

# INTERNATIONAL CONFERENCE

Audit of political party  
and  
financing of election campaigns



Bratislava, November 2024.

# MAIN ASPECTS OF FINANCIAL AUDIT OF POLITICAL PARTIES IN THE REPUBLIC OF CROATIA

State Audit Office of the Republic of Croatia



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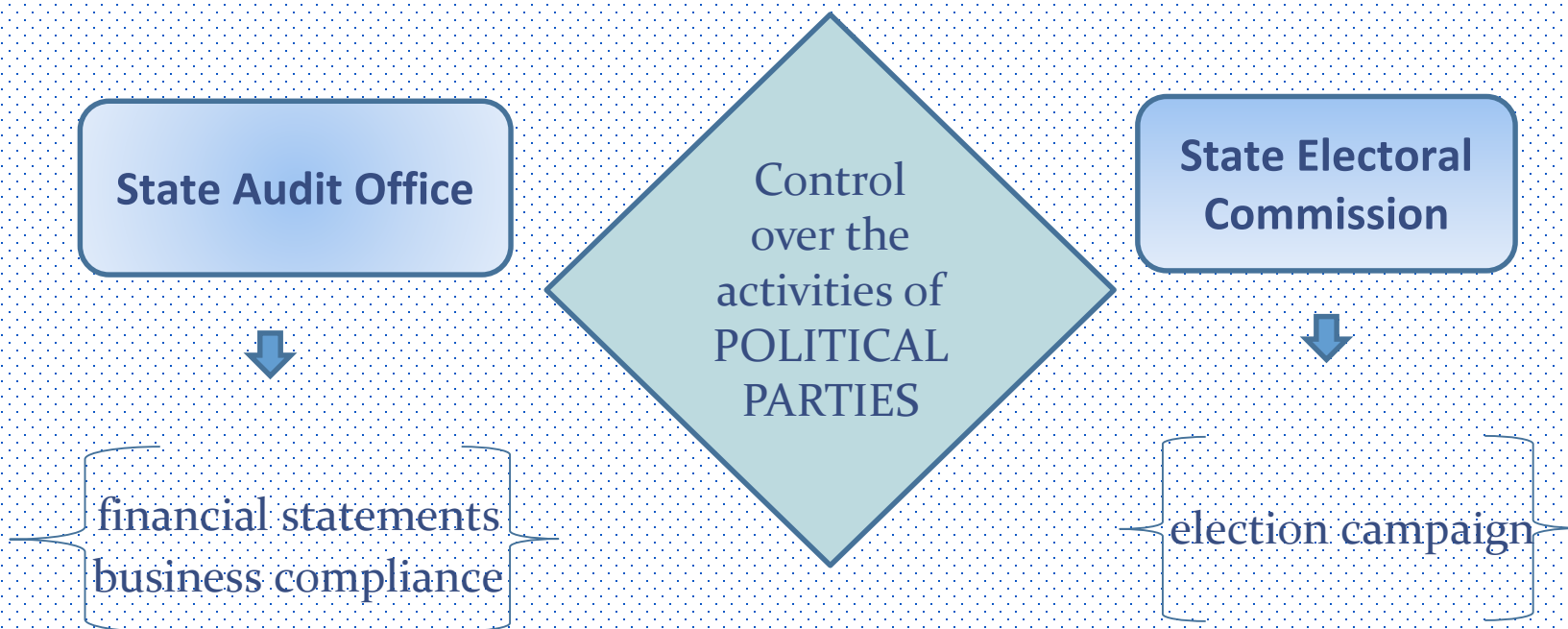
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- **FINANCIAL AUDIT OF POLITICAL PARTIES**
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# INTRODUCTION

- SAO conducts financial audits of political parties **since 2007**
- Obligation to conduct audit of political parties with annual revenue and a value of assets, given in annual financial statements, **greater than 13.272,28 euro**
- Audits are planned by the **Annual Programme and Plan of Work**
- performed **each calendar year for the previous year**
- **171 active** political parties in 2022.
- SAO performed **audit 48** political parties or 28,1 %
- generate **98,9 % of total revenue** off all active political parties in Croatia

