

**The Consequences of ‘Accounting Regulation without Accountants’:
The Case of UK Political Parties [draft / work in progress]**

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Abstract

Concerns about a lack of accountability and transparency often lead to calls for 'more' accounting information and regulation. The process of determining, and changing, the accounting rules normally involves the accounting profession to guide any 'accounting intervention' by state or non-state institutions. But what would happen if a state regulator instead does not rely on the profession to issue accounting guidance? This draft paper sets out the process and consequences of 'accounting regulation without accountants' in the context of UK political parties. It reviews the developments (since 1998) leading to the need for a common set of accounts for political parties and how this was implemented by the legislation and the UK Electoral Commission (EC). The actual consequences of this accounting regime are analysed from the different perspectives previously used in understanding the forms of, and motivations for, of accounting regulation. The paper's empirics and analysis form the basis of a broader debate on the potentially uncritical use, and unintended consequences, of 'accounting logic' and transparency initiatives by policy-makers.

Keywords: *accounting regulation; political parties; financial accounting; United Kingdom; transparency.*

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Introduction

*'A chacun son métier et les vaches seront bien gardées' (Florian)*¹

This moral by a French poet warns of the potentially negative consequences of entrusting work to someone who is not qualified and/or experienced to do so. I argue that this moral aptly summarises the issues associated with the uncritical use of mainstream accounting regulation and 'accounting logic' by so-called 'non-accounting' parties, often as part of a well-meaning attempt to improve standards of accountability and transparency. In this context, this paper documents and analyses the regulatory implications and the observed consequences arising from the legal requirement for UK political parties to submit an annual statement of accounts (SOA) to the Electoral Commission (EC), the country's independent regulator of the electoral process. According to the relevant legislation (Political Parties, Elections and Referendums Act, PPERA, 2000), the EC is responsible for establishing the detailed requirements on the form and content of the SOA, for determining the appropriate accounting methods and principles and additional disclosures to be provided by the political parties and for ensuring the SOA can be made available to the public. In light of this requirement, the EC issued a number of guidance documents (including a SOA 'framework') from 2002 to 2004 and determined that the SOA's role was to ensure public accountability, comparability and consistency across the political spectrum. The SOA purports to complement the separate disclosure requirements (on donations, election expenditure and now loans) which political parties and candidates have to meet on a frequent basis and during times of electoral contests.

This analysis of the SOA's developments is considered within the wider and contemporary debate of political party financing, whose main concern centres on the financial viability of political parties and its impact on the fairness of the democratic process and on the public (i.e. voters') confidence in the electoral and parliamentary system. Over the last 15 years, several government- and parliamentary-led reports have examined the various aspects of party financing (including accounting and reporting), notably the Committee on Standards in Public Life (CSPL, 1998; 2011²), the House of Commons Constitutional Affairs Committee (CAC, 2006) and a review by Hayden Phillips (Phillips, 2007). From the outset, the transparency of a party's financial transactions was seen to be a critical component of the electoral reforms and whilst some UK parties at the time voluntarily published their accounts, the reported information was perceived to be insufficient (CSPL, 1998). This led to a recommendation for the mandatory submission/publication of audited accounts of income and expenditure, based on a standard reporting period and a standard lay-out and headings for the accounts (1998, p. 54), which was to be implemented by the EC. However, over the recent years, there has been a number of criticisms and mixed reviews of the regulatory regime pointing for example to a lack of clarity regarding sources of income in the submitted accounts, the absence of common accounting practices which hampers comparability, and that the EC was not able to effectively regulate the parties on the basis of the information provided (CAC, 2006; Phillips, 2007; CSPL, 2011). In addition, the revelation that large donations were re-structured as loans to avoid their reporting (e.g. refer to Phillips, 2007, p. 11) provided an interesting example of 'accounting sophistication' by some political parties; in effect a non-application of the accounting principle of substance over form. A very recent announcement by the EC (2011a) indicates that the approach to regulating the SOA is changing but it is unclear whether these changes will improve the accounting information

¹ Generally translated as "If everyone keeps to their respective job, the cows will be properly taken care of"

² This CSPL has just published its final report (November 2011).

submitted by the parties. And throughout this period and to this day, mainstream UK accounting bodies and regulators have been largely absent from the process of determining the rules and changes to the SOA regime.

Consequently I ask the following three questions: (i) what has been the form and content of the accounting regime adopted by the EC? (ii) what have been the consequences of this accounting regime for the stated objective of transparency? and (iii) why the lack of formal involvement of accounting bodies in the SOA regime? From a broader perspective, Laughlin (2007, p. 280) suggests the beginnings of an explanation. He contends that accounting regulation and 'accounting logic' has permeated the thinking of social and political regulators who are not necessarily aware of the pitfalls of relying on summarised outputs measured by the financial flows of the organisation. Furthermore, Roberts' (2009) reflections on the limits of transparency initiatives have much resonance in this case since transparency is seen to be a key plank of the reforms in political party finance. In this respect, he asks (2009, p. 963) *"why...do we continue to invest ever more heavily in both the rhetoric and mechanisms of transparency in the full knowledge of its practical impossibility and consequent distortions?"*. Informed by the work of Strathern (2000) and Power (1997; 2007), Roberts (2009) suggests that the relevant actors (e.g. regulators, regulatees, stakeholders but also the media and wider public) espouse the ambivalence that transparency offers, for instance in simultaneously revealing simplistic outputs and concealing complex organisational realities. In such cases, the potential for an accountability relationship to be 'exercised' is de facto limited and thereby renders a transparency process which relies on accounting statements as one that is potentially counterproductive and devoid of any substance.

In an attempt to answer the above-mentioned questions and to illustrate the attendant issues with regards to UK political party accounting, this research adopts an exploratory approach and collates evidence from a number of publicly available reports, guidance documents, consultation responses and transcripts of public hearings published in the last 12 years. This is supplemented by an analysis of the SOA of the three main national parties over a period of five years to examine the 'consequences' of the SOA regulation. In addition, I interviewed three EC officers who are currently tasked with the enforcement and policy implications of the SOA. [Subject to comments and suggestions at the Workshop, the next stage of the research would involve (i) interviews with representatives of UK mainstream accounting regulators and bodies and (ii) accountants of the three main political parties to gather insights from the preparer's perspective]. The main findings regarding the regulation and consequences pertaining to the SOA are subsequently analysed in light of the theoretical frameworks germane to the study of regulatory regimes.

This paper seeks to contribute to the accounting literature in the following ways. Firstly, it focuses on a peculiar category of non-profit organisations which are not subject to the accounting and reporting rules pertaining to UK charitable sector. Although the income and expenditure levels of the political party 'industry' can be deemed to relatively small relative to the numbers for the mainstream charitable sector, political parties have a unique identity and ethos. Conceptually, they are the reflection of a democratic and pluralistic society and play a key mediating role in the process of delegation between the electorate and its representatives. Practically, they are the recipients of a significant amount of funds from private sources which are used to compete for political power and this monetary 'arms race' (CSPL, 1998; CASC, 2006; Phillips, 2007) now threatens the legitimacy of the democratic process. In addition, there has been a constant stream of studies relating to charity accounting, reporting and its regulation thereof (Palmer and Vinten, 1998; Connolly and Hyndman, 2000;

2010; Cordery and Baskerville, 2007; Hooper et al., 2008; Nicholls, 2009; 2010) and more so in the context of private sector accounting (e.g. refer to Robson and Young, 2009). However, there is to my knowledge no published study which examines the financial reporting practices and accounting regime of political parties in the UK (or in any other country)³. Secondly, the paper responds to Laughlin's (2007) call for more empirical research on the social and political aspects of accounting regulation, particularly when it is practised by seemingly uncritical 'non-accountants'. He argues that there is a collective responsibility amongst accountants to understand the forms of regulation and then challenge the claims made in the resulting regulations; a task that appears to have been only timidly undertaken by the relevant accounting bodies in this case. Based on an illustrative analysis of the role of accounting within the New Public Management (NPM) agenda, Laughlin (1997) is concerned with the effects of the 'accounting logic' in changing the public sector's emphasis towards the achievement of targets (results accountability). However, he has been less attentive to the transparency ideal that is implicit in an 'accounting logic'. To some extent therefore, I would argue there is a link between Laughlin's criticisms about the uncritical use of accounting logic and the issues with a transparency 'ideal' as expressed by Roberts (2009) - which I intend to illustrate with this empirical research.

