

THE WALLETTS OF PARLIAMENTARY POLITICAL ENTITIES 3.0

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The Democratic Institute of Kosovo is a branch of Transparency International for Kosovo

KDI's mission is to support the development of participatory democracy and the fight against corruption through the promotion of transparency, accountability and integrity at all levels and sectors of society.

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EXECUTIVE SUMMARY

This report analyzes the financial practices of political parties in Kosovo, based on their 2023 annual financial reports, with a focus on compliance with legal provisions and adherence to standards for financial transparency and accountability. Drawing on audits conducted by auditors contracted by the Office for Financial Control, the paper highlights some progress in oversight mechanisms while underscoring persistent shortcomings in financial transparency and accountability.

The audits reviewed the annual financial statements of 54 registered political parties, including 15 entities represented in the Kosovo Assembly that receive public funds from the Fund for Supporting Political Entities. The audit results varied significantly among parties. Among parliamentary parties, the Alliance for the Future of Kosovo (AAK) received an unqualified opinion, while others, including the Movement for Self-Determination (LVV), the Democratic Party of Kosovo (PDK), and the Democratic League of Kosovo (LDK), received qualified opinions due to incomplete documentation of expenditures and non-compliance with procurement regulations. The Serbian List (SL) also received a qualified opinion; however, it exhibited serious issues related to a lack of financial transparency and accountability, as well as suspicions of other unlawful activities.

Public funding constitutes the primary source of income for most political entities, supplemented by private contributions such as donations and membership fees. However, the audit reports revealed discrepancies in income reporting, particularly concerning in-kind donations and cash donations, the latter being prohibited by law. Party expenditures were mainly concentrated in three key areas: personnel costs, operational expenses, and advertising or promotional activities. Smaller parties faced difficulties covering basic operations due to limited resources.

The report also highlights systemic challenges undermining the integrity of political financing in Kosovo. Chief among these is the lack of public access to detailed transactions and account balances of political parties, which restricts transparency and hinders oversight by civil society. Additionally, disparities in financial management capacities between large and small parties remain problematic.

This report emphasizes the need to address these challenges, especially in the lead-up to the upcoming parliamentary elections, and offers concrete recommendations to improve the transparency, accountability, and financial management of political parties.



INTRODUCTION

Financial transparency and accountability of political parties are two key pillars of democratic governance and public trust in electoral processes. In Kosovo, the legal framework regulating political party financing, particularly the Law on the Financing of Political Entities and its amendments, mandates regular financial reporting and audits to ensure compliance with established regulations.

This report examines the financial reports of political parties for 2023, as well as findings from audits conducted by auditors appointed by the Office for Financial Control, which operates under the Central Election Commission (CEC).

The primary objective of this report is to provide a comprehensive assessment of the financial practices of political parties and the effectiveness of financial oversight mechanisms. The report highlights income and expenditure

trends of political entities and evaluates their adherence to legal requirements.

Furthermore, it assesses the functioning and capacities of the Office for Financial Control, which plays a critical role in ensuring the integrity of political financing in Kosovo. Despite significant progress in recent years, the Office continues to face systemic challenges.

This analysis also incorporates a comparative aspect, referencing findings from the 2022 KDI report and including new insights from the latest audit cycle. The 2023 annual financial reports of political entities represent the first fully audited under the amended 2022 legislation on political financing. By addressing ongoing issues and identifying emerging trends, this report aims to contribute to strengthening financial oversight mechanisms.





STATUS OF THE OFFICE FOR FINANCIAL CONTROL

The Office for Registration, Certification, and Financial Control of Political Entities (hereafter: the Office for Financial Control) plays a crucial role in ensuring the financial accountability and transparency of political entities in Kosovo. Despite notable improvements in its capacities and performance over recent years, the Office continues to face systemic challenges that, in some cases, undermine its effectiveness.

In mid-2024, the Central Election Commission (CEC) approved secondary legislation regulating financial control, several months after the initiation of audit procedures for political parties. The Office had prepared this legislation in advance, but its approval was delayed due to political decision-making within the CEC. Despite these delays, the Office has demonstrated commitment to its responsibilities, operating independently and without any documented instances of political influence.

2.1 Resources and Staffing

The Office operates without a dedicated budget line, relying solely on allocations from the general budget of the Central Election Commission (CEC). Its budget primarily covers staff salaries and provides very limited opportunities for training, alongside €240,000 earmarked for contracting external auditing firms. The Ministry of Finance has yet to assign the Office a specific budget code within the state's annual consolidated budget—specifically within the budget allocated to the CEC. This shortcoming has significant implications, limiting the Office's autonomy and efficiency in managing resources and fulfilling its mandate.