# INSTITUTIONAL AND LEGISLATIVE FRAMEWORK



# INSTITUTIONAL AND LEGISLATIVE FRAMEWORK

- audit of political parties are performed in accordance with the
  - ✓ **Political Activity, Election Campaign and Referendum Financing Act** in the manner and according to the procedures established by the
  - ✓ **Act on the State Audit Office** within the
  - ✓ Framework of the auditing standards of the **International Organization of Supreme Audit Institutions (INTOSAI)** and the
  - ✓ **Code of ethics in the State Audit Office**



# PLANNING - RISK ASSESSMENT, SIGNIFICANCE AND AUDIT APPROACH

## □ AUDIT RISK:

- ✓ in relation to the set goals → medium to high risk

## □ SIGNIFICANCE:

- ✓ 2.0% usually on realized expenses

## □ AUDIT APPROACH:

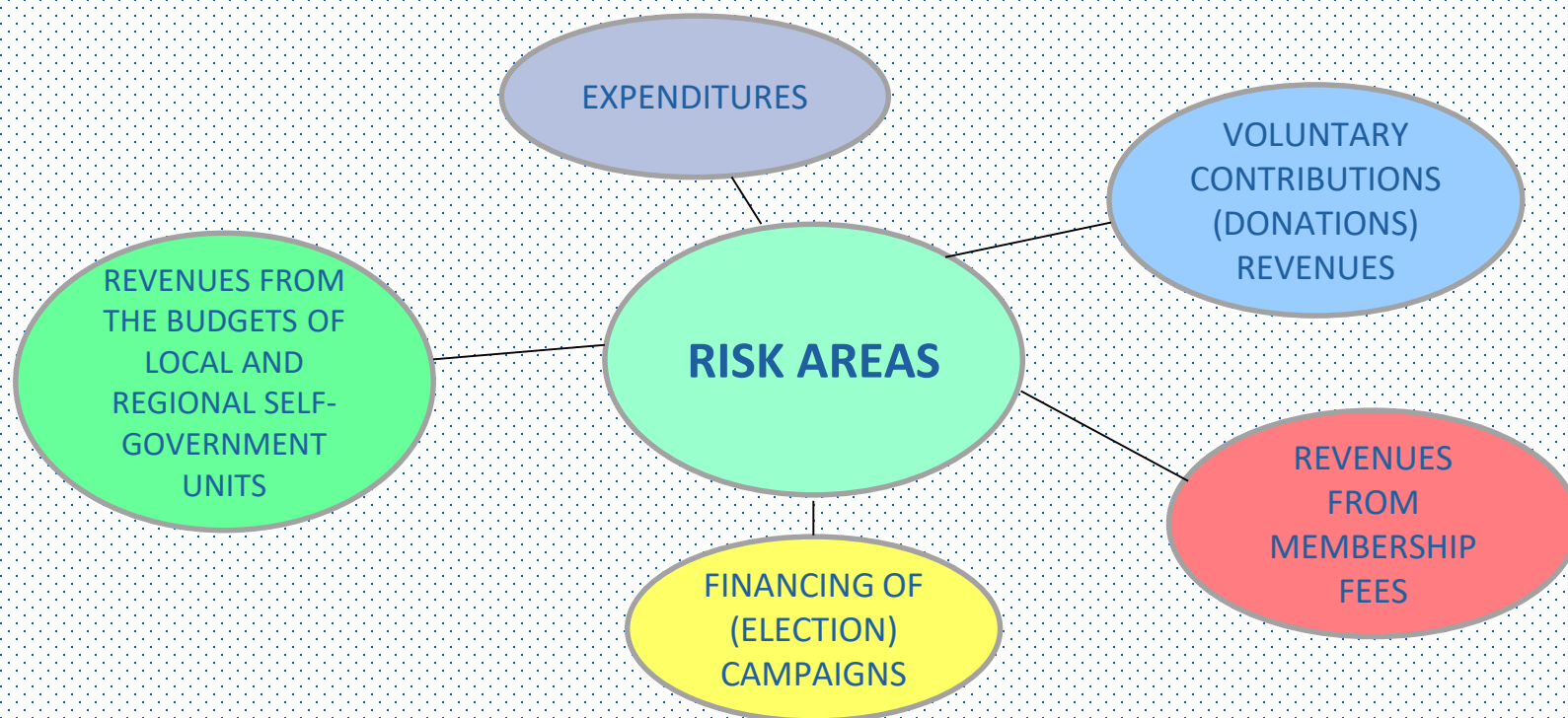
- ✓ we do not rely on internal controls
- ✓ focused (directed) evidentiary proceedings
- ✓ detailed tests



