

Submission to Standards in Public Office Commission (SIPO) on the Draft Political Party Account Guidelines

I write on behalf of Transparency International (TI) Ireland to offer its submission on the Draft Political Party Account Guidelines prepared by the Standards in Public Office Commission's (SIPO).¹

Transparency International Ireland (TI Ireland) welcomes the opportunity to make a number of observations on the guidelines and suggests how potential problems may be overcome.

The aim of the guidelines is to increase transparency in political funding through detailed disclosure by political parties and individual candidates of income, expenditure, assets and debts, including loans, in a comprehensive manner.

TI Ireland believes that comprehensive detailed disclosure is the starting point of an effective regulatory framework aimed at enhancing transparency in the funding of political parties.

Please let us know if you would like any further information or clarification in the meantime.

Yours faithfully,

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Overview

1. The significant corruption risks that result from inadequate regulation of party political financing were highlighted in the recent final reports of two long-running tribunals of inquiry.² The Mahon Tribunal found 'endemic and systemic' corruption in Irish political life and exposed corrupt and inappropriate payments from businesspeople to politicians. The Moriarty Tribunal was also critical of clandestine political donations from business people to senior politicians and government ministers.
2. The recommendations of both tribunals emphasised the key role of disclosure in the monitoring of all political party donations, whether in cash or in kind and including where necessary loans.
3. Similarly, in its 2009 report on political funding in Ireland, the Council of Europe's peer-review body, the Group of States Against Corruption (GRECO), said the fact that political parties were not required to keep proper books and accounts specifying all donations received was a 'significant shortcoming'.³ GRECO recommended the introduction of a legal requirement for political parties to publish independently audited annual accounts, including financial information on the income and expenditure of local branches of political parties or so called third parties under Irish legislation.⁴ It further recommended that these accounts follow a uniform format and are made public in a way which provides for easy and timely access by the public.
4. The Electoral (Amendment) (Political Funding) Act 2012 provides for the preparation by all registered political parties of annually audited financial accounts.⁵ The legislation states that this is to include an income and expenditure account and a statement of the assets and liabilities of the political party. The legislation empowered SIPO, in consultation with political parties, to prepare guidelines on a uniform format of these accounts. TI Ireland welcomes this legislation as an effort to improve transparency in political party funding.

² Mahon, Justice Alan, The Final Report of the Tribunal of Inquiry into Certain Planning Matters and Payments (Government Publications Office, 2012): 1 <http://www.planningtribunal.ie/images/finalReport.pdf> and Moriarty, Justice Michael, Report of the Tribunal of Inquiry into Payments to Politicians and Related Matters: Part II Volume 1 (Dublin: Stationery Office, 2011): 451

³ GRECO, Third Evaluation Round: Evaluation Report on Ireland – Transparency of Party Funding (Council of Europe, December 2009): p 22 [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoEval3\(2009\)4_Ireland_Two_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoEval3(2009)4_Ireland_Two_EN.pdf)

⁴ Ibid: p 26

⁵ <http://www.oireachtas.ie/documents/bills28/bills/2011/7911/b7911s.pdf>

List of Recommendations

- A. Appoint Specialised Staff in SIPO to oversee and review financial statements
- B. Party auditors should be appointed independently of the political party
- C. Further Guidance should be published on 'In-Kind' Donations
- D. Branch Income and Expenditures should be disclosed
- E. Accounts should be made available on both SIPO's website and the parties' own websites
- F. Guidelines should require parties' annual accounts to clearly show that State funding has not been used in any elections or referendum campaigns
- G. Party staff costs should include an indication of the salaries being paid in bands
- H. Accounts should include the name of the bank(s) and branches

Appointment of Specialised Staff in SIPO

- 5. In order for the SIPO to carry out its functions properly in overseeing the filing of parties' annual audited accounts, and in reviewing those accounts, it will need additional resources and dedicated specialist staff. In particular, SIPO should have access to the services of a qualified accountant with auditing experience and preferably with a forensic accounting qualification. This person or person(s) could be on staff or on contract as required. TI Ireland notes that Fianna Fáil in its submission on the draft guidelines expresses concern that SIPO might lack the technical accounting and legal expertise to oversee and review the financial statements of each political party.

