



Standardising statements of accounts for parties and accounting units

Consultation paper

July 2008

Translations and other formats

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1 Introduction

1.1 The Electoral Commission is an independent body set up by the UK Parliament under the Political Parties, Elections and Referendums Act 2000 (PPERA). Our aim is integrity and public confidence in the UK's democratic process. We regulate party and election finance and set standards for well-run elections. Our current corporate plan sets our strategic direction over the five years from April 2008. The aims and objectives of the plan are underpinned by two key priorities – demonstrating and enhancing our effectiveness as the regulator of party and election finance and leading the drive for increasingly high standards of electoral administration, including electoral registration.

1.2 Electoral law requires political parties and accounting units whose total income or gross expenditure exceeds £25,000 to submit a set of annual accounts to the Commission. This is a key element of the regulatory regime that the UK Parliament has put in place to ensure the integrity of political finances. This consultation seeks views on a Commission proposal to use its powers under PERA to make regulations specifying the form and content of these annual accounts, in order to ensure consistency of approach between parties and accounting units.

1.3 The Commission was established as an independent statutory body in 2000 following recommendations made in the fifth report of the Committee on Standards in Public Life (www.public-standards.gov.uk/publications/5th_report.aspx). The Committee's eleventh report in 2007 (www.public-standards.gov.uk/11th_inquiry.aspx) made a series of recommendations concerning how the Commission should develop its functions as a regulator of party political funding with further recommendation to clarify legislation, and to develop a more effective compliance unit, equipped with more appropriate penalties and sanctions.

1.4 The Sir Hayden Phillips report *Strengthening Democracy: Fair and Sustainable Funding of Political Parties*, also published in 2007, (www.partyfundingreview.gov.uk/files/strengthening_democracy.pdf) undertook a review of party funding issues, which aimed to restore trust and confidence in the wider political system. The report raised concerns about the difficulty in interpreting financial accounts. In addition to this the Council of Europe's Group of States against Corruption (GRECO) (www.coe.int/t/dg1/Greco/meetings/plenarymeetings_en.asp) and the House of Commons Constitutional Affairs Committee have recommended that a common format be established for parties' accounts and returns with a view to ensuring that information made available to the public is coherent, meaningful and comparable to the greatest extent possible.

1.5 This consultation paper sets out the Commission's proposed policy approach and will also seek views on whether the Commission should consider changing the accounting bands in the longer term. If the Commission decides to take these changes forward following this consultation, it will do so promptly, so that the new regulations will inform the preparation of accounts covering the 2009–10 financial year. In order to familiarise parties and

accounting units with the detail of the proposals in good time, the Commission is currently developing draft regulations and an accompanying guidance manual to show how the proposals would apply in practice if implemented. These will be shared with political parties and other stakeholders by autumn 2008. However, this is without prejudice to the outcome of this consultation. This paper is intended to provide the main opportunity for all those with an interest to submit their views on the proposed policy framework.

2 How to respond

2.1 The Commission expects that this consultation will be of particular interest to the treasurers of political parties and their accounting units, and to others with an interest in compliance with electoral law and the transparency of party finances. Notification of this consultation will be sent to all parties and accounting units currently registered by the Commission.

2.2 The Commission welcomes responses from all interested parties. In line with good consultation practice, respondents will have a period of 12 weeks in which to respond to this paper. In addition, the Commission will be meeting with a range of stakeholders as part of the consultation process.

2.3 Please use the consultation response sheet in Appendix A when responding, as this will assist in producing a clear and accurate analysis of views. You are also welcome to append any further comments if you wish.

2.4 The deadline for responses is **3 October 2008**. You may submit your response by email; alternatively you may post or fax a hard copy. Please send your response to:

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2.5 Responses received may be published on the Commission's website. If you wish your response to remain confidential (either in full or part) please make this clear in your response.

3 Effective regulation

Legal framework

3.1 Section 42 of PPERA requires registered parties and large accounting units to prepare and submit annual statements of accounts to the Commission, whilst also giving the Commission powers to make regulations specifying the form and content of these accounts.

3.2 The Commission has not yet made regulations under PPERA, and instead has relied to date on non-prescriptive guidance setting out recommended formats for statements of accounts. Therefore there is currently no statutory requirement for a party or accounting unit to submit accounts in a standard format.