The planning phase determines the initial estimate of the error that is likely to result in a possible inaccurate presentation of the financial statements.

# PLANNING – RISK AREAS

- set out in the **Guidelines for the Audit of Political Parties**





# REVENUES

The Political Activity, Election Campaign and Referendum Financing Act

## Financing regular political activities during the year

Political parties can, in order to achieve their political goals, generate income from:

- ❖ **the State budget**
- ❖ **the budgets of local and regional self-government units**
- ❖ **voluntary contributions (donations)**
- ❖ membership fee
- ❖ property in their possession
- ❖ publishing activities
- ❖ sales of propaganda material
- ❖ other legally permitted sources

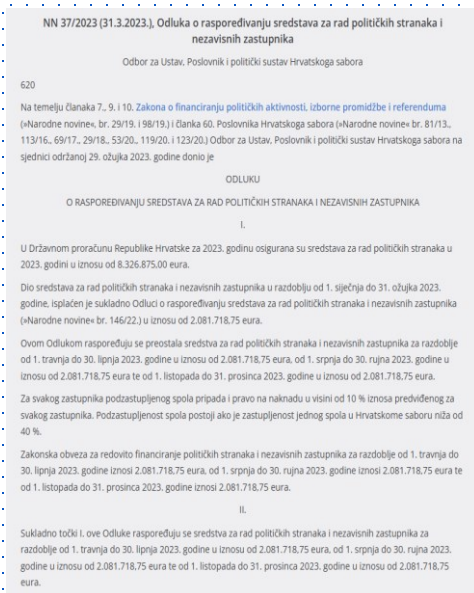
# REVENUES

## Financing from the STATE BUDGET

### Article 6. :

- ✓ The right to regular annual financing from the **state budget** is granted to political parties which, according to the final results of the election, won a seat in the Croatian Parliament
- Funds are provided in the state budget of the Republic of Croatia in the amount of 0,075 % of realized tax revenues from the previously published annual report on budget execution
- The decision on the allocation of funds from the state budget is made by the Committee for the constitution, procedure and political system of the Croatian Parliament
- The allocated funds are transferred to the political party's central account quarterly in equal amounts

# REVENUES



- In the State budget for 2023., funds for the work of political parties are insured in the amount of 8.326.875,00 euro, or 53.377,40 eur per representative (156)

- The aforementioned Committee of the Croatian Parliament is obligated to publish on the website of the Croatian Parliament, after the end of the business year and no later than March 1 of the current year, for the previous year, a report on the amount of allocated and paid funds from the state budget for the regular annual financing of each political party represented in the Croatian Parliament

# REVENUES

## Financing from the BUDGET OF THE LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

- ✓ The right to regular annual financing from the **budget of local and regional self-government units** is granted to political parties which, according to the final results of the election, won the position of a member in the representative body of the self-government unit
  
- ✓ The self-government unit must provide funds in the amount determined in the budget of self-government unit for each year for the budget is adopted, with the provision that the amount of funds per member of the representative body of self-government unit per year cannot be determined in an amount less than:
  - 1.061,78 eur in the representative body of the City of Zagreb
  - 663,61 eur in the representative body of county and big city

## REVENUES

- 464,53 eur in the representative body of self-government unit with more than 10 000 resident
  - 265,45 eur in the representative body of self-government unit with 3 001 to 10 000 inhabitants
  - 132,72 eur in the representative body of self-government unit with up to 3 000 inhabitants
- 
- ✓ The decision on the allocation of funds is made by the representative body of the self-government unit
  - ✓ Allocated funds are transferred to the account of the political party quarterly in equal amounts
  - ✓ After the end of the business year, and no later than March 1 of the current year for the previous year, self-government units are obliged to publish on their website a report on the amount of allocated and paid funds from the budget of the self-government unit for the regular annual financing of each political party represented in the representative body of self-government unit