The remainder of the paper is structured as follows. First, the literature review summarises the various theories of accounting regulation and provides relevant case studies of how accountants and other actors are generally implicated in the regulatory process, with an emphasis on charity accounting regulation. This is followed by a review of the discussions on the influence of 'accounting logic' and the pursuit of transparency. Second, the findings in terms of the context of political party funding, the development of the SOA guidance, its consequences, and the attempts at change are presented. Fourth, a tentative analysis is proposed and finally, the paper concludes with the wider implications of the study.

2. Prior Theoretical and Empirical Work

Theories of accounting regulation and relevant evidence

There are various theoretical perspectives that have been put forward to explain the various forms and consequences of accounting regulation (Gaffikin, 2005), some of which focus on the primacy of one or several specific 'interests' i.e. public, private and group interests (Baldwin and Cave, 1999). Public interest theories are based on the premise that the regulator devises rules and regulations in pursuit of a 'public interest' objective (Posner, 1974) e.g. public safety, consumer or investor protection. The regulator (and the regulation process it seeks to establish) is seen to act as an expert agency operating in a disinterested way for the benefit of society and its constituents. The intervention seeks to address the situation where market, social and/or professional forces are unable to ensure that 'adequate' information is provided to a range of interested parties. In the case of UK charity accounting for example, the gradual developments over the last 25 years leading to the regulatory backing of the Statement of Recommended Practice (SORP) can be linked to initial concerns about the poor quality of the accounting information provided by charities (e.g. refer to Bird and Morgan-Jones, 1981; Hyndman and McMahon, 2010). If left unchecked, it was argued that these accounting issues would undermine public confidence in the activities of the charitable sector, thereby affecting volunteer involvement and charitable giving. However, there are several issues with this perspective, not least the fact that public interest can be diversely conceptualised by the

³ Instead the emphasis of few accounting studies has been on the reporting of political donations in company accounts - mainly from a social accounting perspective (e.g. Cho et al., 2006; Thornburg and Roberts, 2008).

different parties involved in the regulation (Deegan, 2000). In addition, the image of an expert and efficient regulator, who is 'above the fray' and not influenced by the pursuit of its own interests or by the political calculations of other actors, has been considered to be an idealistic one (Gaffikin, 2005). Furthermore, in terms of competence and expertise, less than flattering accounts have surfaced in respect of the earlier regulatory work by the UK Charity Commission (e.g. Irvine, 1988; Cordery and Baskerville, 2007).

In contrast, private and group interest theories emphasise that regulation serves the interests of one specific or several groups (which might also include the regulator). The private interest approach is informed by the assumption that all actors are rational self-interested utility maximisers and this would determine their course of action with regards to the form and content of the regulation process. Hence, "*...policies are input into effect so as to enhance wealth or utility positions*" (Baldwin and Cave, 1999, p. 23). A number of labels (e.g. economic, special interest, capture) can be used to examine the behaviours of specific actors in response to a regulatory action. For example, capture theory has been often invoked in the accounting literature to explain how the accounting profession (especially the large accounting firms) interact with, and 'capture' regulatory institutions to ensure that the rules the latter enact favour its own interests (Deegan, 2000). Walker (1987) argues that capture can be achieved in a number of ways, such as influencing the agenda of the regulator, neutralising its enforcements efforts, or "*...if in a subtle process of interaction with the regulators the regulated party succeeds (not even deliberately) in co-opting the regulators into seeing things from their own perspective and thus giving them the regulation they want..*" (1987, p. 281). This suggests that the 'phenomenon' of capture does not arise outright and may be the inevitable outcome of regulation. Bernstein (1955, cited in Baldwin and Cave, 1999, p. 25) provides an extension of capture theory by arguing that a regulator experiences an ageing process (life-cycle) starting with *gestation* i.e. where a problem leads to political and legislative intervention and the creation of a regulatory body. This is followed by *youth* where the regulator is relatively inexperienced and is outmanoeuvred by the regulatees but yet operates with a "*crusading zeal*". *Maturity* is said to occur when political support for the regulator's objectives fades away and devitalisation develops within the organisation. The regulator becomes more experienced but it pays more attention to the needs of the regulatees and adopts a reactive stance. Finally, *old age* sets in characterised by debility and decline and the regulator is observed to resort more to *judicialised* procedures whilst giving priority to private rather than public interests.

Other representatives of economic interests (e.g. industry) have recourse to lobbying activities to influence the regulator's position with regards to specific accounting standards (e.g. Van Lent, 1995). The influence of private interests is also applicable in the case of the charitable sector. Whilst Hyndman and McMahon (2010) portray the developments of the UK SORP as a story of 'stakeholder' influence, it is noteworthy from their paper that SORP committee members are mainly drawn (p. 460) from the UK mainstream accounting profession and regulator (Accounting Standards Board - ASB). Since the charitable sector has become an important sector for accounting and audit services (p. 462), the form of regulation could be interpreted as an attempt to safeguard the private interests of the accounting profession. Alternatively, Hyndman and McMahon (2010, p. 461) also document the more recent influence of government in the process of accounting regulation not merely from a legislative angle but with regards to the phenomenon that the UK charitable sector is an important provider of (outsourced) public services. Government and its elected politicians thus have a private interest (e.g. staying in power) in ensuring that charities can deliver services and can adequately account for the use of public funds.

By emphasising the stakeholder influences in accounting regulation, Hyndman and McMahon's (2010) account of the UK SORP's developments however imply that accounting regulation is not the result of satisfying one or few groups with similar interests but rather involves dealing with competing interests. Hence, regulatory developments could be the result of the interactions between competing groups and between such groups and the State (and its appointed representative) (Baldwin and Cave, 1999; Van Lent, 2005). For each group, control of, or power over, the regulatory process is seen as a 'competitive advantage' to be sought or retained. At one extreme of the 'group interest theories' spectrum, pluralism implies that the sources of power are unequally and widely distributed amongst individuals and groups within society, with no particular actor having a dominant power (Van Lent, 1995). As a result, conflict between these interest groups (including the State) is the 'default setting' which may lead to delays, force unilateral legislative-led intervention (particularly in the aftermath of a failure or fraud) or culminate in a process 'owned' by a selective coalition of interests - all potentially resulting in inadequate forms of accounting regulation. Whilst Cordery and Baskerville (2007) did not rely on this interpretive frame in their analysis of the accounting regulation of New Zealand charities, their description of the initial (and failed) attempts at improving accountability in the sector (2007, p. 17-18) due to "...*sector diversity, lack of leadership and funding, absence of a dominant group*" is symptomatic of this pluralist notion. At the other end of the spectrum, the concept of corporatism argues that the State will seek to incorporate major interest groups into the regulatory process, with the aim of maintaining harmony and avoiding conflict by allowing the groups to share power (Van Lent, 1995), whilst excluding non-participating interests (Baldwin and Cave, 1999). As in the case of many other professions, the accounting profession possesses the expertise (a body of knowledge) and is able to control access through membership and entry requirements and in effect can monopolise 'access' to this accounting expertise. In several case studies, corporatism has been found to be an appropriate description of the way the profession has sought to be involved in various instances of accounting regulation (Willmott, 1986; Walker and Robinson, 1994). If one considers the UK developments in charity accounting (Hyndman and McMahon), one can identify that there was an initial resistance to the SORP (1988) put forward by the accounting profession on the grounds of its strong commercial (i.e. not charitable) emphasis. Subsequent attempts in collaboration with the Charity Commission (CC) led to the development of sector-specific reporting standards, particularly after legislation empowered the Commission to such accounting standards. Since then, the accounting profession has remained a powerful co-developer of the SORP standards and agenda.

Notwithstanding some of the interesting insights derived from the interest group theories, some commentators have been critical of the assumption of a rational actor model and for instance argue that "*There is much more than individuals' preferences that drive regulation*" (Gaffikin, 2005, p. 8; also Pollanen and Pollanen, 2007; Robson and Young, 2009). One group of critics adopts the broad tenets of neo-institutional theory and contends that institutional structure and arrangements together with social processes have a notable impact on the form of regulation (Baldwin and Cave, 1999) and that individual preferences are themselves influenced by the social, organisational and cultural norms. Institutional theories are invoked within a variety of disciplines engaged in the debate about regulation. Notably, Baldwin and Cave (1999) refer to the socio-legal literature which examines regulation from a perspective akin to a principal-agent problem i.e. when the elected official enacts regulations that have to be enforced by unelected civil servants and officials, leading to bureaucratic drifts and the need for further procedures to ensure the original mandate of the legislation is preserved (1999, p. 28; refer also to Majone, 1996). Interestingly however, in the case

political party regulation, one may question the motivations of the mandate in the first place as elected officials would have direct interest in the potency of the regulation. Another example of an institutional analysis is drawn from the sociology literature and is concerned with the ‘closeness’ (Grabosky and Braithwaite, 1986) that exists between the regulatory body and the regulated organisations, whereby the ‘thicker’ the networks (experience, outlook, class, frequency of contacts) between regulator and regulated, the more likely cooperative arrangements and capture would ensue⁴. Specifically in the case of accounting, Hopwood and Miller’s (1994) neo-institutional perspective argues that regulation is the consequence of a complex negotiation between competing interests that assign different roles and objectives to an accounting or disclosure requirement, often arising from the need to satisfy different audiences (e.g. refer to Nicholls, 2010).

