

PROBLEMS FOR THE ACCOUNTING OF POLITICAL PARTIES IN KNOWLEDGE SOCIETY

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Abstract

The society needs good reports from the accounting of political parties. The public power, including the Government, depends on the kind of financing of political parties. The improvement of the control of resources used by the parties accounting is very important. The paper presents the tools for the accounting of political parties in knowledge society. The paper contains the author's opinion on current issues of political party accounting. Arguments are presented against some recent proposals to amend the regulations, arguments in favor of concrete solutions and the analysis of the correlation between accounting expertise and the political parties accounting in the knowledge society.

Keywords: *accounting, reports, finances, main solutions to improve accounting of political parties in the knowledge society, political parties.*

Introduction

The domain covered by the paper

Communication is part of both accounting and finance. The problem of financing political parties, including election campaigns, is part of finance. The problems of political party funding are analyzed from the perspective of the information that is or should be provided by accounting. This in turn comes in contact with another borderline discipline, the accounting expertise. Likelihood of litigation relating to the funding of political parties and electoral campaigns is quite high because it is often wanted for the problems of funding a party to be used as a political weapon by opposing political parties.

The importance of studying the problem presented in the paper

The issue of financing and the accounting of political parties is related to a number of important issues of the knowledge society: who and with what means does the government lead, who is behind those who have gained political power and who supports the opposition (which want to take the power). The quality of public management depends very much, especially in the knowledge society, of the quality of those who have power and their ability to respect the transparency in money management, including in the struggle to win political power.

The objectives considered by this scientific paper

The study aims to bring in debate current issues specific to the knowledge society, related to the informational control regarding the accounting of political parties.

How the study responds to the paper's objectives

Modern accounting aims, among others, „to cast a real light upon income and expenditure”¹. For this reason the income of political parties is in close relationship with both their administration activity and with the level or form of expenses. In the study there are put into question the proposals usually formulated in an informal setting by the civil society, an essential element in the knowledge society, or by practitioners. All these aims at transparently determining revenues, expenditures and financial position of political parties. Some proposals are not appropriate for the objectives. Others would bring added knowledge of the real financial situation of political parties. We presented pro or against arguments for each one, as applicable. We also considered the role of accounting expertise in improving information financial flows of political parties.

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¹ Dumitru Voina, *General accounting course* (Bucharest: Academiei Publishing House, 1944), 7

To answer questions on financing political parties, as for many other problems of life, society disposes of accounting tools. They were very much improved in the knowledge society. There is a true reflex of citizens in knowledge society to find answers from accounting to problems where money is involved.

The level of knowledge in the presented paper

Accounting for political parties is still in an applicative and empirical research phase. When theoretical references are made to the financial statements of political parties, they are presented as a specific form of association². In other countries studies of political parties accounting are also rare and occur in response to either changes in legislation³ or to major problems of democracy related to the lack of public control over financing political parties or election campaigns⁴.

Inadequate solutions in terms of the accounting law proposed by public authorities or by non-governmental organizations

Public opinion in Romania has put pressure on public authorities for improving the reporting method of revenue and expenditure of political parties, seen as an essential element of the democratic process. In a bid to increase transparency of financing political parties and electoral campaigns, some proposals were made not in accordance with accounting law or the fundamental principles of the European civil law. The list of these proposals and the arguments against them are presented in Table No. 1.

Table 1

No.	Proposal content	Arguments against proposal
0	1	2
1	The prohibition to conclude loan contracts	It has a vague character and could lead to confusion and misinterpretation. It is not specified whether it's prohibited for a party to act as borrower or lender, neither if it about financial loan or commercial loan. The general prohibition of the loan according to the wording of the bill may require parties to pay on the spot any benefits, commercial credit also being banned, which would be absurd. Only the operation by which a party can grant a financial loan from income specific to political activity can be banned. Any other type of prohibition has implications in other chapters of the law regarding financing political parties making certain provisions inoperative ⁵ .
2	Regulating political parties accounting by completing the legislation on financing political parties and electoral campaigns	In principle any accounting regulation should be included in the Accounting Law. In Romania as in other European countries there is a tradition of 100 years in compliance with the regulatory unit of accounting. Even during periods of authoritarian regime, the accounting regulation was achieved through a specific legislative act ⁶ . Proposed

² For example Virginia Greceanu Cocoș, *Comparative, commented, alignment, simplified and updated accounting for non-profit legal entities*, (Bucharest: ProUniversitaria Publishing House, 2008)

³ Marie Goransson, Jean Faniel, *Le financement et la comptabilité des parties politiques francophones*, on www.

