



SIGMA

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A joint initiative of the OECD and the EU,
principally financed by the EU

Policy brief

The audit of political party financing by supreme audit institutions

What role should SAIs play in the audit of the financing of political parties – a consideration of the benefits and risks

June 2024

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List of abbreviations and acronyms

CoE	Council of Europe
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
GRECO	Group of States against Corruption
IFPP	INTOSAI Framework of Professional Pronouncements
INTOSAI	International Organization of Supreme Audit Institutions
INTOSAI-Ps	International Organization of Supreme Audit Institutions Principles
ISSAI	International Standards of Supreme Audit Institutions
NDI	National Democratic Institute
OSCE	Organization for Security and Co-operation in Europe
SAI	Supreme audit institution

Executive summary

In the Western Balkans and EU Neighbourhood, a number of supreme audit institutions (SAIs) have responsibilities related to the audit and monitoring of political party financing and election campaigns. From the perspective of increased transparency and control on the financing of political parties this may seem to be an appropriate approach, however from the SAI perspective this creates some real challenges.

The obligation to carry out audits, such as the audit of the final government accounts, is clearly justified in the INTOSAI Framework of Professional Pronouncements (IFPP) as a regular task of SAIs. However, the audits of annual financial statements of political parties are not a requirement of the IFPP. While there is a clear expectation from the Council of Europe (CoE) that the financing of political parties and election campaigns gets monitored and controlled by a reliable body, they do not specifically state that this should be the mandate of the SAI. In practice, however, the CoE, especially the Venice Commission and GRECO, have advised countries in transition to opt for this solution.

In instances where the auditing of political parties is an obligatory part of the SAI's mandate, it can consume a significant share of the SAI's resources, often leaving little room for the SAI to use its discretion in planning and conducting audits. The status of the SAI as the independent state audit body can also be negatively affected by an obligation to audit political parties, especially when it includes a wider role in political party monitoring that goes beyond financial audits. It increases the risk that:

- conflicts of interests will arise with key stakeholders
- the perceived independence and impartiality of the SAI will be undermined
- trust in the political neutrality of the SAI will be diminished.

The mandate of the SAI and its role in respect to the financing of political parties and their management of public funds needs to be carefully considered, balancing the need for the SAI to provide independent oversight against the capacity of each SAI and the need to protect it from threats to its independence.

The purpose of this policy brief is to provide legislators, SAIs and other relevant stakeholders with some key points to reflect on when considering the mandate of an SAI and its role in the auditing of political party financing.

Introduction and background

Accountability for the use of public funds is a cornerstone of good public financial management. SAIs are the national bodies responsible for scrutinising public expenditure and providing an independent opinion on how the executive has used public resources.

Through SIGMA's work with SAIs in EU candidate countries and potential candidates and in European neighbourhood countries, challenges for SAIs when their mandate includes the audit and monitoring of political party financing have arisen a number of times. The purpose of this policy brief is to provide SIGMA's perspective on this issue, taking account of SIGMA's experience. This brief explores:



Expectations for the auditing and monitoring of political parties



What the INTOSAI Professional Practice's Framework (IFPP) indicates about the role of SAIs



The auditing and monitoring of political parties by SAIs in EU member states



The benefits and risks of SAIs being involved

SIGMA experience

In a number of partner administrations that SIGMA works with in the Western Balkans and EU Neighbourhood, the SAIs have responsibilities related to the audit and monitoring of political party financing and election campaigns, prescribed under the relevant audit law or a specific law such as on political party financing. The responsibilities are mainly to conduct financial audit of the political party annual financial statements or election campaigns, although there have been examples where the responsibilities are broader, such as the State Audit Office of Georgia which had much broader monitoring and sanctioning powers¹.

The main challenges that SIGMA has seen with respect to undertaking these responsibilities has been on the scarce resources of the SAIs, particularly in the instances where the legal requirements are to audit all political parties and all election campaigns without any kind of prioritisation or exemptions, and with no additional resources provided for undertaking this work. The requirements have been exacerbated in some instances by the number of political parties and frequency of elections. As a result, SAIs have faced

¹ The monitoring of the financial activities of political parties in Georgia has been transferred to the Anti-Corruption Bureau

resource challenges in carrying out their core audit responsibilities, and the discretion in the discharge of its functions, as required under the IFPP², has been undermined to an extent.

However, the promoters of political parties being audited by SAIs, such as the Council of Europe, have indicated that in these young democracies it is important that at least for a period of time someone who is reliable, has a good reputation and is professional needs to look at political party accounts to make sure that they understand that they need to act professionally when it comes to the use of public funds. They also argue it is a question of democratisation and that in comparison the negative impact on SAIs' resources is of minor importance.