Staffing levels also remain a critical issue. With only seven employees and an eighth position in the recruitment process, the Office still falls short of the legal requirement, established in 2022, to have at least ten professional staff members. Currently, the team includes four individuals

dedicated to financial control, two responsible for the registration and functioning of political parties, one database expert, and one legal expert.

2.2 Performance and Effectiveness

The Office for Financial Control has made notable progress in fulfilling its mandate during 2024, reflecting both advancements and challenges in overseeing the financing of political parties. Its activities included appointing auditors, monitoring, and enforcing compliance with financial regulations.

A critical focus of the Office's work was identifying and addressing financial irregularities in political party donations. During its review of the 2023 financial reports, the Office identified five political entities that had accepted donations in violation of the law. For example:

- **Lëvizja për Bashkim** exceeded the legal donation limit by €400 from a single donor. In compliance with the Office's directive, the party promptly returned the excess amount.
- Other parties, such as **Partia Shqiptare Demokratiane e Kosovës**, accepted cash donations, which are prohibited by law. While some parties complied with directives to return these funds, others were fined for non-compliance.



In terms of cooperation with other institutions, the Office referred auditors' findings to various agencies. Reports concerning five political entities were sent to the Tax Administration due to issues related to unpaid tax obligations, such as rents for party offices, salaries of officials, or delays in other tax payments. Additionally, reports for three political entities were forwarded to the State Prosecutor's Office due to suspicions of potential criminal cases.

These cases illustrate the Office's ability to identify and address violations, while also emphasizing the need for stronger mechanisms to ensure compliance with legal requirements.

The Office has undertaken proactive steps to enhance oversight and monitoring. These efforts include verifying the offices of political parties and monitoring their websites. In collaboration with municipal election commissions, the Office gathered data on the headquarters and branch offices of political entities. This information has been utilized for audits and to improve overall oversight. Moreover, to promote transparency, the Office reviewed the websites of political parties to ensure compliance with requirements for publishing financial reports and donor lists.





AUDIT PROCESS OF POLITICAL PARTIES REPORTS

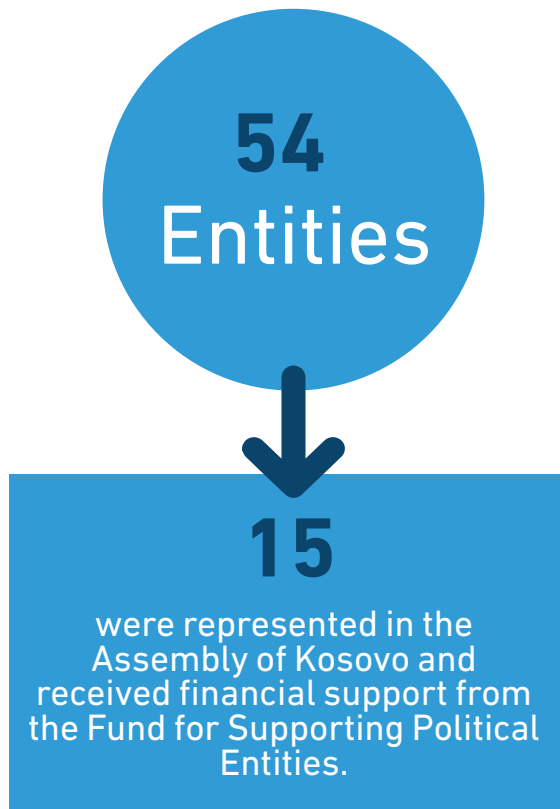
The audit of the 2023 annual financial reports of political entities, conducted in accordance with the applicable accounting standards in Kosovo, aimed to ensure compliance with the Law on Financing Political Entities (LFPE). The process included auditing the annual financial reports submitted by political parties for the reporting period from January 1 to December 31, 2023.

The auditing services were performed by **Audit & Conto L.L.C.**, selected through a procurement process. Following their selection, the auditing process officially commenced on April 18, 2024.

To ensure an impartial distribution of auditing responsibilities, a random draw was conducted. Licensed auditors were assigned to political parties through a transparent randomization system, distributing 54 political entities among ten auditors. Of these 54 entities, 15 were represented in the Assembly of Kosovo and received financial support from the Fund for Supporting Political Entities.