A second group of critics adopt a political economy perspective although this label is used rather liberally to describe critical as well as interpretive approaches to the issue of accounting regulation. For example, Tinker (1984) does not view accounting regulation as a process where public, private or group interests are promoted but primarily as a vindication of the capitalist system and the continuation of income, wealth and class inequalities germane to capitalist democracies. Hence, he argues that accounting regulation “...serves to protect the general or collective interests of capital and the requirements of the capital accumulation process” (1984, p. 66) and advocates that the social factors and consequences of any accounting regulation must be part of the analysis. On the other hand, Puxty et al. (1987) propose an interpretive framework to help understand the institutions and processes of accounting regulation in advanced capitalist societies and to highlight how these affect the content and consequences of accounting policies and practices. Underlying this framework is the assumption that the provision of accounting information is a political process and that accounting is primarily a social practice. Furthermore, the way a nation-state approaches regulation is not independent of the historical and political-economic contexts of the country’s emergence and development (1987, p. 275). This would include an appreciation of the material and ideological forces that have been at play in the country. As an example, Puxty et al. (1987) refers to the laissez-faire ideology and the primacy of the City as a prominent financial centre which created favourable conditions for accountants to occupy a key position in society. In a similar vein, one could argue that the New Public Management (NPM) agenda, the gradual withdrawal of the State from key sectors of the economy and from public services coupled with an ideological adherence to concepts of ‘choice’, ‘accountability’ and ‘transparency’ might also explain a preoccupation with financial or accounting outcomes - thereby giving increased prominence to the role of accountants and accounting in society. To a large extent, this has led to a concurrent rise, if not an obsession, with audit and auditing methodologies to ‘verify’ the increasing processes and outputs of accounting and accountability systems - which Power (1997, p. 3-4) refers to as an “audit explosion”.

Drawing from the work of Streek and Schmitter (1985), Puxty et al. (1987, p. 276) contend that the mode of accounting regulation existing at any time is an outcome of the nexus between the three organising principles of social order: market forces, bureaucratic/hierarchical controls and communitarian ideals. For the first organising principle, accounting information underpins the relationships between the various contractual (and

⁴ For instance, the UK Financial Services Authority (FSA) has been the subject of public criticisms as its ‘light touch’ regulation of the banking and finance services sector failed to prevent or predict the banking crisis in 2007. One of the contributory factors would be the perceived ‘small relational distance’ between the FSA and the regulated firms. The implications of ‘light touch’ regulation are elaborated in Nicholls (2010).

wealth-maximising) parties (e.g. managers, suppliers of finance, firm) and the determination of the form and content of this information is solely the remit of these market ‘participants’ (referred to as liberalism). The second organising principle emphasises the coercive power of the State (Ryan et al., 2007) and its ability to impose rules and procedures - which are mainly enforced via bureaucratic agencies - with the aim of providing security and equitable treatment for all its citizens. For example, the accounting, auditing and reporting requirements set out in the Companies Act (and the penalties for failing to comply) provide the basic ‘information set’ on which everyone might rely on to hold companies to account. Accounting regulation exclusively set by the State is referred to as legalism. Finally, communitarian ideals refer to the values and principles that ‘make up’, and are central to the development of, a community or a civil society or a group thereof. The fostering of collaboration, mutual respect, trust, a sense of belonging, ethical conduct (Puxty et al., 1987; Ryan et al., 2007) are some of these ‘gentlemanly’ ideals that have been associated to the accounting profession and various membership bodies (e.g. ICAEW, ACCA, ICAS) profess an adherence to these higher-order community ideals. Puxty et al. (1987) argue that pure forms of regulation (i.e. relying only on market, state or community organising principles) do not exist and that instead mixed modes of regulation are more apparent in the case of accounting regulation. When they analyse and compare the accounting regulation systems in Germany, Sweden, United States and United Kingdom, Puxty et al. (1987) for example find varying levels of influence from each organising principle labelled as associationism (close to liberalism but with some influence from the community) and corporatism (close to legalism but with some influence from the community). As Ryan et al. (2007) convincingly demonstrates, this framework provides a useful interpretive lens to analyse the longitudinal developments in the regulation of public sector accounting in Australia i.e. respectively shifting from liberalism to associationism, corporatism and eventually legalism. In spite of the acknowledgment by Puxty et al. (1987) that the framework is not complete (p. 289), it is noteworthy that there has not been any further development in the mixed modes of organising principles. Furthermore, the framework has not been considered in charity accounting regulation, particularly in assessing the interactions between charitable sector regulators and the accounting regulators and/or profession. Whilst the recent work by Cordery and Baskerville (2007) and Hyndman and McMahon (2010) provide interesting longitudinal narratives of charity accounting regulation, they do not attempt to analyse the developments using political-economy frameworks; such as the one by Puxty et al (1987).

Contrastingly, there have been recent attempts (Irvine and Ryan, 2010; Nicholls, 2010) at analysing charity accounting regulation by relying on a broad neo-institutional framework developed by Hancher and Moran (1989). According to Baldwin and Cave (1999), this strand of institutional theory incorporates socio-legal, sociological, cultural and organisational elements and is critical of the frameworks which portray regulation merely as a contest between public authorities and private interests. Instead, Hancher and Moran (1989) contend that regulation is conceived within a ‘regulatory space’ and according to Nicholls (2010), this space acts as an arena in which “..*diverse centres of power, competing discourses and normative logics of regulation interact under conditions of cultural, political and technical influence to achieve ascendancy in terms of regulatory outcomes and structures*” (2010, p. 397). The dimensions of a regulatory space can be analysed in a national setting and the framework enables one to incorporate the specificities of a particular jurisdiction at one (or different points) in time. The dimensions represent (i) the boundaries or parameters of the regulatory action, (ii) the actors or occupants engaged in the discourse and (iii) the specific aspects that need to be debated and agreed upon. In addition, occupants can play either a major or minor role and typically enter the regulatory space, set out their position and,

through cooperation and contest, attempt to achieve their regulatory objectives (Irvine and Ryan, 2010). Hancher and Moran's (1989) framework is attractive in that it can subsume the various influences present in other theoretical models of regulation, such as the role of networks linking actors and regulators (e.g. Grabosky and Braithwaite, 1986; Richardson, 2009), and the historical and political-economic context (Puxty et al., 1987; Young 1994; Ryan et al., 2007).

Irvine and Ryan (2010) adopt the regulatory space framework to compare the developments and state of charity accounting regulation in five developed countries (England & Wales, Canada, United States, Australia and New Zealand). Table 1 below summarises their main findings and the characterisations they assign to each regulatory environment.

Country	Form of 'regulatory space'	Summary
England & Wales	Integrated	Initial lack of interest by the accounting profession which eventually improved from the 1980s. Accounting requirements although legally the remit of the CC, are jointly decided by the CC and ASB
Canada	Uncertain	Traditionally regulated by the Income Tax authority (Canada Revenue Agency). The Public Sector Accounting Board is responsible for standards applicable to not-for-profits (NFP) controlled by government, whilst the Canadian ASB issues standards for private sector NFPs. Involvement of the Chartered Institute of Chartered Accountants in issuing technical guidance but recent adoption of IFRS by Canada has created issues. Little evidence of co-operation between the actors
United States	Centralized	Primacy of the Internal Revenue Service (IRS) in determining the non-profit (and tax exempt) status of organisations and requiring standard accounting returns (Form 990). Form 990 has been amended to take into account demands of other users. Whilst NFP regulations at state level and IRS requirements can be enforced, accounting standards being developed in the context of the convergence agenda at the Financial Accounting Standards Board (FASB) cannot be enforced. Whilst the IRS has been the central actor, there is potential for the regulation to be decided more cooperatively
Australia	Vacuum	No overall regulatory body for NFPs. The Australian Tax Office (ATO) grants tax-exempt status to NFPS but does not have any specific accounting requirement. In spite of various public inquiries recommending the development of accounting standards, the government has been very slow at implementing the proposals. The Australian Accounting Standards Board (AAS) has been focusing on private sector companies and only recently has it been making proposals to develop sector-specific standards.
New Zealand	Complex and congested	The main regulator is the NZ Charity Commission (NZCC) and it has enacted a number of reporting requirements. However, for certain incorporated charities, there is overlap with the requirements set out by the NZ Financial Reporting Standards Board - an emanation of the local professional body and approved by the Accounting Standards Review Board (ARSB). There is little to no dialogue between the accounting standard-setter, the regulator and the NZCC.

