning the Secretariat's core activities within the audited period.

Based on performed procedures as agreed in the attached terms of reference (Annex 2 to this Report), we verify as follows:

1. Financial regularity

Activity related matters:

- All vendors' invoices for procured goods and services are supported with valid delivery notes.
- Budget funds (i.e. member state contributions) are managed through bank accounts opened for core activities implementation with Sberbank BH d.d. Sarajevo.
- All invoices are paid upon Head of the Secretariat or his delegate approval and signature.
- Funds received for the activity as recorded in the Secretariat's books are reconciled with the bank statements.
- Secretariat performs yearly inventory of the goods representing its property and maintains an accurate inventory of all office equipment and furniture. The list is updated at the time that a new item is purchased or an item is disposed of.
Signed statements from the organization certifying receipt of the donated items are provided.
- Expenditures are allocated in conformity with the agreed budget. There was no budget variance over 10% per total approved budget amount.
- There were no recommendations from previous audit reports.

Accounting related matters:

- RAI Secretariat maintains its books in Quickbooks software and records economic events and transactions in a timely manner.
- Accounting entries are correct, arithmetically exact and based on valid supporting documentation.

- Financial statements (i.e. Expense Report Cover Sheet, Detail Expense report, Summary Monthly Financial report and Reconciliation Sheet - Incomes / Costs) are maintained in compliance with the financial reporting provisions of the Secretariat's Financial Management Manual.
- Secretariat's revenue consisting of country members' contributions and interest on term deposit are booked correctly.
- Contingency reserve funds in the amount of EUR 40.000 are held as a term deposit in the bank account no. 1401015590040096 opened with Sberbank BH d.d.
- Reconciliation of balances of cash in hand and in banks with the Reconciliation Sheet - Incomes / Costs is performed regularly.
- The accounting system in use responds to the needs of the RAI Secretariat as a management tool, particularly as concerns cost analysis;
- All expenditures tied to RAI Secretariat's staff (rent, salaries, travel expenses, allowances, social security benefits, etc) are supported by the relevant documentation and eligible;
- The RAI Secretariat provides its staff with the official phone numbers and makes the monthly reimbursement according to the bills, for the Head of the Secretariat and BAM 20.00 phone vouchers for the other staff.
- For business travelling purposes the RAI Secretariat's staff is reimbursed with funds to cover transportation, lodging and meals/incidental expenses (per diem).

2. Existence, adequacy and effectiveness of the Internal Control System (ICS)

- RAI Secretariat has designed effective financial internal control that ensures effectiveness of financial accounting and reporting processes, documentation validity, payment liquidation and exactness.
- Existing supporting documents are reconciled with the figures recognized in financial statements. Bank payment procedures, cash operation procedures and budget monitoring are performed regularly.
- Segregation of duties is established in compliance with the valid lines of accountability.
- Employment contracts of the RAI Secretariat staff are accompanied with the ToRs for their positions.
- Employee Personal File contains: a valid copy of passport or identity document; a copy of CV; copy(ies) of diploma(s) or certificate(s); a copy of the job description of the employee; the employee's application; the employee's authorization for reference checks; the present employee's contract; a signed letter noting that the employee has read, understands and will abide by the employer's applicable Policies and rules; the employees address and useful contact information according to the approved form.
- International diplomatic staff is register with the BiH Ministry of Foreign Affairs and obtained a diplomatic ID card.
- Procedures for asset safeguard are regulated by the Office Policies Manual and followed in the implementation of the activities.

3. Conformity with the RAI Secretariat ToR and adherence to the work plan

- Transactions, expenditures and receipts compared with the basic documents (terms of reference, work plan, contracts, budget etc.) are in agreement with the RAI Secretariat ToR.
- Goods purchased with allocated funds are utilized within the defined Secretariat's objectives and are still available in conformity with the procedures defined in the Office Policies Manual and Procurement Manual;
- The expenditures correspond to the agreed budgets.
- Although there was no budget variance over 10% per total approved budget amount, budget line „Bank charges“ is overspent in the amount of EUR 439,95 or 24,44%. Sinificant amount of the overspending relates to the bank fees for the Montenegro and Croatia contributions..

4. Economical conduct of business and effective use of financial resources

- Financial resources are utilized for the regular activities (i.e. core activities), as stipulated in the work plan and terms of reference, always ensuring an appropriate level of cost and benefits;
- Expenditures are in line with the agreed budget positions. There was not budget variance over 10% per total approved budget amount.
- Adequate bid and purchasing procedures exist, best cost/benefit ratio for materials and services, conformity of price offers with local practices and cost levels exist;
- Expenditures of local and foreign experts/consultants (i.e. travel expenses, accommodations, allowances etc.) are eligible.
- Expenditures related to national staff (gross salary, social and pension contributions, income taxes etc.) are eligible.

Sarajevo, 23rd March 2018
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Azra Krajšek, Director



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