Appointment of Party Auditors

- 6. Guideline 4, Audit of the Annual Statement of Accounts, sets out guidance on the audit framework to be used, the objectives of the audit, the reporting of the audit, and the timescale for reporting.⁶ TI Ireland recommends that SIPO also includes guidelines for the appointment of public auditors. Such appointments should be based upon a transparent tender process which could be run by SIPO, provided that it has the services of the accountant(s) described above. The appointment of independent auditors by SIPO would allay any fears that audits could be carried out by party supporters who may have conflicting interests. It would also provide welcome public confidence as to the rigour of the audits. This is a particularly pertinent issue, given the recent criticism of external auditors of rescued Irish banks as 'silent observers' ahead the banking collapse.⁷

Donations in Kind

- 7. The guidelines define a donation in the context of political party accounting as money, goods or services given to a party free of charge or on non-commercial terms, donations in-kind and

⁶ <http://m.sipo.gov.ie/en/guidelines/draft-political-party-account-guidelines/draft-political-party-account-guidelines.pdf>

⁷ Nyberg, Peter, Misjudging Risk: Causes of the Systemic Banking Crisis in Ireland – Report of the Commission of Investigation into the Banking Sector in Ireland (Dublin: Government Publications Office, 2011): vi-vii
<http://www.bankinginquiry.gov.ie/Documents/Misjudging%20Risk%20-%20Causes%20of%20the%20Systemic%20Banking%20Crisis%20in%20Ireland.pdf>

notional donations. This means that the monetary value of donations in kind - where political parties get goods or services free of cost, or at less than commercial cost - must be submitted as income. However, the term 'less than commercial cost' is unduly vague. It could be argued, particularly in difficult economic times, that a business may provide services barely above cost in the hope of securing further business. In such circumstances it would be difficult to quantify the gap between the commercial cost and the actual cost of the services. TI Ireland proposes that further specific guidance be supplied by SIPO on this issue.

Disclosure of Branch Income and Expenditure

8. SIPO's guidelines state that parties should take steps to ensure that an adequate financial reporting system is put in place to record the transactions of party branches on a periodic basis. They propose the practical step of establishing systems, procedures and practices to govern reporting by branches. The guidelines propose transitional arrangements for the years 2014-2016 to facilitate the amalgamation of party branch finances in the accounts. TI Ireland strongly supports such efforts to account for funding from local branches, notwithstanding the challenges that this may present for all parties who rely largely on volunteers at branch level.
9. In its 2009 report on political party financing in Ireland, the Council of Europe's anti-corruption body GRECO noted the failure of certain accounting units within local branches of political parties to adhere to SIPO guidelines.⁸ Those guidelines stated that all donations above €100 be reported by the relevant accounting unit to the party headquarters, in order to ensure the aggregation of all donations to the party from the same donor in the same year. According to GRECO, the failure of local accounting units to notify the party's head office of donations received 'may result in breaches of the existing ceilings on donations from an individual donor'. GRECO recommended that ways be sought to consolidate party accounts which would incorporate the financial data of local branches and any other entities under the control of political parties or otherwise directly or indirectly related to them.⁹
10. As a political party's income clearly also includes the income of its branches. TI Ireland firmly believes that published party accounts should incorporate (consolidate) the income and expenditure of branches in the published accounts.
11. However, TI Ireland also believes that branch results should not be 'lost' by consolidation into the overall income and expenditure account, and should also be shown by way of schedules to the accounts in the interests of transparency.

Visibility and Timeliness of Audited Accounts

12. After the accounts are submitted to SIPO, they should be made available on both SIPO's website and the parties' own websites. A hard copy should be made available to any member of the public who requests one.