Table 1: Type of Regulatory Space Pertaining to the Accounting Regulation of Non-Profit Organisations (Summarised from Irvine and Ryan, 2010)

Reflecting on the different regulatory arrangements and their implications in each country, Irvine and Ryan (2010) conclude that different actors (tax authority or charity regulator) tend to dominate the 'space' and contend that the timing of particular events or crises can enable the main regulator to reinforce its position and retain its dominant influence (2010, p. 14) - generally reflected in a decision to tighten the accounting requirements. Furthermore, it can be seen that developments in 'general purpose' financial reporting (e.g. moving to international accounting standards for listed companies) can contribute (positively or negatively) to changes in the regulatory space and eventually impact on the adopted policy. A

final issue seems to be the degree to which mainstream accounting regulators are keen to integrate charity-specific accounting standards in their actual standard-setting or regulatory agenda.

Nicholls (2010) also adopts the construct of regulatory space to examine the disclosure and reporting mechanisms established for a new legally-defined form of social enterprise in the UK, known as the Community Interest Company (CIC). The CIC status offered an alternative legal and regulatory framework to social entrepreneurs other than the ones relating to charities or industrial and provident societies (IPS). Principally, CICs operate for the benefit of the community but are allowed to trade, to earn a profit and to remunerate their directors whilst not receiving any tax benefits. Other than providing a standard set of annual accounts, the CIC has to submit a community interest report (known as a CIC34) focusing on stakeholder and community accountability. CICs are registered and monitored by an independent body referred to as the CIC Regulator (CICR). Nicholls (2010) analyses this recent regulatory structure by first considering the boundaries of regulatory space which, from the outset, was primarily underpinned by the dominant logic of light-touch regulation. He argues that light-touch regulation is symptomatic of a new 'cooperation' logic which supersedes the command and control thinking inherent to traditional regulation - whilst still retaining the ultimate (but in reality nominal) threat of sanctions. Drawing from previous discussions on the changing nature of accounting regulation and the auditing processes (e.g. Power, 1997), Nicholls (2010, p. 399) associates light-touch regulation to instances where the direct inspection of compliance is replaced by an indirect inspection of systems for self-checking and where regulatory structures favour the control of the mechanisms of control rather than focus on the substantive insights that could be derived from the data submitted by the regulated organisation. In this regard, Nicholls (2010) concludes that CIC34 disclosures based on light touch regulation act as form of symbolic good governance, as evidenced by the relatively limited amount of information that was required and the fact that very little functional use of the information was made by the CICR.

Subsequently, Nicholls (2010) identifies the key actors in this regulatory space, namely the government policy makers championing the cause of social entrepreneurship, the CICR and the users of the disclosure information. Whilst the latter feature prominently in the documentation supporting the development of CICs and their disclosure requirements, users did not participate in the regulatory process. Furthermore, Nicholls' (2010) cursory analysis of a small sample of CIC34 reports and presentation of three specific cases reveals significant variability in the reported information and overall, he concludes that the content has little value to users and that the regulatory requirements might have been insufficient to provide meaningful data for the majority of users. In addition, whilst he argues that the regulatory role of the CICR has been constrained by the light touch regulation logic, Nicholls (2010) is also critical of fact that the CICR has as well a mandate to encourage and market the CIC status - an objective which could interfere with any attempts at improving the form of regulation. Overall, Nicholls (2010) provides an illustration of how the regulatory space construct could be deployed in terms of the three key dimensions of the 'space' (boundaries, actors and areas of contention/negotiation); an issue which was less apparent in Irvine and Ryan's (2010) comparative analysis of charity accounting regulation. Interestingly as well, Nicholls (2010, p. 408) highlights the fact that the requirements of the CIC34 report are not informed by the significant developments in the measurement of social performance and social accountability (2010). Whilst the accounting profession might not have been the main actor in championing a greater use of mainstream social accountability measures in CICs, it is noteworthy that the UK Charity Commission - which would have some expertise in the

determination of social measures of performance - appears not to have been involved in the CIC regulatory process. In effect, there are no explicit reasons for the absence of certain 'obvious' actors within the regulatory space and I would argue that identifying whether they were excluded (or excluded themselves) may also contribute to one's understanding of the accounting regulatory process.

In conclusion, the review reveals that although there are a number of theoretical models seeking to explain accounting regulation, these have been sparsely applied in the case of non-profit charity accounting regulation. In my view, neo-institutional (e.g. Hancher and Moran, 1989) or political-economic perspectives (e.g. Puxty et al., 1987) offer greater potential to locate the 'how' and 'why' of accounting regulation (and their apparent successes or failures) within a changing societal context. In this regard, Laughlin's views as to the growing popularity of an 'accounting logic' in the societal and political spheres and Roberts' (2009) concerns with the pursuit of transparency are important elements of a changing context.

The pursuit of an 'accounting logic' and of 'transparency'

Laughlin (2007, p. 280) contends that 'accounting logic' is visible when monetary flows are the key content of any regulatory process. It is a way of thinking that makes clear linkages between financial inputs to outputs and outcomes achieved which broadly allows for an evaluation of the use of the financial input, irrespective of the fact that these so-called 'clear technical' linkages (e.g. as illustrated by the use of traditional ratio analysis) are tenuous and incomplete at best, especially when one seeks to assess non-profit making organisations. According to Broadbent (1998), 'accounting logic' creates an 'aura' (Gallhofer and Haslam, 1991, p. 488) of *"...completeness and precision in its representation of reality which has ramifications for the control process and comes to dominate it"* (1998, p. 272). This 'reality' is thus made visible to all and it becomes easier to monitor the reported information and figures and to incompletely 'judge' an organisation on this basis. In addition, Broadbent (1998) argues that 'accounting logic' can be seen as a technology of modernity and its spread to various settings is merely a result of the modernist thrust of contemporary society. As an illustration of the role of the 'accounting logic', Laughlin (2007) highlights its influence in communicating more directly the tenets and expectations of NPM. The focus on a 'means-ends' analysis of public services caused policy-makers and decision-makers to shift their attention away from the long term sustainability of a service to an emphasis on ensuring short-term efficiency and delivery of the same service. The widespread adoption of performance targets in sectors such as health and education is seen to be reflective of this accounting logic as financial settlements become linked to, or are dependent upon, the achievement of numerical and often arbitrarily-defined targets. Although anecdotal, the negative consequences of this 'accounting logic' on the certain parts of the National Health Service health have been laid bare in a number of instances and in relation to a number of issues (e.g., Resource Allocation and Budgeting, the use of Private Finance Initiatives and the Mid-Staffordshire crisis - refer to the Guardian articles by Carvel, 2006; Campbell and Meikle, 2011; Clark, 2011 respectively). Yet Laughlin (2007) believes that politicians and other policy makers are now imbued with the thinking that comes from accounting logic and this will be increasingly reflected in the regulatory decisions and processes. At the same time, the potential and actual shortcomings of the 'accounting logic' appear to be ignored or minimised.