By June 25, 2024, the auditing company submitted the final reports to the Office for Financial Control. Immediately thereafter, these reports were shared with representatives of political parties and made public on the Central Election Commission (CEC) website.

While the audits highlighted progress in oversight mechanisms, they also revealed persistent challenges that need to be addressed, particularly in the lead-up to the 2025 parliamentary elections.



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3.1 Audit Opinions, Findings and Compliance Trends

The 2023 audit revealed a complex picture of compliance among the 54 political entities audited. While some parties showed progress in adhering to financial regulations, others faced significant shortcomings, resulting in qualified or disclaimed opinions. The findings highlighted recurring issues such as incomplete documentation, non-compliance with procurement rules, and challenges in transparency regarding donation reporting.

Based on the auditor's findings, the final audit reports for 2023 categorized political entities into three main groups of opinions. Five political parties received unqualified opinions, reflecting full compliance with financial regulations and reporting standards. Fourteen entities were issued qualified opinions, indicating partial compliance but with notable deficiencies, such as incomplete documentation or procedural shortcomings.

The most concerning group includes 35 political entities that received disclaimed opinions. This result highlights serious deficiencies in financial management, including insufficient documentation, non-compliance with legal provisions, and a lack of accountability. These findings emphasize the urgent need for enhanced oversight and better financial practices among a large portion of political entities in Kosovo.

Based on the findings from the final audit reports for the 2023 annual financial statements, the Office imposed a total of 20 fines affecting 14 political entities. Of these, seven are represented in the Assembly of the Republic of Kosovo, while seven others do not have parliamentary representation. Overall, fines amounting to €82,000 were imposed on political entities. Additionally, two other fines totaling €2,000 were imposed on specific officials of political parties. Moreover, the Office issued 20 other warnings to political entities, highlighting deficiencies and non-compliance with legal and financial regulations.

For major political parties such as the Democratic League of Kosovo (LDK), Vetëvendosje Movement (LVV), and the Democratic Party of Kosovo (PDK), the auditors found various issues regarding financial management. These parties were found to have recurring problems with documenting major expenditures, including advertising and travel. In many cases, expenditures were made without adequate supporting documentation, limiting the auditors' ability to verify the accuracy and legitimacy of reported activities. Furthermore, these parties consistently failed to adhere to procurement regulations, which require open tenders for purchases exceeding specific thresholds. Even the Alliance for the Future of Kosovo (AAK), which received an unqualified opinion, had minor issues, including incomplete data for lease agreements, indicating the need for further improvement.

On the other hand, the Serbian List (SL) received a disclaimed opinion due to serious deficiencies in financial documentation. The party failed to justify critical expenditures, particularly those related to advertising and representation. Notably, serious doubts were raised about activities linked to public opinion research carried out by NGOs contracted by this political entity, valued at €100,000, for which no convincing evidence was presented to auditors to prove that the activities were conducted.

The audits also revealed ongoing violations of the legal prohibition against accepting cash donations. Some smaller parties, including the Albanian Christian Democratic Party of Kosovo, accepted cash donations, a practice explicitly forbidden by the LFPE. While some parties complied with the Office's directives to return these funds, others failed to act within the specified timeframe, resulting in fines and other sanctions.





3.2 Persistent Issues in Political Party Financing

Compared to previous years, the 2023 audits demonstrated an improvement in financial oversight. However, many of the challenges identified in prior audit cycles remain unresolved, including:

- Discrepancies in the documentation of key expenditures;
- Non-compliance with procurement rules for significant purchases;
- Unstable mechanisms to ensure the implementation of legal provisions.

Larger entities, such as LVV and PDK, generally showed stronger systems for identifying revenues, while smaller parties often lacked the resources and expertise necessary to meet regulatory standards.

A critical issue that remains outside the scope of the audit process but is essential for broader transparency in political financing is public access to bank account transactions. Currently, political parties are required to submit detailed data on their bank transactions. However, this information is not made public by the Office, limiting the ability of civil society, the media, and voters to independently verify financial practices.

The publication of detailed bank account transactions is essential for strengthening accountability. Such a step would significantly reduce financial irregularities and align Kosovo's political financing practices with international standards. The absence of this transparency undermines public trust and leaves room for potential misuse of funds.

3.3. Detailed Summary of Specific Findings for Each Party

The audits of political parties in Kosovo for the 2023 financial year uncovered a wide range of issues, highlighting persistent gaps in transparency, instances of non-compliance with legal provisions, and risks of irregularities in financial management.