# VOLUNTARY CONTRIBUTIONS/DONATIONS

DONORS

POLITICAL PARTY

**Declaration** stating that they are not subject to any enforcement proceedings relating to their arrears to the state budget or to employees

Issue **receipts** for received donation

Donation made by way of products or services

**Certificate** specifying the market value of the donated product or service

Records of received donations

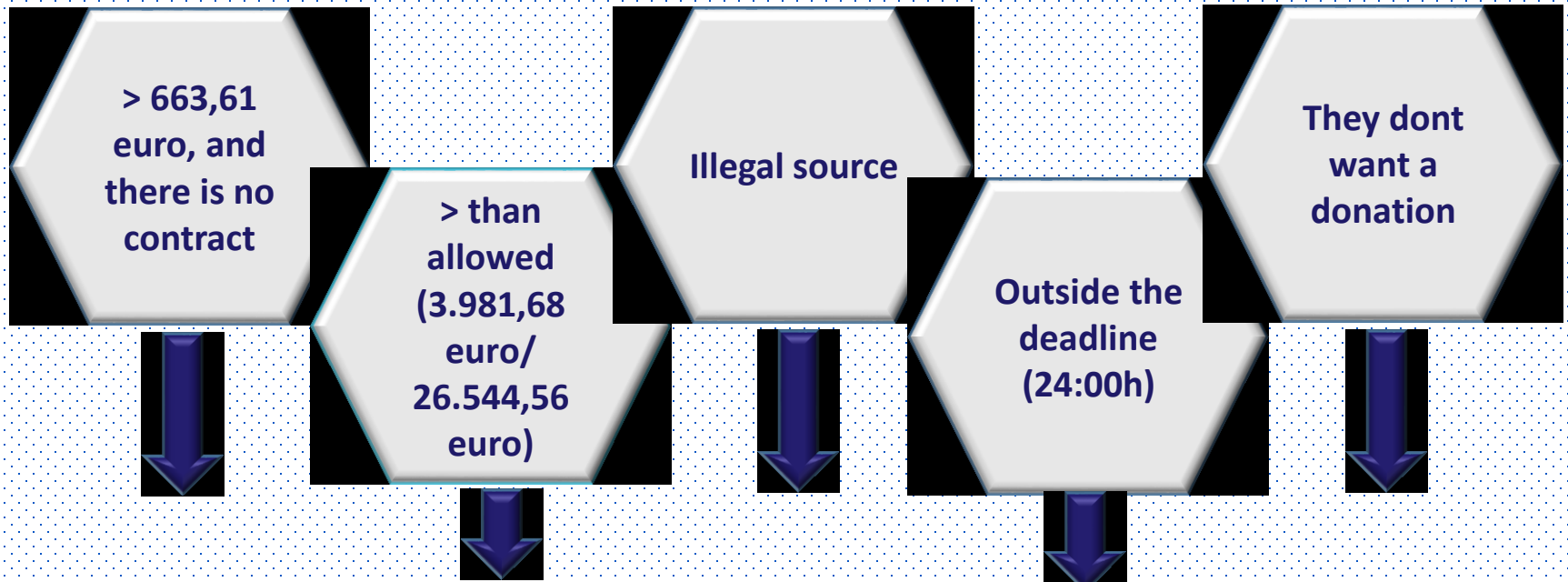
The value of donation > 663,61 euro

**Agreement** between the donor and the donee

No agreement has been concluded

- Report to the State Audit Office and State Electoral Commission
- Pay the amount of the value of such donation to the state budget no later than 15 days

# VOLUNTARY CONTRIBUTIONS/DONATIONS



Reported to the State Audit Office and State Electoral Commission

15 days of the date of receipt of payment

8 days of the date of receipt of payment

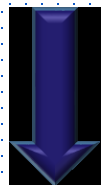
Paid into the State budget  
(HR1210010051863000160, model 68, poziv na broj: 7692 OIB  
uplatitelja)

