

Audits of political finance reports

Case study submitted by the Central Election Commission – Lithuania, 2021

The independent auditors check reports of political parties and participants and present reports on their findings.

The activity and underpinning principles for the work of independent auditors are regulated by a special law, the Law on Audit. In addition to the Law on Audit, the Law on Political Parties and Financing of Political Campaigns states that independent auditors have the right to obtain all necessary documents from participants, political parties and the CEC. Political parties and participants must cooperate with auditors carrying out independent inspection. A political campaign treasurer or a candidate cannot be the auditor who is responsible for the independent inspection of the political party's or independent political campaign participant's report.

For income above 70 average monthly salaries during an election campaign or 200 average monthly earnings during a calendar year, the reports must be audited by an independent auditor paid for by the political participant or the political party. For lower amounts, reports must be certified by independent auditors ordered by the CEC. In all cases, auditors must carry out independent inspection in compliance with legal acts and according to the terms of reference (ToR) approved by the CEC defining the scope of work assigned to the auditors.

The ToR is approved by the CEC after consultation with the Lithuanian Chamber of Auditors. When the amendments to the law foreseeing the certification of reports by independent auditors came into force in 2010, several discussions between the CEC and Chamber of Auditors were organized and a draft ToR was prepared. The forms of reports submitted by independent auditors are designed and approved by the Chamber of Auditors.

In the beginning, the CEC organised trainings for independent auditors to get them acquainted with requirements on funding of political parties and campaigns. Now the Chamber of Auditors organises trainings for auditors regularly (every other year) and dedicates several hours to the audit of reports of political parties and participants of political campaigns.

All information including reports on political advertising provided by media or information on the legality/ permissibility of donations from the State Tax Inspectorate is available in the CEC information system. Supporting documents on political campaign donations and expenditure are also provided to auditors.

The inspection of political parties/ candidates' reports consists of 3 stages: verification of documents, verification of non-compliance and verification of the political advertising report.

As per the ToR, auditors should examine all documents submitted by participants, including the supporting documents, i.e. accounting journal entries, bank statement records. At this stage, auditors check if all documents substantiating income and expenses are submitted, whether all income and expenditure are correctly registered in the accounting journal (sums, dates, subject, how accounting journal matches bank statement, agreements, etc), and the legality of donations (monetary and in kind) and expenditure.

If auditors identify issues of non-compliance at this stage (income or expenditure not registered, problems with donors, sums, dates, etc.), they should perform a more thorough examination which normally could be done using standard checks available in the CEC information system, e.g. if a donation amount recorded for a specific participant is wrong, it should be checked if this donation meets the requirements of the law.

The verification of political advertising reports is performed in all cases. The auditors, while comparing reports on advertising submitted by participants and declarations of political advertising submitted by media, should examine the amount(s) of declared political advertising (by participant) and of airtime given for free by media or paid for by someone else (not participant). The media declarations used as a basis for comparison are selected by the CEC information system. Declarations are selected according to risk indicators (the most expensive advertising, the biggest differences in total price, possible advertising undeclared by participant) and randomly to ensure that auditors check at least 70 per cent of the total price of political advertising related to a participant's campaign as declared by media.

Auditors should indicate whether during the inspection they identified discrepancies between documents provided by participants and data in the information system, whether all funds were received from legal sources of financing, and whether expenses and loans were declared correctly.

There are almost 40 procedures for inspection of campaign finance reports. Auditors indicate whether they had any remarks performing each procedure. The report on findings consists of several mandatory procedures (legality of income, total amount of expenditure, debts) and most procedures are mentioned in the reports only in case auditors have some remarks.

Auditors must indicate relevant legal acts and articles in case of violations/ breaches of the law. Auditors do not take decisions on breaches of the law. It is the CEC who makes decisions on breaches of law, sometimes on the basis of auditor's indications/ reports.

To avoid mistakes or misunderstandings before submitting their report on findings, auditors shall communicate to the concerned participant or political party their findings in order to receive any additional information, documents or explanations. This communication is done through the CEC information system and aims to reduce potential legal disputes.

The CEC analyses all auditor reports. The information system compiles and produces a summary of all reports in xls format. The summary report may be filtered/ searched by procedure, political party, constituency, auditor or other summarised information. It helps to look through all reports more quickly and to identify all participants which made similar breaches. The information system allows to modify the form of reports on findings easily.