Laughlin (1992; 2007) and Broadbent (1998) conceptualise 'accounting logic' primarily in terms of the means-ends relationship and the (perceived) certainty that it conveys in terms of

its measurement. However, they do not explicitly associate transparency to their notion of 'accounting logic'. [To be developed]

A recent paper that is critical of the unrealised potential of public disclosure (transparency) initiatives is Leong and Hazelton (2010), who examines the role of central database regimes (CDRs) in enhancing accountability. He focuses on the political finance disclosure regulation in an Australia state (New South Wales) whereby all political parties enter details of donations received and the sources thereof in a database that is available to the public. Leong (2010) analysed a large number of stakeholder responses following a recent public consultation on the disclosure regime and concluded that 'aspirations' of the CDR as a tool of democratic accountability mechanism were not met due to lack of timeliness, comprehensiveness and relevance - in spite of clear and consistent stakeholder demands and expectations. To some extent, one might view the CDRs as an example of a mechanism of transparency that does not in practice lead to better information, confidence or awareness. [To be developed]

3. Accounting Regulation of Political Party Accounts: The Developments

Context of the regulation: a funding crisis and the power of large donors

Traditionally, UK political parties had been able to rely on revenues from mass membership to finance their electoral contests with efforts (and costs) mostly concentrated at the local (constituency) level. However, significant declines in local membership income⁵ and the rising costs of modern methods of national campaigning, policy-making and advocacy (CASC, 2006; Phillips, 2007) have gradually resulted in a situation *where "...there is a now a long term structural instability in the financing of political parties in this country"* (Phillips, 2007, p. 1). These different reports highlight the following three key issues. Firstly, the parties' continued dependence on large donations and loans was (and still is) seen as a reaction to this contemporary context. As regularly reported in the media, instances of financial largesse by corporations, large organisations (e.g. trade unions) and rich donors to political parties contribute to a public perception that political parties are not acting in the spirit of the policies supported by their wider membership/electorate and more crucially, they cast doubts on the ability and willingness of the parties' elected representatives to make decisions on the basis of the public interest. Concurrently however, there is a widespread and functional view that the targeting of a few large donors is more efficient and cost-effective than chasing larger groups of smaller donors (CASC, 2006, p. 14), thereby encouraging the former behaviour whilst at the same time seeking to limit, or altogether evade, the publicising of such donations⁶. Secondly, public disquiet regarding questionable sources of party income is only matched by concern about the high levels of party expenditure, particularly those incurred at national level and accounted and reported as running costs which are (unlike campaign expenses) not capped by law. According to the EC (2011b), total expenditure (including campaigning costs) reported in the accounts of the three main national parties (Conservatives, Labour and Liberal Democrats) were in excess of £90 million for each of the two recent national elections (2005 and 2010) whilst the declared amounts for actual campaigning expenditure were about £40 million and £30 million in 2005 and 2010 respectively. Hence, although total expenditure expectedly declines in between election years, the remaining running costs nonetheless represent major outlays (e.g. a £60-70 million range

⁵ According to Phillips (2007, p. 1), fifty years ago one for every 11 voters was a paid-up member of a political party. This ratio has declined to one in 88.

⁶ The 2006 case of treating donations as loans (in spite of the very preferential terms under which they were granted) to avoid their recording as an official donation is a case in point (Phillips, 2007)

between 2006 and 2009) which in turn translate into persistent deficits for the parties, particularly for Labour and Conservatives.

At the centre of this continuous spending is the belief that electoral victory is, significantly or wholly, dependent on spending more money than opponents, thereby leading to a situation that is akin to an 'arms race' (CSPL, 1998; CASC, 2006; Phillips, 2007), which the most recent review (CSPL, 2011) has now attempted to address by recommending a donation cap per source and compensating some of the lost revenue through state funding and which has been roundly rejected by the main parties (Wintour, 2011). As in the case of party income, the level playing field argument and the fairness of the electoral process surface given the possibility for a party to win an election on the basis of its spending ability and not on an *"...informed judgement by the electorate of a party's policies and competence to govern"* (Phillips, 2007, p. 2). A third and final issue has been the possibility of parties being primarily financed by public funds as a means to reduce the issues outlined above. Although parties already receive some public funds (known as Short, Cranbourne and Policy Development Grants), a higher reliance on state funding may imply higher levels of accountability to the State on aspects such as value for money and cost efficiency to the taxpayer. Coupled with an increased scrutiny of internal transactions and spending, any stronger use of financial controls by state bodies envisaged in such a scenario might be viewed as a threat to the independence of political parties.

From the outset, it had been expected that statutory accounting and reporting requirements would allow interested individuals/organisations (including the EC) to assess the parties' sources of income, the nature of their expenditure and this visibility would somehow self-encourage parties to be mindful of seeking large donations and engage in so-called "campaigning binges" (CASC, 2006, p. 19). More than a decade afterwards, the assessment appears to be bleak on the contribution of the accounting and reporting requirement to the transparency agenda. For example, the CASC (2006, p. 9) argues that it remains difficult to obtain a precise picture of the income and expenditure of political parties, blaming it on a lack of common or standard accounting practices (p. 16; also Phillips, 2007, p.14 and p. 23) and arguing that the regulator has been ineffective in dealing with the parties' reliance on large donations and the spiralling non-campaigning expenditure (p. 24). Phillips (2007) reported that even the parties believed that some of their spending may not be value for money. In addition to the specific accounting issues, the recent reports (CASC, 2006; Phillips, 2007, CSPL, 2011) bemoan of the general consequence of transparency measures adopted in the legislation in that the disclosures provided more blatant evidence of the dependence of parties on a few large donors and of the excessive spending patterns of parties during and in between elections, thereby further depressing public confidence in political parties. In the words of the CASC (2006, p. 21), *"...transparency does not solve problems but draws attention to them"* and the 'business as usual' behaviour of political parties suggests that the transparency measures which in essence rely on public outcry or media criticisms are not sufficient in changing the way political parties are structured and operate.

How it all started: transparency and the gestation/birth of a new (accounting) regulator

The imbalances in political party funding and the perception that money can buy political influence (i.e. via private donations) and voter affiliation (i.e. via advertising and related promotional expenditure) were the key issues at the centre of the work and reforms recommended by the CSPL (chaired by Lord Neil) in 1998. This report was commissioned by the newly elected Labour government with a wide remit to make proposals regarding all aspects of political party regulation. Previous attempts (notably the proposals in 1994 by the

Home Affairs Select Committee to develop a code of practice for party accounts⁷) were unsuccessful due to significant disagreements along party lines. It is noteworthy that the opening statements of this influential report highlight the importance of transparency, namely:

“The most significant part of our philosophy depends on transparency. Some of our witnesses suggested this in itself would solve all the problems. While we accept transparency is of major importance, we do not believe that it is sufficient by itself.”

(CSPL, 1998, p. 2)

The committee emphasised that transparency would ensure that (i) the public and the media know who is financing each political party, (ii) rumours and suspicions are dispelled, (iii) the possible secret influence over Ministers and policy is greatly diminished and (iii) public confidence in the probity of the political process is raised (1998, p. 47).

Until now, the regulatory framework for political parties had been seen to be part of the problem which Ghaleigh (2000, cited in CASC, 2006, p. 9) described as a “*nonsensical, loophole ridden patchwork*” and a consensus had been gradually building for the establishment of a national regime and a new agency to regulate parties and their finances. The CSPL (1998) thus recommended the full public disclosure of a donation (including benefits in kind) made to political parties over the threshold of £5,000 and £1,000 respectively at national level and at local level in any financial year from any one person or source. Donations had to be received from a permissible source and this effectively banned funding from foreign entities or bodies. A national cap⁸ on expenditure during a period of general election was established. The CSPL (1998, p. 2) also recommended that “*..clear rules on the preparation and auditing of a political party’s annual accounts and national expenditure on an election*”, which would be prescribed by the new regulatory body i.e. the Electoral Commission. The CSPL (1998, p. 53) supported the standardisation of the financial year-end for political party accounts, a standard lay-out with pre-defined headings and the need for an auditors’ certificate. It also asserted that the accounting for donations and expenditure would need to take into consideration sponsorships and donations in kind. An issue which remained unresolved at the time related to existence of various local and regional organisations that are affiliated or associated to a national party e.g. Constituency Labour Party (CLP) or Constituency Conservative Associations (CCA). The CSPL (1998, p. 56-57) implied that the national party would be responsible to ensuring all donations received by these units would be properly disclosed to the EC but it did not dwell on the annual reporting implications i.e. whether the annual accounts and reporting would relate to the entire ‘economic’ entity - as in the case of parent and subsidiary companies - or on the basis of the different legal (and mainly unincorporated) entities.