² INTOSAI P10, Principle 3 - A sufficiently broad mandate and full discretion, in the discharge of SAI functions. This principles articulates that while respecting the laws enacted by the Legislature that apply to them, SAIs should be free from direction or interference from the Legislature or the Executive in the selection of audit issues, and planning, programming, conduct, reporting, and follow-up of their audits amongst other things.

Expectations for the auditing and monitoring of political parties

Council of Europe, Venice Commission, GRECO

Looking briefly at the expectations for the auditing and monitoring of political parties as espoused by the international community, the Council of Europe Committee of Ministers Recommendation 2003(4), on common rules against corruption in the funding of political parties and electoral campaigns³, states a number of principles regarding sources of political party financing, campaign expenditure and transparency (maintaining accounts and records, and presenting accounts to an independent authority and making them public). Article 14 specifically addresses supervision and independent monitoring and indicates that:

- states should provide for independent monitoring in respect of the funding of political parties and electoral campaigns
- the independent monitoring should include supervision over the accounts of political parties and the expenses involved in election campaigns as well as their presentation and publication.

The recommendations also indicate that states should promote the specialisation of the judiciary, police or other personnel in the fight against illegal funding of political parties and electoral campaigns⁴.

The Venice Commission Guideline on Political Party Regulation⁵ indicates that:

“Monitoring can be undertaken by a variety of different bodies and may include an internal independent auditing of party accounts by certified experts or a single public supervision body with a clear mandate, appropriate authority and adequate resources.”

The guideline provides further detail about the requirements of independent monitoring and some of the key points are:

- effective measures should be taken in legislation and in practice to ensure the independence of the body tasked to review political party financial reports and its commitment to impartiality
- the supervisory body should be given the power to monitor accounts and conduct audits of financial reports submitted by parties and candidates

³ Council of Europe, Recommendation 2003(4) of the Committee of Ministers to member states on common rules against corruption in the funding of political parties and electoral campaigns, adopted by the Committee of Ministers on 8 April 2003, <https://rm.coe.int/16806cc1f1>

⁴ Council of Europe, Recommendation 2003(4) of the Committee of Ministers, Article 15

⁵ The Venice Commission Guidelines on Political Party Regulation, Second Edition, Adopted by the Venice Commission (11-12 December 2020). [https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD\(2020\)032-e](https://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-AD(2020)032-e). The Guidelines were prepared by the Core Group of Experts on Political Parties of the Organisation for Security and Co-operation in Europe’s (OSCE) Office for Democratic Institutions and Human Rights (ODIHR), together with the Council of Europe’s European Commission for Democracy through Law (Venice Commission) and the Group of States against Corruption (GRECO)

- political parties that do not receive public funding and do not engage in significant financial activities might be exempted from auditing
- irregularities in financial reporting, non-compliance with financial-reporting regulations or the improper use of public funds should result in the loss of all or part of such funds for the party. Other available sanctions may include the imposition of administrative fines on the party.

There is a clear expectation that there is an independent body established in countries for the monitoring of party political and election campaign financing and clear guidelines on what is expected of that monitoring. However, there is also no prescription about which body should undertake the role and no specific reference to SAIs. Saying this, in countries where SAIs are involved in the monitoring of political party and election campaign finance, there are examples of election monitoring reports from OSCE and NDI which recommend strengthening the role of the SAIs. Additionally, in regions that SIGMA works in where there are concerns regarding the monitoring of political party financing there is a push for SAIs to have a role as they are seen as already established independent institutions.

IFPP - the role of SAIs

The IFPP, including the INTOSAI Standards of SAIs (ISSAIs) set the expectations for SAIs about what they do and how they do it. This includes setting the expectations of what they should be able to examine or audit, which is often described as their mandate. In considering the role of SAIs in the oversight of the financing of political parties and election campaigns we need to examine the provisions contained in INTOSAI P1⁶ and INTOSAI P10⁷, which are the key documents within the IFPP that establish the expectations around the mandate of SAIs.

INTOSAI P1 indicates that *“The actual terms of the Supreme Audit Institution’s audit powers will depend on the conditions and requirements of each country”*⁸, but it goes on to say that:

*All public financial operations, regardless of whether and how they are reflected in the national budget, shall be subject to audit by Supreme Audit Institutions. Excluding parts of financial management from the national budget shall not result in these parts being exempted from audit by the Supreme Audit Institution*⁹.