Return to donors if possible or pay into the State budget

Pay into the State budget

## ILLEGAL SOURCES

Prohibited sources of  
financing



Article 46.  
Political Activity,  
Election Campaign and  
Referendum Financing  
Act

- foreign states, foreign political parties, foreign legal persons
- foreign natural persons, other than nationals of other Member States of the European Union who are resident or on temporary stay in the Republic of Croatia in accordance with the Foreigners Act
- state authorities, public enterprises, legal persons vested with public authority, companies and other legal persons in which the Republic of Croatia, according to the Register of State-Owned Assets, owns more than 5,0 % of the shares or stocks, and public enterprises, legal persons vested with public authority, companies and other legal persons in which a self-government unit holds more than 5,0 % of the shares or stocks, as well as public and other institutions founded by the Republic of Croatia or by a self-government unit or owned by the Republic of Croatia or by a self-government unit



# ILLEGAL SOURCES

Prohibited sources of  
financing



Article 46.  
Political Activity,  
Election Campaign and  
Referendum Financing  
Act

- trade unions and employers' associations
- associations, trusts and foundations represented by central government officials or by elected officials of local or regional self-government
- religious communities, humanitarian and other non-profit associations and organisations
- natural and legal persons subject to any enforcement proceedings relating to their arrears to the state budget or to the budget of a self-government unit or to their employees
- self-government units, except in the cases and in the manner provided for in the Act
- unidentified (anonymous) sources
- intermediaries

# EXPENSES

When planning, it should be taken into account that the audit verifies and assesses whether the political parties used the generated revenues to finance expenditures in accordance with the annual work program and financial plan, in order to achieve the goals set by the annual work program and financial plan:



- ✓ employee expenses
- ✓ material expenses
- ✓ depreciation expenses
- ✓ financial expenses
- ✓ expenditures for donations (aid) and
- ✓ other expenses.

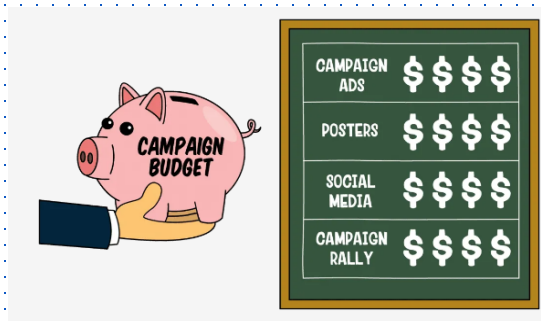
**Spending funds/financial resources – exclusively for activities and goals set out in the annual work program and financial plan**

# PROMOTION EXPENSES

- ☐ election campaign



DEFINITION - a set of actions undertaken by participants in election campaign which relate to their own public presentation and public presentation and justification of their own election programs for the purpose of persuading voters to vote for them



- ☐ regular promotion



# PROMOTION EXPENSES

Special attention to election promotion expenses because in the year when the elections are held, they are the most significant.

During the audit of the regular operations of the political party, the State Audit Office checks and compares the data shown in the annual financial statements and recorded in the business books with the data shown in

- financial statements on the financing of the election campaign (form FIN-IZVJ-IP)
- reports on received donations for financing the election campaign (form IZ-D-IP)
- reports on received donations to support political activities (form IZ-D-RPA)

Annual financial statements include all financial activities of a political party during the reporting period.

- In the election year, statements also include data on financing of election campaigns (revenues and expenses for financing election campaign are part of the overall business of the political party for the current year in which the elections were held)

# Most common irregularities in Financial reports of political parties

(According to the Joint Report of Political Parties for 2022)



## Areas of irregularity:

1. Planning (Annual Work Program and Financial Plan)
2. Financial statements
3. Accounting operations
4. Expenditures



## 1. PLANNING

### ■ Irregularities mostly relate to:

- ✓ content of the annual work Program and Financial Plan
- ✓ unrealistic planning of revenues and expenditures