3.3 The Commission and a number of other bodies including the Committee on Standards in Public Life, Sir Hayden Phillips' review of party funding, the Council of Europe's Group of States against Corruption and the Constitutional Affairs Committee have called for change in this area, on the grounds that the clarity of the statements of accounts of parties and their accounting units is fundamental to the effective regulation of party finance. The Commission is concerned that currently a significant proportion of the accounts submitted do not follow the standard format set out in the guidance. This causes a number of problems:

- it is very difficult for the Commission and others to make meaningful comparisons between the finances of different parties
- accounts can be unclear, which has potential to undermine public confidence in party and election finance
- the lack of complete and consistent information is an obstacle to the Commission assessing regulatory risk and adopting a fully risk-based approach to the regulation of party finances

3.4 The Commission's recent informal discussions with political parties indicate that they would welcome more prescription of the format of accounts to give clarity, assurance of their own compliance, and greater transparency in the system as a whole.

A new approach

3.5 Subject to the outcome of this consultation process, the Commission proposes to make regulations and issue a supporting manual requiring statements of accounts to be submitted in a standard format. This consultation paper sets out the financial details that we propose to include in that standard format, covering core information on income, expenditure and assets. Nothing in these proposals requires changes to legislation or goes beyond generally accepted accounting practice in the United Kingdom.

3.6 Alongside the proposed introduction of a standard reporting format, the Commission intends to make greater use of the mechanisms available, to

ensure compliance with the format and transparency of party finances, whilst keeping the administrative burden on parties and accounting units to a minimum. These changes will include:

- To make the process easier for parties, we intend to implement a facility to submit statements of account electronically – starting with the accounts covering 2009. The Commission will continue to publish (online) details from statements of accounts for public inspection and to allow comparisons to be made. The proposals set out in this consultation will standardise the format of accounts and make those comparisons much easier.
- The Commission's Party and Election Finance directorate will develop training and guidance on the new regime, which will be rolled out to all parties and accounting units in time for implementation in January 2009.
- Where appropriate, we will use our discretionary powers to ensure that statements of accounts comply with the legislation. The Commission already issues fines for late submission of accounts:
 - following the introduction of a standard format for statements of accounts, the Commission will expect accounts to comply with that format
 - where necessary we will use our powers under Section 48 of PPERA to require accounts to be revised so as to comply with the format
 - we may also impose other sanctions available to us to ensure compliance with the law where appropriate
- The Commission will continue to make use of its powers to seek accounts from parties below the £25,000 threshold where there is good reason to do so.
- We also intend to audit statements of accounts on a risk-based and cyclical basis and political parties will be expected to explain any inconsistencies.
- The Commission will liaise with parties' auditors on requirements that are specific to the legislation. However, the Commission may use its current powers to direct audits of accounts not currently subject to any form of oversight or audit as set out in accordance with Section 43.

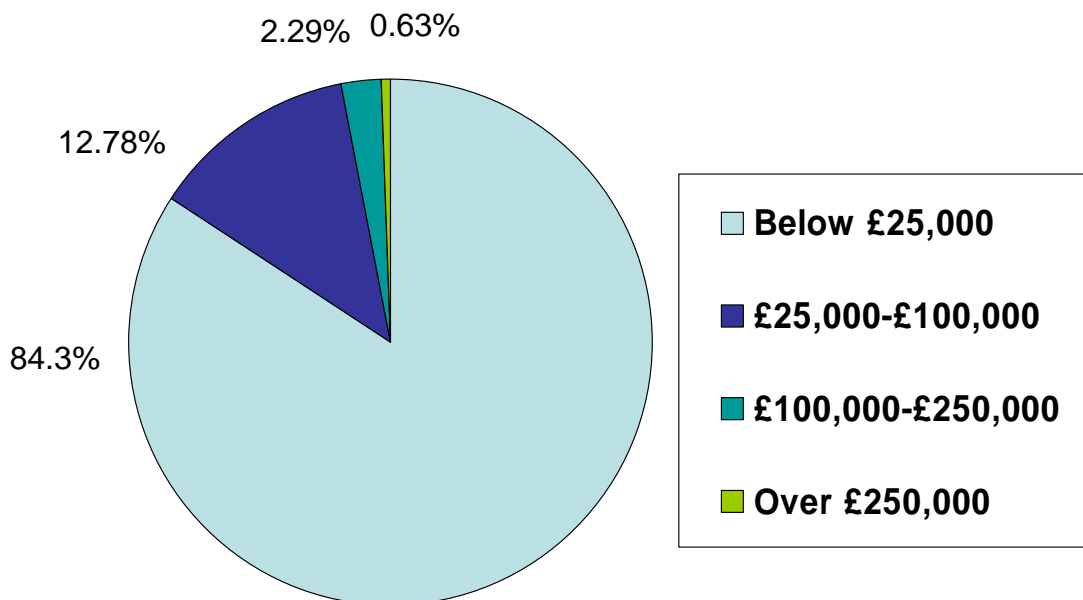
4 Achieving consistency and transparency in accounting arrangements