3.3.1 Issues Related to Transparency

Transparency remains a key challenge for many political parties, particularly in the documentation and reporting of expenditures. Larger entities, such as Vetëvendosje Movement (LVV), Democratic Party of Kosovo (PDK), and Democratic League of Kosovo (LDK), reported significant expenses for advertising, activities, and travel. However, auditors identified gaps in supporting documentation for these activities, limiting the ability to verify their legitimacy and compliance with financial regulations.

PDK

For instance, PDK reported significant expenses for accounts payable—amounting to approximately €150,000 from previous years—but the invoices were incomplete or inaccessible. Additionally, although PDK declared having only two offices, 39 branches and offices were identified across municipalities.

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Similarly, LVV's expenses for food, representation, communication, and fuel lacked sufficient documentation, making it difficult to assess the proper use of funds.

These transparency issues were not limited to larger parties; smaller entities also faced difficulties in providing clear and consistent reporting.



3.3.2 Non-Compliance with Legal Provision

Several parties exhibited clear violations of the Law on Financing Political Entities (LFPE). The most common issue was the acceptance of cash donations, explicitly prohibited by law. Auditors identified several entities, including the Albanian Christian Democratic Party of Kosovo and the Democratic Party of Ashkali of Kosovo, as recipients of illegal cash contributions. While some parties returned these funds as instructed, others failed to act within the specified timeframe, resulting in sanctions.

Non-compliance with procurement laws was another recurring problem. Larger parties, particularly LVV and LDK, were criticized for failing to adhere to open tendering requirements for major purchases. Smaller parties also exhibited non-compliance, albeit on a smaller scale, often due to a lack of capacity and regulatory knowledge.

Additionally, LVV, PDK, and LDK were found to maintain more than one active bank account, contrary to the law.

Another area of concern was the misreporting or non-reporting of in-kind contributions. Auditors noted instances where parties failed to declare services or goods provided by third parties, violating the requirement for full financial disclosure. This practice not only contravenes legal provisions but also distorts the financial landscape by undervaluing the resources available to political parties.

3.3.3 Risks and Irregularities in Financial Management

The audits revealed several risks and irregularities that could compromise the financial integrity of political entities. A recurring issue was the improper management of funds at the branch level. For example, PDK and LDK were identified with weak internal controls, resulting in unverified transactions and inconsistent data storage in regional offices.

In smaller parties, risks were primarily associated with the lack of professional financial management structures. Many of these entities relied on ad hoc systems for tracking

income and expenditures, increasing the likelihood of errors or omissions. For example, the Serbian List exhibited serious deficiencies in financial oversight, where auditors were unable to verify large portions of reported expenditures.

Another area of risk was the misuse or misallocation of public funds. Parties benefiting from the Fund for Supporting Political Entities often failed to demonstrate clear links between their expenditures and the intended purposes of these funds. This issue was particularly evident in promotional activities, where significant sums were spent with little evidence of impact or adherence to procurement standards.





3.4 Comparing Trends: 2023 vs. 2022

A comparative analysis of the audit findings for 2022 and 2023 highlights both continuity and progress in the oversight of political party financing.

However, many of the challenges identified in the 2022 audits remain unresolved. Deficiencies in documentation, weak internal financial controls, and recurring violations of procurement regulations continue to undermine financial transparency. While fines for non-compliance have become more frequent, the recurrence of similar issues over the years suggests that sanctions alone are insufficient to drive systemic change.