### ■ Findings and recommendations:

- ✓ political parties need to compile annual financial plans and annual work Programs in a way that ensures efficient management and control of financial operations and compliance with regulations
- ✓ plan revenues and expenditures more realistically in financial plan
- ✓ undertake activities to monitor and achieve the objectives in the annual work Program

## 2. FINANCIAL STATEMENTS

### ■ Irregularities:

- ✓ not all the prescribed Financial statements are submitted nor composed in a prescribed manner
- ✓ the data presented in the financial statements do not correspond to the data in the business books and records

### ■ Findings and recommendations:

- ✓ prepare and submit prescribed financial statements and compose them in a prescribed manner in accordance with regulations
- ✓ align the data in the financial statements to the data in the business books and provide an objective and realistic picture of the financial position and business operations of the non-profit organisation



### 3. ACCOUNTING OPERATIONS – BUSINESS BOOKS

#### ■ Irregularities:

- ✓ business books and records are not kept
- ✓ the occurred transaction are not registered:
  - ✓ by the accounting principle of the occurrence of an event
  - ✓ following the order of accounts from the chart of accounts for non-profit organizations
  - ✓ based on authentic bookkeeping document that fully and precisely reflects the occurred transaction

#### ■ Findings and recommendations:

- ✓ keep prescribed business books and records, register occurred transactions in accordance with regulations

### 3. ACCOUNTING OPERATIONS – LIST OF ASSETS AND LIABILITIES

#### ■ Irregularities:

- ✓ not all assets and liabilities are included into an annual list of assets and liabilities (and don't state individual values thereof in quantities and monetary amounts)
- ✓ the annual list of assets and liabilities is not done at all
- ✓ condition on the date of the balance sheet is not in compliance with the actual condition

#### ■ Findings and recommendations:

- ✓ To do the annual list of assets and liabilities in accordance with regulations

## 4. EXPENDITURES

### ■ Irregularities:

- ✓ for some of the expenditures can not be confirmed that they are related to the achievement of the goals set by the annual work program and the financial plan (for example calculation of travel warrant)
- ✓ the services provided are not accompanied by specifications of the services rendered, nor is the type of service visible and the time when the services have been performed
- ✓ the invoice of the electoral campaign supplier is paid from the central (regular) account of the political party, instead of the special accounts for the purposes of financing election campaigns

## 4. EXPENDITURES

### ■ Findings and recommendations:

- ✓ Compile, account and pay travel warrants in accordance with the provisions of the Income Tax Ordinance
- ✓ Use the funds solely for the achievement of the objectives set out in the annual work program and the financial plan, in accordance with the provisions of the Political Activity and Election Campaign Financing act
- ✓ Cover the expenses incurred to finance election campaigns from the funds paid into the special accounts for the purposes of financing election campaigns

# REPORTING AND EXPRESSING THE OPINION

- Auditors shall **compile a draft report** on a completed audit in compliance with the auditing standards
- From 2017., in alignment with ISSAI standards, SAO expresses a separate opinions on the financial statements and business compliance

## **I. OPINION**

### **II. DATA ABOUT (abbreviated name of the entity)**

Activities and internal organization  
Planning and execution of the plan  
Financial statements

### **III. Audit for (year)**

Objectives, audit areas and Criteria for forming Opinions  
Audit methods and audit procedures  
Findings for (years)  
Implementation of findings and recommendations

## REPORTING AND EXPRESSING THE OPINION

- Draft report shall be submitted to the legal representative of the audited entity for an opinion -> obligation to submit a **comment** on the facts described in the draft report within a period not to exceed 15 days after the date of receipt of the draft report
- The report with the incorporated comment shall be delivered to the legal representative of the audited entity



# MONITORING THE IMPLEMENTATION OF RECOMMENDATIONS AND ORDERS

- The legal representative of an audited entity is obliged to submit a **plan for implementation of issued orders and recommendations** within a period not to exceed 60 days after the date of receipt of the final report