Throughout the report, the assumptions and potential issues underlying the preparation of a ‘standard’ set of accounts were not elaborated in great detail. During the deliberations (reported in the transcripts and evidence volume) leading to the report, much was instead made of the fact that the different political parties had been voluntarily disclosing their accounts to the public and to the CSPL. Attitudes as to what exactly should be disclosed in the annual accounts however differed along party lines - for example that the names of people donating in excess of £5,000 could be provided but without specifying the amounts of donation each of these persons would have been made (1998, p. 50). In addition, the

⁷ As reported in a research report by the House of Commons Library (HCL, 1999, Vol. 2, p. 11), the Home Affairs Select Committee report provided more insights on what would be expected in a set of party accounts but emphasised that there was no need for precise and binding rules to be laid down in this respect

⁸ This is in addition to a cap on local expenditure by party branches and by the candidates.

accounting for donations and in kind was seen to be a fertile ground for manipulation at the local level (referred to as ‘creative accounting’; CSPL, 1998b, pp. 3, 17 & 24) as a means to ensure that campaign expenditure was within the accepted limits. With regards to discussions on the form of the annual accounts, only one submitting organisation (Alliance Party of Northern Ireland) suggested that a reliance on mainstream corporate accounting practices would imply flexibility in the format of accounts and also highlighted the issue of consolidating the accounts of political parties (main organisation and local branches):

“Registered political parties should be required to submit annual accounts - of a type similar to those of limited companies - to the regulator. There should be flexibility in allowing for different formats of accounts but this should not mean that accounts for some constituent parts of a party need not be included.”(1998b, p. 585)

Furthermore a very candid response by the Chief Electoral Officer for Northern Ireland revealed a regulatory ‘attitude’ to the monitoring of accounting information in the specific case of Northern Ireland:

“First, the actual expenditure is not really examined. The whole system that I and returning officers operate is simply to mechanically receive the documentation, to check that the appropriate vouchers and receipts are there and that the necessary declarations have been included. It is not our function to analyse those or to go out and audit them. The whole process in theory is self-policing in the sense that any party member or candidate can go and examine the accounts. In practice that does not work. Very few people examine the accounts and sometimes one wonders if there is a tacit understanding that one does not look at them. To say that the accounting system works is not, I think, correct. There is a system, but I do not regard it as working. It is simply meeting the laid down requirements by a very mechanical device.” (1998b, p. 588, par. 7134 & 7135)

Whilst it is acknowledged that the above might have represented the views of a small minority of actors, it remains that the issue about which accounting model would be used (and how applicable would it be to the political party context) and how the new regulator would monitor the accounting statements submitted by the parties remained largely unanswered. The admission that the accounts are not actually monitored or used could be reflective of the fact that the accounting requirement in the case of political parties could be largely symbolic. However, the overall lack of discussion on the accounting implications is possibly not surprising given the lack of accounting ‘actors’ in the submission. A review of the list (1998b) of organisations and individuals submitting oral (about 100 individuals) or written evidence (over 400 submissions) revealed that not a single submission was made by an ‘expert’ accounting organisation e.g. accounting/audit firm, membership bodies or UK accounting regulator (ASB or CC). In addition, the fact that the CSPL was explicitly considering the auditing of party accounts did not either lead to any submission on the implications for auditing practice and reporting.

Subsequent to the adoption of the report by the government, a formal consultation ensued with the publication in 1999 of a White Paper setting out the government response and the proposed changes to the law. With regards to the accounting implications, there were no changes to the main thrust of the proposals except for the need to distinguish that reporting requirements might have to be tailored to the size and complexity of political party organisations, typically between the large national party structures (i.e. headquarters) and the small local or regional organisations (branches) –

both of which would be separately registered and accountable to the Electoral Commission.

At this point, a review of the documentary evidence reveals that only one member of the accounting profession (Institute of Chartered Accountants in England and Wales, ICAEW, 1999) intervened in this emerging regulatory space by a way of written response to the 1999 consultation document and proposed bill published by the Home Office. The ICAEW identified a number of fundamental issues and signified it would like to enter the 'space' on formal terms. Alongside a number of other legal and governance clarifications (i.e. notably the point that the bill erroneously required accounting records to give a true and fair view of the financial affairs), the ICAEW makes a forceful argument that the following have not yet been addressed in the case of party accounts:

- (a) An appreciation of the users' information requirements would be important to decide on the form and content of accounts.
- (b) Whether charity accounting might be an appropriate model as long as political parties have similar governance structures i.e. that trustees of political parties have similar accountability and stewardship duties and roles compared to a charity's board of trustees.
- (c) The suggestion that the EC's information requirements may best be met by political parties submitting 'returns' rather than full financial statements that give a true and fair view. Many disclosures and accounting requirements pertaining to charities might not be adequate for political parties, especially if "*the main user of the party's financial statements is the Electoral Commission charged with ensuring propriety*" (1999, p. 3)
- (d) The proposal that party sub-units and the national structures report submit separate accounts to the EC would be problematic as it would not deal with the issue of control and influence the main party may have on the sub-units. The absence of consolidated accounts would not be compatible with a true and fair view requirement.
- (e) The auditors' role and form of report have to be negotiated with the Auditing Practices Board (APB), in terms of a reporting requirement which may not expect auditors to give a true and fair view opinion. Instead, the ICAEW suggests that a reporting accountant can provide an opinion on the returns submitted by a political party.

The ICAEW's response can be seen as an attempt to deploy a space for the traditional network that handles the technicalities of specific accounting practices (Irvine and Ryan, 2010). Hancher and Moran (1989) emphasise the role of competing discourses within the space and in this response, the ICAEW brings in tried and tested issues - but implicitly an expert discourse - relating to 'users of financial information', 'generally accepted accounting practice', 'SORP', 'consolidation of financial statements', 'true and fair view' and 'audit opinion' as a means to re-orient the space towards the technical complexities and consequences of requiring audited annual accounts. Whilst the content of the response was subtly mainly couched in the form of options that would be available to the government (e.g. true and fair financial statements or standard returns), the intervention of the accounting (and audit) bodies was deemed to be inevitable given the lack of attention (and understanding) given so far to the above-mentioned accounting issues. For example:

“If it is decided that true and fair financial statements are necessary, we would advise that the regulations are drafted to provide a framework and detailed accounting matters are addressed through an accounting standard setting process. For example, it may be appropriate to develop a Statement of Recommended Practice.....Even if the statement of accounts is highly structured return to the Commission rather than true and fair financial statements, it may still be necessary to develop accounting guidance in order for the legislation to operate effectively ” (1999, p. 4, par. 9 & 10)

“We strongly recommend that form and content of the report and the procedures necessary for the auditors’ report...be discussed and agreed with the accounting professional bodies, including the Audit Faculty of the Institute and with the Auditing Practices Board before they are finalised.” (1999, p. 5, par 15)

However, there was no evidence that further discussions or meetings emerged prior to the passing of the Act. From a reading of the legislation, it is noticeable that the ICAEW’s warning about the inclusion of a ‘true and fair view’ requirement was heeded and thereby not included (PPERA, 2000, Sec. 42). Instead, it was required that the SOA comply with such requirements as to its form and contents as may be prescribed by the Commission (Sec. 42a). Also, whilst the requirement of an audit was confirmed in the legislation (Sec. 43) for larger parties, the legislation did not specify what would be expected from the auditor.

The youth stage or how the Regulator displays an accounting zeal

The Act provided that the accounting and reporting requirements would be applicable from the 1st January 2002 and therefore it allowed the EC time for the development of appropriate rules and guidance relating to the form and content of the SOA. In its first annual report (EC, 2001), the EC developed its corporate aims, the first of five being:

“To promote and maintain openness and transparency in the financial affairs of political parties and others involved with elections or referendums”

In its second year of activity, the EC confirmed that it completed a detailed framework for the SOA that was issued to parties for comment and for public consultation, arguing that the framework was needed to *“ensure that the accounts of major parties are constructed and can be compared on a like basis”* (EC, 2002, p. 10). There was no reference in the EC annual reports or otherwise as to the internal process by which the framework was arrived at. The detailed organisational chart and governance arrangements did not reveal any details of committees or working groups that might have been created to produce the framework. In light of the fact that party funding and financial issues did significantly drive the need for regulatory reform (and this is reflected in the EC’s corporate aims), it is noteworthy that none of the EC commissioners had a background relating to financial aspects. A review of the profiles (EC, 2002, p. 39-40) of the EC Commissioners showed that the six appointed individuals were all drawn from the legal, local government, academic (law or politics) and media sectors. As such they were more associated to the political ‘networks’ of regulation⁹ (Irvine and Ryan, 2010, p. 4) rather than financial or accounting ones.

⁹ One year later (2003), the EC appointed five Deputy Commissioners who were again drawn from the same networks. It has to be noted that the law specifies a very stringent test for someone to be appointed as an EC Commissioner. It essentially excludes anyone who has been a party member or an elected member in the last 10 years or has been named as a party donor in the register of donations. This led to criticisms that the EC does not have enough ‘field’ experience of party politics and this has resulted in recent amendments to the law.

From 2002 to 2004, the EC developed guidance notes for the preparation and presentation of a statement of account (SOA) in respect of the following three categories of political organizations:

- (a) Accounting units (i.e. party branches), whose total income or gross expenditure is in the £25,000 to £250,000 threshold (EC, 2002)
- (b) Political parties, whose total income or gross expenditure is in the £5,000 to £250,000 threshold (EC, 2002) and
- (c) Political parties and accounting units, whose total income or gross expenditure exceeds £250,000 (EC, 2004).