INTOSAI P1 also indicates that SAIs should have the powers to audit commercial enterprises with public participation and subsidised institutions, including that *“Supreme Audit Institutions shall be empowered to audit the use of subsidies granted from public funds”*¹⁰.

INTOSAI P 10 states under principle 3 that SAIs should have sufficiently broad mandate and full discretion, in the discharge of their functions, and that they *“should be empowered to audit the use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature”*.

The IFPP makes no explicit reference to examining or auditing the financing of political parties and election campaigns. However, at the same time there is nothing that specifically prohibits it from being part of the mandate of an SAI. The principles in the IFPP focus on enabling SAIs to follow all public money and preventing restrictions being placed on SAIs in their audit work.

The IFPP is not restrictive in stipulating entities to be included or excluded from an SAI’s mandate and is silent on auditing areas not funded by public money. For example, where political parties receive funding or subsidies from the state, under section 24.1 of INTOSAI P1 and INTOSAI P10 principle 3 *“SAIs should be*

⁶ INTOSAI P1 – The Lima Declaration of Guidelines on Auditing Precepts

⁷ INTOSAI P10 – The Mexico Declaration on SAI Independence

⁸ INTOSAI P1, Section 18.2

⁹ INTOSAI P1, Section 18.3

¹⁰ INTOSAI P1, Section 24.13

empowered to audit the use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature”, it can be concluded that the auditing of political parties’ use of public funds or subsidies should be included in the mandate of an SAI’s work.

Even where entities do not receive public funds, Parliaments may consider it in the public interest for the audit of political parties to be included in the SAI mandate, and again there is nothing in the IFPP that explicitly prohibits this. Indeed, as INTOSAI P1 indicates, an SAI’s actual audit powers will depend on the conditions and requirements of each country¹¹, and as a result it may be considered that the situation in a country warrants an SAI being provided with the oversight powers related to the financing of political parties and election campaigns.

Furthermore, the IFPP specifically talks about SAIs respecting the laws enacted that apply to them. Ultimately it is up to the legislature of each country to decide about the obligations and the role of the SAI.

Therefore, we can conclude that the international standards are not prescriptive regarding the role of SAIs in auditing political party financing and election campaigns, and particularly where political parties receive funding or subsidies from the state there are arguments for including their audit within an SAI’s mandate.

¹¹ INTOSAI P1, Section 18.2

Oversight of political party finances

EU SAIs and the oversight of political party finances

In considering the question of whether SAIs should be involved in the auditing of political parties, SIGMA examined the role of SAIs in the oversight of political parties in EU member states. In general, the oversight of the political party finances involves three broad tasks:

- financial audit of accuracy and completeness of the political parties' financial statements
- monitoring and investigation of compliance with the applicable political party funding regulations (limit on individual donations etc.)
- sanctioning violations.

EUROSAI previously conducted a survey on the role of EU member state SAIs in auditing and monitoring of political parties and in Figure 1 the results of the survey are presented, indicating how involved the SAIs are in the oversight of political parties.¹²

¹² eurosai.org/handle404?exporturi=/export/sites/eurosai/.content/documents/surveys/Results_MandateAuditPP.pdf

Figure 1. The role of SAIs in monitoring political party financing in EU member states

	Role
Austria	Financial audit
Belgium	Financial audit
Bulgaria	Monitoring
Croatia	Financial audit
Cyprus ¹³	Financial audit
Czechia	None
Denmark	None
Estonia	None
Finland	Monitoring
France	None
Germany	Financial audit
Greece	None
Hungary	Monitoring
Ireland	None
Italy	Financial audit
Latvia	None
Lithuania	None
Luxembourg	Financial audit
Malta	None
Netherlands	None
Poland	None
Portugal	None
Romania	Financial audit
Slovakia	None
Slovenia	Monitoring
Spain	Monitoring
Sweden	None

Source: EUROSAI Survey¹⁴

¹³ Note by the Republic of Türkiye

The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union

The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

¹⁴ We have been informed that currently the Court of the Accounts of Slovenia is not vested with a monitoring mandate but is required under Article 24.b of the Law on political Parties to conduct compliance audits of financial statements of political parties

In 14 countries, which is 52 % of all the EU countries, the SAIs were not engaged at all with political party financing. In nearly all EU member states where the SAI has no role in the audit of political party financing there are other oversight arrangements in place for scrutinising the political parties' financial disclosures, such as an electoral commission or similar body (detail is provided in annex 1).

In eight EU member states, the SAIs had a mandate solely related to the financial audit of political party financing, with the SAI authorised to conduct the financial audit work itself or in some cases review the work done by a private audit firm. In five EU member states (Bulgaria, Finland, Hungary, Slovenia and Spain), the SAIs had a broader monitoring mandate, and in some instances they were solely responsible for monitoring of political party financing.