⁸ Op cit page 24

⁹ Op cit page 25

General Elections and Referenda

13. Political parties are not permitted to use any State funding they receive for electoral purposes. However, election and referendum campaigns require significant funding. A consistent pattern has emerged in recent years showing a wide gap between the amount of money which political parties and candidates say they spend on elections and the amounts they declare that they have received in donations. For example, for the 2011 general election, all candidates and political parties disclosed that they incurred €9.28 million in electoral expenses, with no candidate reported to have exceeded the statutory spending limits.¹⁰ However, in the same year, all political parties combined declared the total sum of €30,997 in donations to SIPO. This is the lowest amount since disclosure rules were introduced in 1997. This disparity in income and expenditure may suggest two things: either the bulk of the €9.28million general election spend was composed of donations which were not disclosed to SIPO as they fell beneath disclosure limits, or parties were in effect ‘borrowing’ from their State funding reserves in order to fund election campaigns and then fundraising retrospectively to refund these unofficial ‘loans’.
14. Such perceptions may be unfair, but the existing lack of transparency is clearly unsatisfactory. The new accounting guidelines could help to reduce any false perceptions in relation to how parties fund their campaigns. Accordingly, TI Ireland recommends that the guidelines should require parties’ annual accounts to clearly show that State funding has not been used in any elections or referendum campaigns that occurred in the accounting year.

Illustrative Accounts Template – Staff Costs

15. TI Ireland recommends that Expenditure note 8 regarding party staff costs should include an indication of the salaries being paid in bands, as illustrated in the table below:

| No of Staff | Salary Range € |
|-------------|------------------|
| 1 | 100,000 -110,000 |
| 2 | 80,000-100,000 |
| 2 | 60,000 – 80,000 |
| 4 | 40,000 – 60,000 |
| 3 | Under 40,000 |

Name of Bank

16. The Annual Statement of Accounts should include the name of the bank(s) and branches in which political parties have their accounts and/or loans.

¹⁰ Standards in Public Office Commission, Dáil General Election 25 February 2011: Report to the Chairman of Dáil Éireann (Ceann Comhairle) in accordance with the Electoral Acts (2011)
<http://www.sipo.gov.ie/en/Reports/Elections/171011-ReporttoCeannComhairlereDailGeneralElectionof25February2011pdftextversions/File,14478,en.pdf>

Conclusion

17. Declining trust in Irish politics, and a strong public perception that party funding is not sufficiently transparent, has been observed in a number of recent surveys. In TI's 2010/11 Global Corruption Barometer eight out of ten Irish people stated that political parties are corrupt or extremely corrupt.¹¹ This finding places Ireland at the upper end of the scale when it comes to negative public perceptions of political parties in Europe. In addition, a 2012 Eurobarometer poll found that two thirds of Irish people think there is insufficient transparency and supervision in the financing of political parties.¹²
18. In its National Integrity Systems Study for 2009, TI Ireland drew attention to the lack of transparency in political party funding as a corruption risk area.¹³ In its 2012 follow up report, TI Ireland recommended that the annual accounts of political parties should be published in a format which allows maximum disclosure of their financial affairs.¹⁴ This should include income and expenditure and debts and assets of the entire party organisation at all levels, including local branches, as well as details of loans at both commercial and non-commercial rates.
19. Accordingly, TI Ireland welcomes SIPO's publication of the Draft Political Party Account Guidelines and expects that all registered political parties will work with SIPO to ensure full and timely disclosure of their income sources and expenditure in a uniform format.

¹¹ 2010/2011 Global Corruption Barometer

¹² European Commission, Special Eurobarometer 374: Corruption (February 2012): 14, 68
http://ec.europa.eu/public_opinion/archives/ebs/ebs_374_en.pdf

¹³ Transparency International Ireland, Transparency International National Integrity Systems Country Study – Ireland 2009 (2009) http://transparency.ie/sites/default/files/NIS_Full_Report_Ireland_2009.pdf

¹⁴ Transparency International Ireland, Transparency International Country Study Addendum Ireland 2012 (2012) <http://transparency.ie/resources/nis-addendum-2012>