The thresholds mentioned above were reviewed in the Electoral Administration Act (ERA, Section 53, 2006) and provided for four income and expenditure bands, namely political parties and accounting units generating less than £25,000, between £25,000 and £100,000, between £100,000 and £250,000, and more than £250,000. Whilst there are differences in the level of detail in these different guidance notes, they are relying on similar assumptions and principles, except for the case of the smaller organisations¹⁰. As a result, the following focuses on the issue and implications of the accounting guidance issued in 2004 which related to the larger organisations; typically the national party structures. As with other preceding documents, the 2004 guidance was circulated for public consultation and in this instance, two accounting bodies (the ICAEW and the ACCA – Association of Chartered Certified Accounts) intervened by way of a public response. Their comments are considered alongside the discussion of the specific issues identified from the guidance. Where relevant, I also include comments by the EC interviewees.

The guidance (EC, 2004) provided for the submission of a SOA which would include (i) an overview of political and financial activities, including basic administration, corporate governance and internal control aspects, (ii) an income and expenditure account, (iii) a balance sheet, (iv) a statement of total recognised gains and losses, (iv) a cash flow statement and (v) notes to the accounts. The formats of the income and expenditure account and the balance sheet identified a number of minimum and prescribed sub-headings. In the notes to the accounts, political parties were also expected to provide additional disclosures on the composition of donations, the types of campaign expenditure, and an analysis of staff numbers/remuneration. These additional disclosures could potentially be matched with the registers of donations and campaign expenditures that are separately to the EC. The guidance was supported by a very detailed template, inclusive of a standard audit report.

The issues of interest from the published guidance can be summarised as follows:

- (a) Unclear objective(s) of a party statement of accounts
“The Commission has determined that the SOA framework must ensure that political parties comply with the need for public accountability, comparability and consistency across the political spectrum” (EC, 2004, p. 2).

One could argue that this objective reflects the democratic, fairness and transparency objectives of the Commission as the UK’s independent election body in ensuring that all

¹⁰ Based on the guidance notes (revised by the ERA, 2006), accounting units deriving less than £25,000 need only furnish accounts on a receipt and payments (cash) basis.

political parties are treated fairly and in unbiased way. However, the concept of public accountability is not explained and it seems unclear how the SOA can 'functionally' lead to the satisfying of public accountability. This can be contrasted to the framework applicable to UK charities (SORP, 2005) which aims at providing a transparent account of a charity's activities to help one assess the charity's use of funds and performance, which pre-supposes that the reader has to make a decision on the basis of the accounting information (stewardship purpose or an investment purpose). However, in the case of SOA, there is no elaboration of which decisions one may contemplate from reading the SOA - which would as well require the information to be comparable and consistent. As already mentioned by the ICAEW (1999, p. 2), the form and content of the SOA and the methods/principles depend on the "...purpose of the accounting requirement" but this is not elaborated in the document.

When prompted as to the objective of the SOA, EC interviewees replied:

"I think part of this is summarization, but also... it's just a general view that this gives a total picture of the money that operates within political parties and how they use it. I think the main focus is, well you, you've obviously got, a sort of process which records the majority of their larger donations ... This obviously doesn't cover anything that falls under those thresholds... so really there's, you know, a need to sort of identify what else is sort of going around the political system in terms of money. (EC2)

"Usually what we do on the Annual Statement of Accounts, we will cross reference what information has come in from quarterly donation return...or on the Quarterly Loans return .and match it up to the balance sheet." (EC1)

In effect, the EC interviewees favoured the 'incremental' value of the SOA in that it provides 'residual' knowledge about the financial transactions in addition to what was already known from the donations register and the expenditure returns. Yet at the same time, the accruals basis of the SOA would not permit a complete comparison with the registers/returns which would have been prepared on a cash (and notional income) basis.

In conclusion, public accountability appears to be the overriding objective of the SOA and can be interpreted as a 'public interest' objective but as mentioned in the discussion of the theoretical perspectives to regulation, public interest is subject to multiple interpretations. Whilst the public's interest could lie with ensuring probity and fairness in political contests, the guidance by the EC may well take a different perspective when attempting to meet this objective from a practical standpoint, which would be symptomatic of a bureaucratic drift (Baldwin and Cave, 1999; Majone, 1996). Secondly, one might argue that public accountability is the main activity of politicians and political parties as they seek to continuously demonstrate their legitimacy to the electorate, whether they are in power or not and whether they in an electoral period or not. In this regard, then it would appear the objective of the SOA is to be a mere legitimating device for the political parties and a ritualistic 'offering' to the 'altar' of public accountability.

(b) Who are the users of SOAs?

Mainstream accounting standard-setters have long relied on the identification of users (or at least a narrowing of the categories of users) and a construction of the needs of these users (Young, 2006). In the case of charity accounts, the SORP (2005) refers to funders, donors, beneficiaries and suppliers but the guidance does not identify particular user needs and

interests. Paradoxically, during the consultation process for the 2004 guidance, the EC sought the input of respondents on a potential list of users of accounts. The ACCA (2004, p. 1-2) for instance responded by suggesting the inclusion of tax authorities and creditors. However, this did not translate into a revised guidance document and there are no specific users identified in the SOA guidance.

In response to the question regarding the identity of users, the EC interviewees stated:

“...[draws in breath] Good question! My hunch would be, um, number of different ... I mean voters may take an interest in their local area. Certainly I can think of one or two instances where for example, you know, we will get questions coming in from the public saying “Oh well, the accounts don’t show certain information.” (EC1)

“ I think it’s generally accepted that a lot of them are in you know, you would not invest in these organisations! This is not about capital growth, it’s not about return on investment, it’s not about a dividend. It’s hearts and minds, and all they are interested in is generating enough cash to fight the next campaign ...” (EC2)

With regards to the first interviewee, his experience was that rival political parties also took an interest in the published SOAs but the queries tended to focus on local issues and whether donations and expenditures were actually being reported. The second interview however raised an interesting point in that much of the SOA guidance required information that is relatively ‘theoretical’ in the context of political parties. When considering the interviewees’ previous response to the objective of the SOA, the ICAEW’s (1999, p. 3) premise that the SOA might be mainly serving the regulator’s needs seemed to be a correct assessment. In this regard, it has been less of a concern from the EC’s perspective to ‘construct’ the characteristics and informational needs of users compared to the ongoing debate in private sector accounting and regulation, where the needs of the users are seen to be the paramount justification for supporting or resisting changes in accounting standards (Robson and Young, 2009)

(c) Use of Applicable Accounting Standards and True & Fair View

The EC recommended that political parties should rely on private-sector-based financial accounting concepts (accruals, going concern and materiality) and conventions in preparing the SOA (EC, 2004, p. 5). In this regard, accounting regulation contained through the pertinent sections of the Companies Act (1985) and the relevant pronouncements of the Accounting Standards Board were seen to be appropriate to the context of political parties. Throughout the guidance, a rather ‘liberal’ interpretation and reference is made to the applicability of various accounting standards relating to consolidation, substance over form but at the same time specific paragraphs of the guidance were deemed to “...take precedence over GAAP” (2004, p. 9). Furthermore, one introductory statement in the guidance suggests that “...the next planned update will be for the introduction of the IAS/IFRS in 2005” (2004, p. 2). Finally, and rather surprisingly, the guidance stated (2004, p. 5) that the financial statements should give a true and fair view of the state of the affairs of the political party. The true and fair requirement is re-iterated as part of the template auditors’ report provided in the appendix (2005, pp. 28-29) and construed to be a requirement of the relevant legislation (PPERA, 2000).

Both the criticisms by the ACCA and the ICAEW are less than subtle in terms of some technical aspects of the guidance. For example:

“A number of specific requirements....are not in fact in accordance with GAAP, either because they extend the requirements of GAAP, or in some cases, conflict with them....” (ICAEW, 2004, p. 1)

“We do not support this proposal. There is no requirement for entities other than listed companies to adopt IFRS. Piecemeal adoption is not permitted under UK GAAP, and it should not be implied that political parties may be allowed to do so...” (ICAEW, 2004, p. 2)

The modelling of the overview report along the same lines of a company operating and financial review (OFR) attracted as well criticisms from the accounting bodies:

“Given that the OFR is customised statement for the listed company sector, we query whether the OFR is the correct template to adopt the reporting rules for political parties....In respect of both the OFR and IFRS...we would advise against giving the impression that these are models of best reporting practice which should be followed irrespective of context” (ACCA, 2004, p. 1)

Yet, as in the case of the ICAEW (1999), there seems to have been very little response to the issues raised by the two accounting associations. When considering the views expressed and the apparent lack of reaction by the EC and any further action by the accounting community, the following conclusions could be put forward. The accounting bodies did not consider the lack of response by EC - and hence the development of a flawed accounting regulation process - as a pressing issue given the smallness of the ‘market’ for accounting and auditing services (in effect a lack of sufficient ‘private’ interest to intervene). Secondly, the sensitive nature of the context i.e. dealing with an independent and constitutionally powerful public body which has the sole purview over political parties, might have discouraged more accounting bodies to get involved. Arguably therefore, the power attributed to the EC in regulating the rules of the democratic game and its influence in shaping the electoral landscape could have allowed it to bypass existing networks of accounting actors and experts, who would otherwise have been given a greater voice and participation in the regulation process. Drawing from Bernstein’s (1955) characterisations of the early stages of a regulator’s ‘life-cycle’, there is usually strong political support for the regulator and this would lead to a situation where the traditional actors of the regulation process are ignored by design (crusading zeal) and inexperience (lack of understanding of the accounting implications or regulation process).