⁴ The proposals of Institute of Chartered Accountants of India, on the website www.zeenews.india.com

⁵ Commercial loan is a part of commercial sales.

⁶ Government Decision 1598/1948 and Government Decision 846/1950

No.	Proposal content	Arguments against proposal
0	1	2
		changes to political parties accounting, as rational or necessary as they would be, must be included in an initiative to amend the Accounting Law and not the legislation regarding parties financing. The regulation on the reconstruction of lost, stolen or destroyed documents should refer to common provisions in the field. An evasive wording specific to political parties is not justified if there is a common, well-defined framework with a relevant practice. Accounting standards have general rulls adequate including for political parties: the discussion about objectives is really about which group's returns management is trying to maximise. ⁷
3	Obligation to communicate quarterly contributions revenue within 30 days	The obligation to communicate quarterly contributions revenue within 30 days has the character of an accounting report. Economic entities and all other types of entities have a longer deadlines for the first semester. Usually the deadline for reporting is around August 15. For annual reporting there are no deadlines with less than 60 days. ⁸ A 60 calendar days duration is recommended for every periodic reporting, including the one regarding contributions. The objective is to obtain accurate reporting, not sanctioning parties for late submission of the situation.
4	Obligation of collecting contributions and donations of more than 1,000 lei in bank accounts	Obligation of collecting contributions and donations of more than 1,000 lei through bank accounts should be eliminated for the following reasons: is inconsistent with the rules on the movement of money. Government Ordinance 15/1996 has a cap on cash operations only between legal entities ⁹ ; cash operations of much greater value and operations of greater complexity are allowed, such as property sale or sale of agricultural products; there was not recorded any exaggerated volume of cash revenues in the nature of contributions or donations to disrupt the circulation of money as a whole; political parties in Romania face a chronic under-funding and the introduction of new restrictions increases the financing gap; the previous limit of privacy equivalent to 10 salaries (in terms of donations) is amended. There is no reason that the limit for privacy of contributions to be much smaller; the extent of the banking sector is not as high in Romania so that most people would have a personal account; such legislation limits the ability of citizens to participate in the

⁷ ACCA Financial information for management, ACCA Official Publisher, London, 2001, pp.27

⁸ Law 82/1991, point 36

⁹ Government Ordinance 15/1996, updated, point 5

No.	Proposal content	Arguments against proposal
0	1	2
		financing of political parties.
5	Recording donations at market value	The liberties and benefits received for free by parties fall are registered as fair value, an accounting concept that includes the market value. Some favors or benefits do not have market value. The proposed regulation creates a blokage in recording favors or benefits received for free in accounting.
6	The introduction of a specific stipulation allowing all the contributions received during the campaign to be transferred to campaign financing if they are passed through specific campaign treasury accounts in compliance with accounting regulations	Contributions are legal and permanent sources of financing political parties. Individual amounts are small and can not generate frauds in the election campaign funding transparency. Accounting legislation requires the existence of supporting documentation for such transfers. In principle it is natural that the amounts remaining from the campaign to be transferred to the current activity. The transfer operation will be performed by the financial agent as part of its obligations and will be subject to review by the Permanent Electoral Authority to finance the campaign. A deadlock is avoided after which at a subsequent control there is another point of view than at the election campaign financing control.
7	Drafting a trial balance in 15 days after the completion of the election campaign.	The 15 days period to prepare the trial balance is unrealistic and in conflict with the provision of other legal rules: the invoice may be issued under the Tax Code within 15 days after the benefit ¹⁰ ; therefore for the services rendered in the last days of the campaign there is no time for the movement of the invoice from supplier / provider to the beneficiary and for the centralization of data; Payments are due within 30 days from receiving the invoice; only after that date that they become outstanding ¹¹ ; In conclusion the trial balance drafted after 15 days of completion of the campaign has preliminary data that does not use the information system in any way.
8	Unspent money from the campaign of political parties are made revenues to the state budget.	Confiscation is a penalty and can only be based on a deviation from legal norms; savings during a campaign is an approach to efficiency that can not be punished by confiscation; savings during campaigns of independent candidates can be discussed in the spirit of the Constitution ¹² ; amounts unspent in the campaign of political parties must be transferred to the current activity; they can not be seized.
9	Political parties are required to submit all documents and information	Documents whose provision depends on third parties and which political parties have not included in the mandatory reports can not be requested.