Current legislative accounting requirements

4.1 Ready comparison between different parties' statements of accounts is not currently possible because parties and accounting units use different formats and naming conventions. A solution would be to require parties and accounting units within each band to use a standard format or template, for example a spreadsheet with a series of required fields, for the different elements of their accounts.

4.2 Figure 1 gives a breakdown of the accounting units and parties that fall into each of the accounting bands. These figures have been taken from the statement of accounts received for 2007 (and anticipate the statements of accounts which require an audit certificate).

Figure 1: Accounting units and parties by accounting bands 2007



Source: The Electoral Commission

4.3 Section 53 of the Electoral Administration Act (2006) revised the accounting bands which effectively determine the accounting requirements for political parties and accounting units. The four bands effectively create a threshold of £25,000 income or expenditure below which parties can keep simple cash-based accounts. Above that level, parties must produce full accruals-based accounts, with some additional requirements for those with income or expenditure above £100,000. The accounts of the largest parties and accounting units, with income or expenditure above £250,000, also

require an audit certificate from an independent, qualified accountant¹ in line with Section 43 of PPERA.

Table 1: Requirements for each accounting band

Accounting band	Accounting basis	Financial statements
Total income and expenditure below £25,000	Cash	Financial and activity overviews Receipts and payments Statement of assets and liabilities
Total income or expenditure between £25,000 and £100,000	Accruals	Financial and activity overviews Income and expenditure account Balance sheet
Total income or expenditure between £100,000 and £250,000	Accruals	Financial and activity overviews Income and expenditure account Balance sheet Cash flow statement
Total income or expenditure over £250,000	Accruals	Financial and activity overviews Income and expenditure account Balance sheet Cash flow statement Statement of recognised gains and losses Audit certificate

Question 1 a) Do you have any comments on the Commission requiring the use of a standard format for statements of accounts?

Question 1 b) Are there any factors the Commission should take into account when drafting the guidance manual and associated templates regarding the standard format?

¹ Independent, qualified accountant refers to a qualified and registered accountant who is registered with Companies House.

Requirements for reporting income

4.4 Section 42(3) (b) of PPERA gives the Commission the powers to specify the information that has to be included in notes to the accounts. The explanatory notes to the Act specifically suggest that notes to accounts should include a list of disclosable donations. The Commission considers that this is essential if statements of accounts are to be fully transparent. We therefore propose to require political parties and accounting units to include a list of all disclosable donations in the notes to the accounts. In the case of political parties, this covers donations of £5,000 or more; £1,000 in the case of accounting units.

4.5 The Commission also considers it important that accounts should show the total value of donations. We therefore propose to require that the accounts should include a line in the income and expenditure account showing the value of non-disclosable donations (in addition to a line for the total of disclosable donations).

4.6 For the same reason, we propose that statements of accounts should include a note listing all disclosable loans. Loans that are too small to be regulated should also be aggregated and reported in the statement of accounts. The notes to the accounts should explain the terms of the disclosable loans.

4.7 As has always been the case, gifts (including gifts of services) need to be reported as income. To do this, parties and accounting units need to have in place robust and transparent processes for the valuation of these benefits. These processes must take full account of the commercial value of benefits.

4.8 Political parties routinely receive funds from public sources. We propose that the statement of accounts should include lines for all sources of public funding. There should be separate lines in the notes to the accounts for each grant received (including policy development grants from the Commission) and an aggregate line for all grants expenditure account and/or grant unused in the balance sheet.