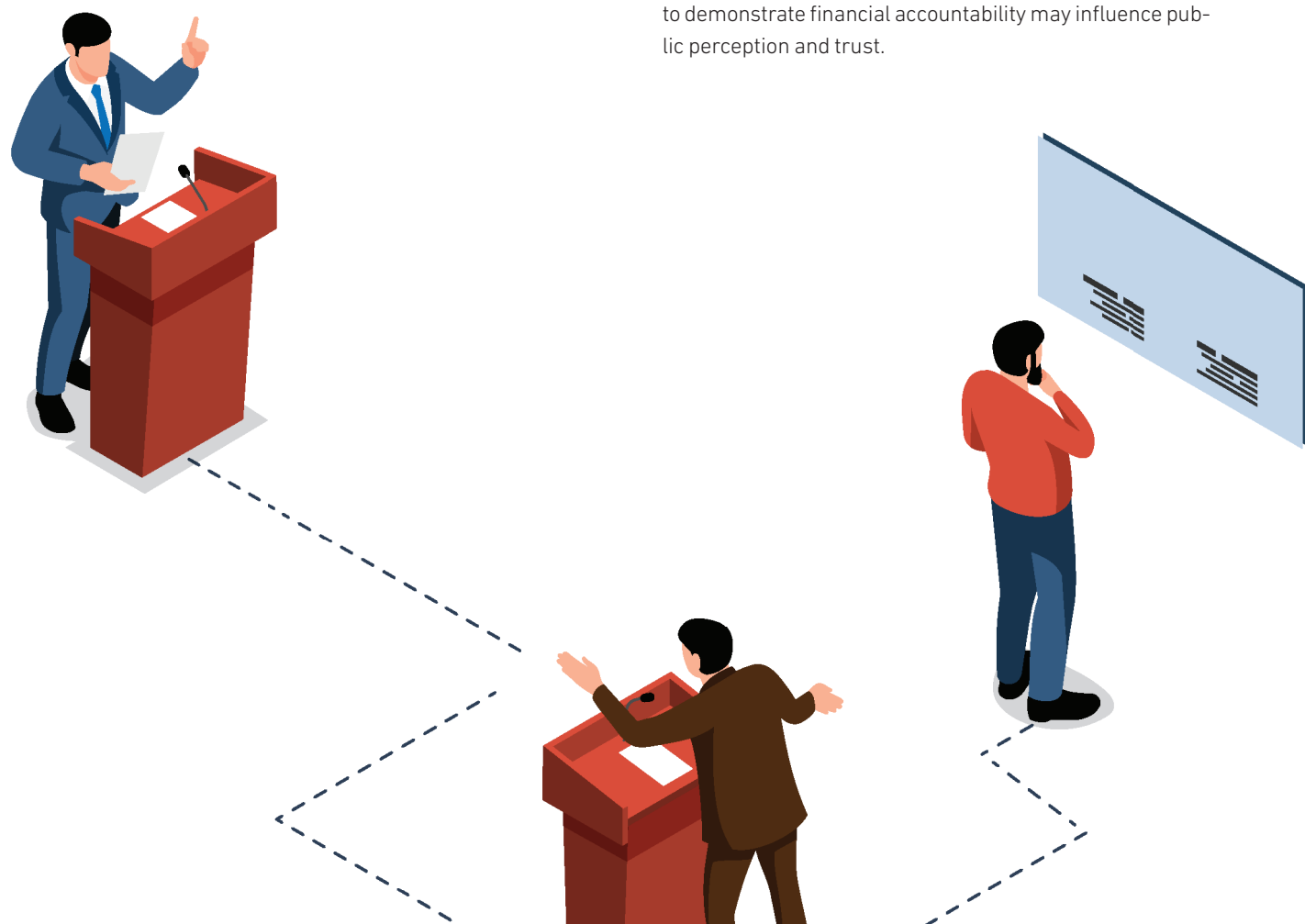
A notable difference between 2022 and 2023 was the strengthened enforcement of regulations related to cash donations. The consistent imposition of fines on parties accepting cash donations reflects the Office's efforts to address this persistent issue.

3.5 Implications for the 2025 Parliamentary Elections

The findings from the 2023 audits have significant implications for the upcoming parliamentary elections in Kosovo, scheduled for February 9, 2025. Transparent and accountable financing of political campaigns is essential to ensure a fair and democratic electoral process. Persistent issues identified in the audits, such as undocumented expenditures, non-compliance with procurement rules, and continued acceptance of cash donations, could undermine the credibility of campaign financing during the election period.

The findings also underline the urgency of addressing systemic weaknesses before the next electoral cycle. Ensuring that political parties adhere to financial regulations and equipping the Office for Financial Control with the capacity to effectively enforce compliance will be crucial. Furthermore, increasing transparency, particularly through the publication of bank account transactions, could provide voters with greater confidence in the integrity of political entities.

As parties prepare for the upcoming elections, their ability to demonstrate financial accountability may influence public perception and trust.



OVERVIEW OF INCOME AND EXPENDITURES FOR 2023

The 2023 financial reports of political parties in Kosovo demonstrate a significant reliance on public funding, supplemented by other sources such as donations and membership fees. For the 54 audited entities, total revenues and expenditures varied substantially, reflecting disparities in size, scope, and capacity to mobilize resources. Overall, political parties reported millions of euros in income, with larger parties such as Vetëvendosje Movement (LVV), Democratic Party of Kosovo (PDK), and Democratic League of Kosovo (LDK) dominating the financial landscape due to their access to state funding.