In looking at these results there are a number of factors that need to be considered. In a number of EU countries political parties are heavily dependent on state subsidies, with minimal private donations, and the role of the SAI is to examine the subsidies provided. The monitoring mandate that some SAIs have involves providing assurance that political parties' meet their statutory obligations to publicly disclose financial statements and that these statements are accurate and complete. With respect to sanctioning powers of the SAIs, these are limited to withholding or reducing budget subsidies, with only SAI Hungary able to impose fines. Finally, none of the SAIs have the authority to investigate individual private contributions.

This demonstrates that in practice there is not one approach to monitoring of political party financing, and while SAIs can have a role it is not a requirement for the monitoring of political party financing.

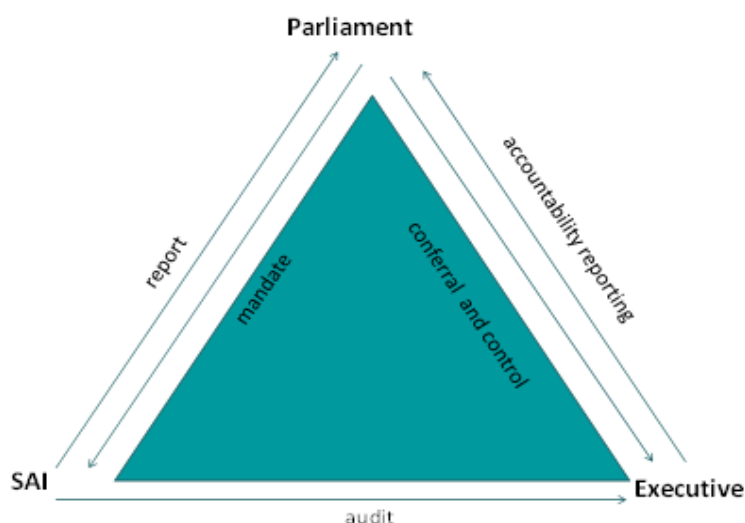
Involvement of SAIs - benefits and risks

There are some good reasons for the involvement of SAIs in monitoring of political party financing as an independent reliable public body. The argument is particularly strong where political parties depend significantly on funding or subsidies from the state, and private donations are a minimal source of financing, based on the assertion in the IFPP that SAIs should be empowered to audit the use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature.

In young democracies where the arrangements for the monitoring of the political party financing are in the earlier stages of development there is a further argument for SAIs having a role. In these countries, SAIs are often considered to be in a position to undertake the role objectively and impartially, potentially minimising the independence and objectivity risks in the creation or development of a separate institution. This view, however, ignores the fact that in these countries the SAIs and independent auditing of public finances are equally young and in an early stage of development, making them vulnerable to risks that come with the task.

There are some significant risks to SAIs being involved in this role, particularly in relation to their independence and meeting the requirements on this set out in the IFPP.

The primary independence threat relates to the SAI's relationship with parliament and members of parliament (MPs). Parliament is a primary stakeholder of an SAI. SAIs generally report their audit work to parliament to enable it to hold the government accountable for the use of resources that Parliament has authorised to be used through the annual budget law. The parliament also ultimately provides the SAI with its mandate, assessing its performance, setting its budget and appointing the Head of the SAI. The relationship of SAIs with their respective parliament and the government is effectively represented in the accountability triangle (see Figure 2).

Figure 2. The accountability triangle

Source: Stapenhurst, Rick et al. (2014), *Following the Money: Comparing Parliamentary Public Accounts Committees*, London

As a result, there is clear potential for a conflict of interest as the members of the institution that is responsible for approving the budget and receiving the reports of the SAI, are also members of the political parties that the SAI are auditing. There is an increased risk that both members of parliament and the SAI are inappropriately influenced and are not able to maintain an objective and impartial approach in conducting their mandates, undermining the SAI's independence and ability to discharge its mandate. Other significant risks that an SAI could face include:

- The SAI is perceived as engaging in the political process – In particular, if an SAI has a broader mandate to monitor political parties' activities and impose sanctions this could lead to the perception that an SAI is not acting impartially, undermine public trust and as a result compromise its ability to discharge its core audit responsibilities.
- The impact of the SAI's audit work is undermined – The effective use of the SAI's reports by the parliament in holding the executive accountable can have a significant influence on the impact of an SAI's audit work. Where the SAI monitors political parties there is a heightened threat that members of parliament will have a negative view of the SAI's reports or see them as politically biased, not endorsing the findings and undermining their impact.
- Public trust is undermined – It could undermine the general public and civil society's understanding of the role of an SAI as a professional audit body operating based on international standards and undermine its reputation as a politically independent institution.
- The SAI's resources are diverted – The role of auditing/monitoring political party financing and election campaigns could put significant pressure on the limited resources that SAIs have to deliver their core audit responsibilities. This risk is potentially heightened when there are frequent elections and large number of political parties. The development of specialised personnel for auditing/monitoring political party financing and election campaigns could add further pressure on the limited resources of the SAI.