¹⁰ Tax Code, point 155, about invoice

¹¹ General rull including for public entities

¹² Romanian Constitution, point 44

No.	Proposal content	Arguments against proposal
0	1	2
	required to PEA within 15 days if those documents forms or had formed, according to accounting rules and rules regarding parties funding, the basis for preparation of legal accounting reports.	

Solutions to improve accounting of political parties in the knowledge society

In knowledge society there are special requirements to effectively achieve transparency in parties financing. Accounting plays an important role. The control system of the financial management method also acts besides accounting. To improve certain components of this flow I would suggest that solutions presented in Table 2 are taken into account. The arguments presented draw attention to their usefulness.

Table 2 - Solutions to improve accounting of political parties in the knowledge society

No.	Solution to improve accounting	Arguments and methods of achievement
0	1	2
1	Strict control on the actual political independence of people in the financial control bodies of the parties	High profile public friendship relations between employees of financial control bodies of political parties and members of governing bodies of the parties should be eliminated. In addition political rewards subsequent to membership term in control bodies must be monitored.
2	The special sanction of transitioning from one party to another of people who meet financial responsibilities and do not loyally fulfill their assumed duties.	Accounting of parties must be a true mirror of the management of funds. Infiltration from one party to another in order to create financial problems alters the true and fair view that accounting must provide.
3	Clarifications on the establishment of the limit of donations to political parties in the case of a individual's natural association with a company.	If the individual has donated an amount of a party's campaign, a commercial company should be able to donate. Functioning of any company is based on the principle of property separation between employers (shareholders, partners) and the company they have shares to ¹³ . For this reason the individual must always be treated as a separate legal entity than the one to which it has holdings. When the law sets limits on party and electoral campaigns financing then they are valid for every legal entity. Therefore the limit of donation should be treated as a sum of the individual limits and of each legal entity controlled by it.

¹³ Commercial Code and Civil Code from Romania

4	Completing the list of expenditure categories by introducing fundraising expenses	A political party that organizes fundraisers has a number of expenses. These are associated to the current activity. Their separate recording proves transparency in party financing.
5	The precise regulation of the campaign surplus.	Unspent or surplus income over the legally allowed maximum is to be carried to the current activity of the party or any other legal project, as decided by those entitled.
6	Any other sources obtained during the election campaign outside contributions can be used for campaign financing if they are declared at Permanent Electoral Authority	The introduction of a provision to allow any other sources obtained during the election campaign outside contributions can be used for campaign financing if they are declared at Permanent Electoral Authority similar to donations and legacies.

The correlation between the accounting of political parties and the accounting expertise in knowledge society

Accounting expertise is susceptible to interference with the accounting activity of political parties as well as in all types of organizations outside of some processes or in processes.

Besides some processes, accounting expertise can track the accuracy of financial statements of political parties especially when replacing the management, determining some accounting and financial vulnerabilities, how the legislation with application in accounting can be met in the case of political parties, transferring balances and accounting activity between current accounts and accounts of election campaigns, etc.. Current legislation has no clear provisions on how accounting expertise operates. In the case of political parties the fluctuation of management or execution personnel may be higher and less predictable. Legislation should specify the compliance obligation and the presence of persons who finish their mandate or withdraw from a party when conducting accounting expertise for the duration of the mandate. Changing policy options should not affect the management of funds that is basically a matter of public interest.