Public funding remains the primary source of financing for political entities represented in the Kosovo Assembly, accounting for a significant portion of parties' total finances. In 2023, 15 political parties benefited from this public financing through the Fund for Supporting Political Entities, which allocates resources based on the percentage of votes and seats won in the previous elections. These funds aim to support parties' regular activities and ensure a level playing field in political competition.

4.1 Key Trends in Funding Sources

An analysis of funding sources underscores the dominance of public funding in party finances, supplemented by private contributions. For larger parties such as LVV and PDK, public funding accounted for over 80% of total income.

Membership fees constituted a minor portion of parties' revenues. While these fees were regularly reported by some entities, their contribution to total income was minimal. For smaller parties, reliance on individual donations was more pronounced, although the amounts were often modest compared to the budgets of larger entities.

The low reliance on private funding for most parties raises questions about the diversification of financial sources. Overreliance on public funding could create vulnerabilities, particularly in an electoral context where resource allocation plays a critical role in shaping competition.

4.2 Comparison of Major Expense Categories

The spending patterns of political parties in 2023 reveal significant differences in how funds were utilized. Across all audited entities, three main categories dominated expenditures: personnel costs, operational expenses, and promotional activities. However, the proportional allocation of funds within these categories varied significantly between parties:

Party expenditures primarily focused on personnel costs, operational expenses, and promotional activities. The total expenditures amounted to approximately €3.5 million, out of €4.6 million in income—representing an average expenditure level of about 75% of budgets. Of these expenditures: around 60% were allocated to salaries and compensations; about 16% went to general expenses; 12% was spent on advertising, representation, and conferences; approximately 5% was allocated to transportation costs.

- **Personnel Costs:** Salaries and benefits for staff members represented a substantial expense for parliamentary parties, with approximately €2 million spent. Larger parties, particularly LVV, PDK, and LDK, reported significant allocations for salaries and compensations. In contrast, smaller parties allocated a much smaller share of their budgets to salaries, often relying on volunteer efforts to sustain operations.





- **Operational Expenses:** Rent, utilities, and administrative costs were a consistent expense category across all entities. Larger parties maintained offices in multiple municipalities, incurring higher operational costs, while smaller parties often operated with minimal infrastructure. However, discrepancies in reporting expenses for rent and utilities were noted in several audit findings.

- **Advertising and Promotional Activities:** Advertising accounted for less than 15% of overall expenditures by parliamentary parties. Spending on media advertisements, public events, and digital campaigns was more prominent for LVV and PDK. However, audits revealed gaps in documenting these expenses, raising concerns about transparency and compliance with financial reporting standards.



RECOMMENDATIONS

The findings from the 2023 audit cycle and the broader analysis of political party financing in Kosovo highlight gaps in transparency, accountability, and compliance with legislation. With the approach of the February 2025 parliamentary elections and future financial reporting years, addressing these deficiencies is essential to ensure a fair and democratic process.

The following recommendations, based on the data in this report, aim to strengthen the financial oversight framework, promote party compliance, and align practices with international standards:

5.1 Strengthening Transparency and Public Access

- Publish bank reports, including all transactions and account flows. This step would enable civil society, the media, and voters to scrutinize party finances and uncover irregularities. The measure aligns with international practices in countries such as Germany and Canada.
- Publish detailed financial reports, providing a much more granular breakdown of income and expenditure categories.
- Adopt a standardized format for financial reporting. This measure would improve the clarity and consistency of financial reporting, facilitate comparisons between parties, and ensure that all entities meet the same financial disclosure requirements.

5.2 Enforcing Compliance with Legal Provisions

- Significantly increase fines for repeated violations of financial regulations, such as accepting cash donations or failing to comply with legal provisions.
- Establish a more rigorous mechanism within the Office to verify whether parties implement corrective actions recommended by auditors and the Office itself.

5.3 Improving Financial Oversight and Capacity

- Allocate a dedicated budget code to the Office, separate from the Secretariat of the Central Election Commission, to increase the Office's operational independence.
- Recruit additional professional staff to meet legal requirements, focusing on expanding expertise in financial auditing.

5.4 Strengthening Internal Financial Management in Parties

- Organize training programs for smaller parties to improve their financial management practices. These programs should focus on record-keeping, compliance with procurement legislation, and proper documentation of expenses.
- Require all political parties to implement and maintain internal financial control rules, including regular internal audits. This measure would reduce the risk of financial mismanagement and improve adherence to legal provisions.



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