## Plan provedbe naloga i preporuka

Revizija
Plan provedbe naloga i preporuka
Obrazac PPNP
Arhiva dokumenata

Uredi dopis
Pregled dopisa
Predaj obrazac

Subjekt: **Domovinski pokret**
Razdoblje: **2022**
Izveštavanje o provedbi: **Izveštavanje**
Obrazac popunjava: **ovlaštena osoba subjekta**

ZAGLAVLJE OBRASCA

Subjekt revizije: Domovinski pokret

Vrsta revizije i obuhvaćeno razdoblje: Financijska revizija 2022

KLASA DUR-a: 041-01/23-03/20

URBROJ DUR-a:

Rok za dostavu plana: 08.01.2024

Zakonski predstavnik subjekta: Ivan Penava

Osoba za kontakt: Josip Dabro, 091 324 3749, josipdabro63@gmail.com

KLASA subjekta revizije:

URBROJ subjekta revizije:

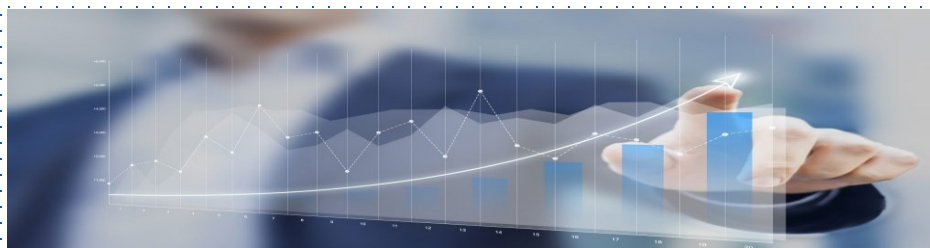
Datum sastavljanja obrasca:

Točka nalaza	Nalog ili preporuka	Plan provedbe						Izveštavanje o provedbi			Provedba i izveštavanje o provedbi nakon isteka zakonskog roka		Napomena DUR-a	Napomena subjekta revizije	
		Aktivnosti	Rokovi		Primjedbe DUR-a		Napomena DUR-a	Napomena subjekta revizije	Zakonom propisani rok za izveštavanje	Status	Datum izveštavanja	Status			Datum izveštavanja
			Planirani rok provedbe	Provedeno do datuma predaje plana	Primjedbe na aktivnosti i rokove	Usklađeno s primjedbama DUR-a									
1	2	3	4a	4b	5a	5b	5c	5d	6	7	8	9	10	11	12
■	Državni ured za reviziju preporučuje ustav unutarnjih kontrola	Državni ured za reviziju preporučuje knjigovodstveno praćenje rashoda prema aktivnostima namijenjenima ostvarenju ciljeva utvrđenih godišnjim programom rada i financijskim planom.		<input checked="" type="checkbox"/>		<input type="checkbox"/>									
■	Državni ured za reviziju preporučuje poslovne procese u područjima preuzimanja obaveza u ime i za račun Stranke, plaćanja predujmom	Doneti Proceduru o preuzimanju obaveza u ime i za račun Stranke, i Proceduru kod plaćanja	29.02.2024.	<input type="checkbox"/>		<input type="checkbox"/>			30.03.2024.	Provedeno	19.03.2024.				

# AUDIT FINDINGS AND RECOMMENDATIONS FROM PREVIOUS AUDIT

For 334 audit findings and recommendations given:

- ✓ actions were taken for 148 or 44,3 % of findings and recommendations
- ✓ 28 or 8,4 % were in the process of implementation
- ✓ Partially have been implemented 59 or 17,7 % findings and recommendations
- ✓ for 89 or 26,6 % findings and recommendation actions were not taken
- ✓ 10 or 3,0 % is not applicable due to change of regulations or non-implementation of activities





# AUDIT FINDINGS AND RECOMMENDATIONS FROM PREVIOUS AUDIT

SAO maintains a **Register of orders that have not been followed** and reports on the same to the State Attorneys Office which takes measured and **collects penalties** prescribed by the law on the SAO for non compliance

Number of orders and recommendations given to political parties, independent representatives and independent councilors

Audit year	Orders and recommendations given			in total
	political parties	independent representatives	independent councilors	
since 2007 until 2022	2 522	120	29	2 671



# THANK YOU FOR YOUR ATTENTION