4.9 Accounting units in receipt of transfers from the central party should show these in their statements of accounts as income. The total value of all other transfers below £1,000 should be recorded in a separate line in the accounts.

Question 2 a) Do you have any comments with reference to the proposals to specify how income should be reported in statements of accounts? (see 4.4–4.9)

Question 2 b) Are there any factors the Commission should take into account when drafting the guidance manual and associated templates regarding the reporting of income?

Requirements for reporting expenditure

4.10 In the same way that loans should be clearly reported as a liability in the balance sheet, (see 4.6 above) the repayment (whether in part or in full) of individual disclosable loans should be reported as a separate line in the notes to the accounts. Repayments of loans that are too small to be disclosed should be aggregated and reported in a separate line in the notes, the income and expenditure account should show how much interest (if any) has been paid.

4.11 In years where there has been more than one election, it is not always possible for anyone reading statements of accounts to understand precisely how much money was spent on a particular campaign. We propose therefore that the statement of accounts should clearly show campaign expenditure on each type of election. This should be through a separate note which shows expenditure by campaign and a reconciliation to the total expenditure in the income and expenditure account.

4.12 Additionally, where the central party transfers funds to an accounting unit to support an election campaign, we propose that individual transfers above £1,000 should appear separately in the notes to the accounts.

Question 3 a) Do you have any comments regarding the proposals to specify how expenditure should be reported in the statements of accounts? (see 4.10–4.12)

Question 3 b) Are there any factors the Commission should take into account when drafting the guidance manual and associated templates regarding the reporting of expenditure?

Requirements for the treatment of assets

4.13 Income and expenditure provides a general indication of the state of party and accounting unit finances. However, this approach probably underplays the importance of assets held by parties and accounting units. The Commission considers that political parties and accounting units need sound processes for the valuation and subsequent revaluation of assets such as gifts of property. The Commission also sees benefit in the common treatment of fixed assets, and therefore seeks views on the extent to which (without diverging from generally accepted accounting practice) it should specify accounting policies for the treatment of assets. For example, the Commission could specify how types of assets should be depreciated, the frequency of revaluations and how the sale of assets should be handled (including cases where this would move a party or accounting unit into a new accounting band). Setting the life for asset types would also help make comparisons between parties' accounts possible.

4.14 Apart from the accounts of the largest parties and accounting units, where an audit certificate is required, the treatment of assets has not routinely been the subject of oversight or audit. The proposal for the Commission to introduce a risk-based audit programme will address this.

4.15 The Commission is aware of cases where political parties or accounting units own companies either partly or wholly. It is imperative that ownership of this nature should be accurately reflected in the statement of accounts. The Commission therefore intends to specify that notes to accounts should explain the background, the nature of the company's business and the links between the company and the party. The value of any shares held should be shown in the balance sheet or statement of assets and liabilities.

Question 4 a) Do you agree that the Commission should specify accounting policies for the treatment of fixed assets (including setting revaluation periods, methods of depreciation and life for asset types)? If not, please explain your reasons.

Question 4 b) Are there any factors the Commission should take into account when drafting the guidance manual and associated templates regarding the treatment of assets?

Changing the accounting bands

4.16 The Commission proposes to update regulation and guidance in line with the existing four accounting bands. However, the Commission would also like to use this consultation to consider possible simplification of the current system by reducing the number of accounting bands and possibly raising the level at which full accruals-based accounts are needed.

Question 5) **In the longer term, would you be in favour of reducing the number of accounting bands and raising the threshold at which accruals-based accounts are required?**

5 Further comments

5.1 The Commission has undertaken a series of pre-consultative meetings with parties and accounting units and is happy to discuss issues relating to the form and content of statements of accounts with stakeholders during the consultation period.

5.2 Initial feedback from pre-consultative meetings has broadly been in favour of regulation in the areas proposed by the Commission. Parties have indicated that they would welcome clearer guidance. Some parties have queried the publication of salaries in accounts; however, the Commission has no plans to ask for details of officials' salaries in the statements of accounts.

5.3 If you have any more general views on the proposed changes to the accounting framework for parties and accounting units or any comments concerning this consultation please raise these with the Commission through the contact route given in Chapter 2 of this paper.

