
Banking and Payments Authority of Kosovo

Pursuant to the provisions of UNMIK Regulation No. 2001/35, On Pensions in Kosovo, date of 22 December 2001,

For the purpose of execution of Sections 15.7 and 22.7 of UNMIK Regulation No. 2001/35 (the “Pensions Regulation”), in relation to the requirements of Rule 23, of these Rules, in the matter of prescribing the requirements to be stipulated in the engagement contract with external auditors of pension entities,

Governing Board of the Banking and Payment Authority of Kosovo (BPK), at its meeting held on October 23, 2002 adopts the following:

Rule 24 Prescribing Requirements in the Engagement Letter of External Auditors of Pension Funds and Pension Providers

Section 1

1.1 Scope of Rule

This Rule applies to all Pension Funds and Pension Providers and the External Auditors, engaged by these pension entities that (who) express an opinion on the financial conditions of the pension entity with respect to the assets and liabilities of their pension arrangements.

1.2 Purpose of the Rule

This Rule supplements Rule 23 of these Rules. This Rule establishes certain standards to ensure an adequate conduct in the audit of pension entities and to obtain uniform and consistent procedures required in the presentation and certification of annual financial statements of Pension Entities.

Section 2 General Provisions

2.1 Definitions

In this Rule, the following terms mean:

“Board of directors” means the governing body of a Pension Fund or a Pension Provider.

“Board” refers to board of directors as defined in this rule.

“External auditor” means an individual, partnership, corporation, association or firm, engaged in the business of rendering audit services as a profession, possessing the necessary education, training and qualification to express an opinion in regard to the financial condition and results of operation of a pension entity and whose appointment as such is approved and accepted by the BPK.

“Pension entity” refers to either, or both, a Pension Fund or a Pension Provider.

2.2 Requirement of External Audit

The governing bodies of pension entities must submit to an annual audit by an external auditor in accordance with this Rule, unless with prior written exemption issued by the BPK.

The BPK, at its discretion, may grant a Pension Fund an exemption for the requirement of annual external audit if the following conditions apply:

- a) The board of directors of the Pension Fund, on written request for exemption, demonstrates to the BPK that the cost entailed for the conduct of an external audit will greatly prejudice the interest of the participants.
- b) The pension assets and/or the present values of current and future pension benefits do not exceed 200,000 Euros.
- c) The number of participants is 200 or less.
- d) The Pension Fund files its annual report in accordance with the requirements of Rule 23 of these Rules and that the board of directors certifies to its accuracy and correctness.
- e) The Pension Fund meets at least a Class B funding quality for a defined benefit pension scheme or a fully funded quality for a defined contribution pension arrangement, in accordance with the funding quality measurements prescribed under Rule 15 of these Rules.

Section 3

Stipulations Required in the Engagement Letter of External Auditors

3.1 Conduct of Audit and the Audit Opinion

The terms, conditions and matters required to be included in the engagement letter of the external auditor of a Pension Entity in reference to the conduct of the audit shall include the following:

- a) Frequency of the audit. Unless, with prior written approval of the BPK, pension entities must have their financial statements audited annually to conform to their financial/accounting period.
- b) Appointment of the external auditor must be in writing (the “engagement letter” and subject to the approval of the BPK.
- c) Independence of the auditor. The auditor or its firm is not an “Affiliated Entity” of the pension entity, as the term is defined under Section 1 of the Pensions Regulation.
- d) Scope of the audit work includes:
 - 1. Review of the adequacy of internal audit and internal control practices and procedures, note deficiencies and make recommendations for implementation.
 - 2. Express and opinion as to whether the financial statements present a true and fair view of the financial condition and activities of the pension entity in accordance with International Accounting Standards.
 - 3. Present an audit report and findings to the board of directors of the pension entity.
- e) Degree of regulatory compliance. The audit report must express an opinion on whether the pension entity is in compliance with the Pensions Regulation and the Rules on Pension adopted by the BPK.
- f) The external auditor shall report directly to the BPK the following matters:
 - 1. A fraudulent act committed by an employee of the pension entity or its asset manager, or its custodian or any of its affiliated entity, or any irregularity or deficiency in their

management, administration or operations that may reasonably be expected to result in a material loss of pension assets.

2. If the pension entity, its asset managers, custodians or any of its affiliated entities is systematically contravening the Pensions Regulation or these Rules.
3. If the audit report's conclusions are being suppressed, ignored or unduly influenced by the pension entity, its management or board of directors, directly or indirectly.

3.2 Disclosure Requirements

In addition to the requirements prescribed under Sub-section 3.1 above, the following matters must also be incorporated in the audit engagement letter:

- a) The acceptance of the engagement by the signature of the auditor agreeing to its terms and conditions.
- b) The board of director's responsibility to keep the BPK informed about the affairs of the licensed company's business.
- c) The right of the auditor to communicate with the BKP any information or opinion on a matter of which he becomes aware that is relevant to the supervisory oversight of the BPK on the pension entity, its assets manager(s), its custodians and/or the Employers sponsoring the Pension Fund.
- d) The auditor's duty to report matters of material significance to the BPK.
- e) The auditor's obligation to provide access to his working papers for regulatory purposes upon the request of the BPK.
- f) The auditor's obligation to disclose subsequent events that are material to, or reasonably expected to materially impact the financial condition of the Pension Entity and/or the auditor's opinion thereon.
- g) The auditor's duty to disclose any transactions involving an affiliated entity of the Pension Entity and such other subject matters as may be required by the BPK consistent with

generally accepted standards of disclosure applicable to the Pension Entity.

- h) All other disclosures as the BPK requires, from time to time.

Section 3
Entry into Force

This Rule shall enter into force on October 23, 2002.

Managing Director