The accounting expertise in a process related accounting of parties on the one hand takes the general elements of such an accounting expertise but also has special features.

According to the rules of civil procedure, the parties in a process are obliged to give the expert any clarification about the subject in work. This is also required of people who represent the political party at the date of the process and those that represented it during litigation. In the absence of mandatory rules, because of the fluctuation specific to politics there is the risk that people who ordered certain actions or inactions can not be constrained in any way to express themselves on the facts of their mandate. If they do not participate in the expertise it will be very difficult for possible effects of the court sentence to be applied to them. Thus it creates an advantage for people of bad faith. At the same time the legal obligation to be summoned and welcomed to express their opinions of those who met their mandate in the period subject to litigation also seems as their right. If they do not participate in the expertise, these individuals may be disadvantaged by the court's solutions. There is an unjustified disadvantage for people of good will who want to support the actions and inactions during their mandate.

Given the political fluctuation in the management of political parties it is natural that only supporting documents that have been taken in the financial statements and only final or intermediate reports approved by the party leadership can be invoked against them. Documents provided by people who are no longer part of the party structures can not be included in any expertise much less in a judicial one. The exception to this is the proof that the document has been validated at that date

and included in the financial statements. Another interpretation of the legal regime of supporting documents or intermediate reports of political parties would allow sanctions against smaller political parties in which supporters of large or ruling parties have infiltrated. In no case reports or documents may be accepted that were provided by people for which there is proof that the party imposed disciplinary sanctions, including exclusion.

If the objective of the expertise is related to a dispute between the party and a state authority with control attributions then the obligations of the parties on supporting the work of the expert are very important. The parties, both the control authority and the political party, will simultaneously provide documents supporting their opinion before the expert. Simultaneously, if needed, the person who served in the mandate during the term covered by the control will be called. If it results three distinct interests, all will present views and documents simultaneously, so that truth is not distorted by agreements between two parties. The expertise report will record whether in conclusions were used official documents of the party or and other categories of documents or reports. In justified cases such documents will be included, specifying the reason for their inclusion and the impact their lack would have on the conclusions. In any case, no documents will be received after the submission of the report unless it is proved that they occurred after its preparation. When submitting a document that was not part of the party's official list there will be allow time to identify the actual situation that has generated them. Documents that are not part of the official party list and obtained or made in violation of legal norms or by exceeding internal competencies will also not be used.

The existence of the preparation date, of the period covered and the business segment to which it refers are essential elements in establishing the relevance of each document considered in the expertise report. Separating the a party's current activity from the election campaign and of the main activities from the economic ones are important elements to be considered when taking over a document into the expertise report.

Each person fulfilling a mandate within the party is obliged to know the situation mainly based on the official summary documents or the internal reports they received. They can also be obtained under certain conditions from mail correspondence, specifying that it is not a supporting document unless under limited circumstances.

Any defect in a document made available to the expert, if taken into account in drafting the conclusions, it will have to be mentioned in the report.

Neither party should be allowed to avoid the legal role of the expert of finding out the truth by providing the document directly to the court.

Conclusions

Main solutions to improve accounting of political parties in the knowledge society in my opinion:

- Strict control on the actual political independence of people in the financial control bodies of the parties;
- The special sanction of transitioning from one party to another of people who meet financial responsibilities and do not loyally fulfill their assumed duties;
- The precise regulation of the campaign surplus;
- Any other sources obtained during the election campaign outside contributions can be used for campaign financing if they are declared at Permanent Electoral Authority;
- clear provisions on how accounting expertise operates in the case of political parties;
- only supporting documents that have been taken in the financial statements and only final or intermediate reports approved by the party leadership can be invoked against them;
- participate in the expertise people who represented the political party during litigation.

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