Appendix A – Draft impact assessment

Purpose

The aim of this consultation is to seek views on the Commission's proposals to improve the quality and consistency of financial reporting through regulation. The Commission is committed to supporting regulation with clear guidance for political parties and accounting units, based on the accounting bands established by primary legislation. We also intend to simplify the processes for complying with the statutory obligation to submit statements of accounts to the Commission.

The Commission seeks to avoid imposing unnecessary regulatory burdens on regulated bodies. We consider that introducing a clearly defined set of requirements for statements of accounts will help parties and accounting units to understand what is required of them and to comply with the law. We are publishing this draft impact assessment to set out our views of the costs and benefits of our proposals to regulated bodies and others, to help inform the development of our regulatory processes. We welcome comments on the draft, which will be finalised and published after the close of the current consultation.

Costs

The Commission recognises that in imposing standard requirements for the submission of accounts it will require registered parties and accounting units to adjust their internal accounting practices. This will entail some one-off costs to parties and accounting units. We assume that these costs will be modest, and will be counterbalanced by the recurring benefits of the proposed changes (see below). We expect that:

- Parties and accounting units will need to ensure that relevant officers and colleagues are aware of the new processes and requirements. There may be a need for parties to ensure that party officers and colleagues receive training to raise awareness of the new requirements. The Commission intends to provide guidance and training on the changes, and will work with regulated bodies to assess how this can most effectively and helpfully be done.
- Party officers will consequently need to devote some time to assimilating the changes. We recognise that many party treasurers are volunteers who assist the party on an occasional basis.
- Parties and accounting units may wish to update any existing internal guidance and training materials to reflect the new requirements and the Commission's new guidance manual, although they may instead choose to rely entirely on the Commission's guidance.
- Parties and accounting units may need to introduce new systems to ensure that accounts are submitted in the format specified by the Commission.

Benefits

We expect that introducing a standardised format for the submission of statements of accounts will benefit registered parties and accounting units in the following ways:

- The Commission will publish comprehensive new guidance on how to comply with PPERA and will provide training events and materials to relevant party and accounting units officers, at no cost, in time to allow them to assimilate and deal with the new requirements.
- It should over time become less onerous for regulated bodies to submit accounts to the Commission, and regulated bodies should need to devote less staff time to ensuring that their accounts comply with PPERA requirements.
- The overall effect should be to reduce the administrative burden associated with submitting statements of accounts. The Commission intends to offer parties and accounting units the facility to submit statements of accounts electronically – this may be in place for accounts covering 2009.

The proposed changes will also benefit all stakeholders with an interest in political party finances, as it will reduce the effort and time they need to spend to understand and compare the accounts of different parties.

Appendix B – Consultation response cover sheet

Name:

Position:

Organisation:

Email address:

Appendix C – Consultation questions

- Q 1 a) Do you have any comments on the Commission requiring the use of a standard format for statements of accounts?**
- Q 1 b) Are there any factors the Commission should take into account when drafting the guidance manual and associated templates regarding the standard format?**
- Q 2 a) Do you have any comments with reference to the proposals to specify how income should be reported in statements of accounts? (See 4.4–4.9)**
- Q 2 b) Are there any factors the Commission should take into account when drafting the guidance manual and associated templates regarding the reporting of income?**
- Q 3 a) Do you have any comments regarding the proposals to specify how expenditure should be reported in the statements of accounts? (See 4.10–4.12)**
- Q 3 b) Are there any factors the Commission should take into account when drafting the guidance manual and associated templates regarding the reporting of expenditure?**
- Q 4 a) Do you agree that the Commission should specify accounting policies for the treatment of fixed assets (including setting revaluation periods, methods of depreciation and life for asset types)? If not, please explain your reasons.**
- Q 4 b) Are there any factors the Commission should take into account when drafting the guidance manual and associated templates regarding the treatment of assets?**
- Q 5) In the longer term, would you be in favour of reducing the number of accounting bands and raising the threshold at which accruals-based accounts are required?**
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see inside back cover for details.

We are an independent body set up by
the UK Parliament. Our aim is integrity and
public confidence in the democratic process.
We regulate party and election finance and
set standards for well-run elections.

Democracy matters