In summary there are increased risks for an SAI from having any role in the monitoring of political party financing, which could potentially undermine its abilities to discharge its core audit responsibilities. The level of risk increases the broader this role is. If it is limited to conducting a financial audit of political party financial statements, while there are still significant risks it is generally in line with the core audit responsibilities of an SAI. However, if the role includes a greater level of monitoring and investigation of compliance with the applicable political party funding regulations or provides the power to impose sanctions, the threat to the SAI's independence and ability to effectively discharge its core responsibilities is significantly raised.

Conclusion

It is clear that the audit of political party financing can legitimately be part of an SAI's responsibilities. The recommendations and guidelines of the Council of Europe and the Venice Commission and the requirements of the IFPP provide sufficient scope for their audit to be included in the mandate of SAIs. The argument is particularly strong when a significant element of political party financing is through state funding or subsidies. Ultimately it comes down to a decision of the legislators of each country about the arrangements they want establish.

SIGMA's perspective based on its experience and analysis is that including responsibilities for the auditing or monitoring of political party financing creates significant risks to the independence of SAIs and their ability to discharge their core audit responsibilities. These risks also have to be seen in the context of existing independence challenges that SAIs face, and the increasing trend of threats to the independence of SAIs in Europe and the wider INTOSAI community.

The threats to SAI independence, including the ability to discharge their mandate, need to be seriously considered, when examining whether to involve an SAI in the auditing or monitoring of political party financing. However, the broader country context needs to be taken into account and the involvement of SAIs at some level may be a practical and reasonable option in certain countries. It is a reality that requirements to audit political parties are now a fact in a significant number of countries, and there are other examples across the INTOSAI community where audit work conducted has presented similar independence threats, such as the auditing of the parliament administrations, the expenses of members of parliament or other politically sensitive issues.

Taking all of this into account, the following recommendations related to the involvement of SAIs in the auditing or monitoring of political party financing would contribute to mitigating threats to independence.

Recommendations

1. SAIs should only be involved in the auditing or monitoring of political party financing when political parties receive a significant proportion of their financing through state funding or subsidies.
2. The focus of an SAI's involvement should be restricted to the audit of financial statements or the review of financial statement audits conducted by other auditors, and not include broader monitoring, investigatory or sanctioning responsibilities.
3. SAIs should not be required to audit the financing of every political party or election campaign but should be able use their professional judgement to determine the audit subjects based on a transparent risk assessment, which includes the significance of the public funds or subsidies received.
4. SAIs should be provided with the requisite additional resources to fulfil this responsibility to ensure that they are still able to effectively discharge their core responsibilities.
5. SAIs should ensure that they have robust risk management arrangements in place to proactively manage the risks to their independence and discharge of their mandate.

Annex

Type of public institution mandated to monitor political parties in the EU Member States

	Role				
Austria			Ministry/executive		
Belgium				Parliament	
Bulgaria					SAI
Croatia	Central electoral (i)				
Cyprus					
Czechia		Other independent (ii)			
Denmark			Ministry/executive		
Estonia		Other independent			
Finland					SAI
France		Other independent			
Germany				Parliament	
Greece			Ministry/executive	Parliament	
Hungary					SAI
Ireland		Other independent			
Italy		Other independent			
Latvia		Other independent			
Lithuania	Central electoral		Ministry/executive		
Luxembourg	Central electoral		Ministry/executive	Parliament	
Malta	Central electoral				
Netherlands			Ministry/executive		
Poland	Central electoral				
Portugal		Other independent			
Romania	Central electoral				
Slovakia	Central electoral			Parliament	
Slovenia					SAI
Spain					SAI
Sweden			Ministry/executive		
Countries	7	7	7	5	5

Notes: (i) A body that is generally responsible for overseeing and monitoring elections, and also monitoring political party financing.

(ii) These are specific authorities or agencies created for the purpose of monitoring and sanctioning political parties.

Source: The European Union's ENPI programme for Georgia - Monitoring financial operations of political parties in Georgia: A proposal for an alternative arrangement based on EU Practices.