(d) Notional expenditure and income

The guidance notes state that the SOA should show the full cost of all its activities and should include costs that are partly or fully borne by a third party. Correspondingly, the benefit obtained must be reflected as a notional income for the party (EC, 2004, p. 14). Notional expenditure is calculated as the difference between the market value of the goods/service provided and the actual cost incurred by the party. Furthermore, if the good/service has been provided at a discounted rate that is less than 90% of the commercial rate, it is assumed that the party has been given a benefit in kind and as such the difference should be reported as notional expenditure and notional income. However, there are various practical difficulties in ensuring that political parties adopt this policy in a consistent and comparable way. Firstly, the systematic identification and accounting of donations in kind (especially for 100% subsidised services) could be a challenging task due to the ‘intangible’ nature of the transaction i.e. there would not be a sufficient audit trail to ensure its recognition in the party accounts. Secondly, the determination of ‘market or commercial value’ could be open to

interpretation in the presence of different versions of market value (e.g. land for residential, agricultural or commercial purposes) and in the case of subjective evaluations (e.g. relying on expert assessments). Also, the nature of the partly or wholly donated good/service (e.g. providing a specialised service or an intermediate product) may preclude the use of market valuations as proxy for reflecting the full cost of this good/service. In these cases, a political party may have an incentive to use the lowest acceptable figure to avoid public scrutiny. The estimation of notional income and expenditure is also applicable in the case of loans granted on favourable terms (2004, p. 15) where the difference between the actual interest paid (if any) and the interest accrued on a commercial basis would have to be reported.

The inclusion of notional items was a key aspect in the reforms (CSPL, 1998) as it was apparent that political parties were avoiding the recording of support/benefits provided in kind. The recognition principle of notional expenditure and income not only impacts on the thresholds of gross income or total expenditure outlined previously but also fosters transparency in terms of who has been supporting the political party. This accounting policy thus ties up with the regulations regarding the registration and permissibility of donations over the required threshold (currently set at £200). Furthermore, comparability is improved between the accounts of different political parties and the analysis of their different costs and revenues will not be influenced by those parties which may have greater reliance on transactions in kind.

(e) Relationships between party sub-units and party headquarters.

A final issue relates to the accounting treatment of transactions amongst party accounting units (AU) and with the party's main party accounts. The relationship between separately constituted party accounting units (e.g. mainly constituency, regional or interest-based branches) and the party's central organization may be conceptualised in three different ways. Firstly, party accounting units are essentially divisionalized emanations of the main party office set up specifically to pursue or control activities at regional level or at interest level (e.g. party branch for all teachers). Such AUs are funded almost entirely by the main office and are in effect wholly-owned subsidiaries (or quasi-subsidiaries, depending on the legal structure of the entity) of the main party. Secondly, the relationship could be, in substance, seen as a parent-subsidiary relationship even if the main office does not have a direct 'ownership' stake in the accounting unit and hence cannot lay a direct claim to the assets and income of the AU. However, the party does exercise a very significant level of control on the AU by virtue of its ability to grant (and remove) affiliation, to direct local activities and to provide financial and logistical support. Thirdly, the relationship could be seen as a franchisor-franchisee one where the party headquarters grants affiliation to the AU to operate in specifically-defined area. Although an overall strategy is set by HQ, the AU is on a day-to-day basis less seen to be at the beck and call of the main party officials and less dependent on financial support since the AU could generate a significant part of its own income and operate more independently (setting local agenda, developing local actions and initiatives etc). Whilst the use of consolidation (group) accounts appears obvious in the first instance and is clearly inadequate in the last instance, a grey area potentially exists in the second illustration.

The EC requires that all separately constituted and registered AUs must submit a statement of account which is separate from the one submitted by the main party office. The perceived absence of a consistent mode of consolidation of party activities - from an *accounting* perspective - does give rise to a situation where there is no holistic financial picture of the *political* entity of the party (main office and AUs). The EC does require that parties must apply consolidation principles similar to the ones used by private-sector companies in the

context of a dominant or significant interest. But there are challenges in defining what one means by control (dominant or significant) in the context of political parties (ICAEW, 1999). This hence opens up an opportunity for a varied application of ‘group accounting’ - a situation which may encourage the selective consolidation (or non-consolidation) of ‘subsidiary’ accounting units (a once popular corporate ‘earnings management’ practice now severely limited by accounting standards).

In conclusion, this section has outlined the developments leading to the publication of the 2004 guidance, which can be characterised as follows:

- (i) A strong political belief that ‘standard’ annual audited accounts can provide better transparency and accountability for political parties. At the reform stage, there has been very little to no discussion on the form and content of these accounts.
- (ii) A regulation and ‘accounting standard setting’ process which adopts rather uncritically a patchwork of accounting standards and terminologies drawn from private-sector accounting. A true and fair view requirement is (wrongly) assumed to be a legal requirement.
- (iii) A process dominated by the EC, which does not have any apparent internal capabilities to devise or adapt accounting standards¹¹.
- (iv) A timid involvement of a few accounting bodies and little evidence of further lobbying by accountants or acknowledgment by the EC.

If one relies on Puxty et al.’s (1987) modes of regulation to examine the process so far, one could argue that the EC’s accounting regulation model is very close to the legalism end of the spectrum but at the same time it does not incorporate the typical characteristics of corporatism, as described by Puxty et al. (1987) and subsequent studies (e.g. Ryan et al., 2007). Instead the accounting bodies are kept away from becoming active collaborators in the regulatory process whilst at the same time, the EC expects the members of the profession (accountants and auditors) to implement and certify the SOAs submitted by the political parties. Whilst Puxty et al. (1987) argue that the UK has traditionally followed an ‘Associationist’ approach (1987, p. 284), I would argue that the model described in this section is more reflective of a ‘pseudo-corporatism’ whereby accounting standards and principles are unwittingly co-opted in the EC’s accounting regulation process, principally as a result of a political view and perception that ‘proper’ audited accounting statements are required to meet political party reform agenda.

4. Accounting Regulation of Political Party Accounts: The Consequences

The consequences observed from the party accounts

The SOA guidance for the large parties eventually came into effect for accounts beginning on the 1 January 2005. For the purpose of understanding the consequences of the guidance on the actual SOAs, the accounts of the three main national parties were analysed from 2005 to 2009. Invariably, first time adoption issues and errors are prevalent in all accounting contexts and it would be difficult to expect that accounts produced immediately after the implementation date would be an appropriate reflection of an effective or ineffective accounting guidance. In my view, a five year period provided the opportunity for parties and the regulator to resolve gaps in expectations. In addition, the period 2005-2009 coincided with a general election ‘cycle’ and would potentially allow one to note whether accounting

¹¹ Informal discussions suggest that the EC might have outsourced the preparation of the guidance to an accounting firm. Even if this is confirmed, it still does not address the fact that improvements could have been made as a result of the consultation process.

formats, changes and disclosures were the result of any 'seasonality' effect. From the SOA guidance, a selected number of key features were selected to analyse the actual form and content of the party SOAs (EC, 2004) in terms of the following:

- (a) Adherence to the form and content of income and expenditure accounts (10 line items each) (pp. 8-9)
- (b) Fundraising income and expenditure to be shown separately if the party bears the risk of the commercial activity (pp. 12)
- (c) Notional income and expenditure to be recognised as equal amounts for goods/services the party would have been otherwise liable for. (pp. 14)
- (d) Disclosure of analysis of donations data, including amounts reported to the EC. (pp. 17-18)
- (e) Separate disclosure of expenditure on campaigning for different elections (pp. 19-20)
- (f) Analysis of employee and staff cost data, including for staff earning more than £50,000 (pp. 19-20)
- (g) Details and terms of all loans and advances received by the party. (p. 20)
- (h) Loans payable waived by the lender is treated as a donation in the period in which it is waived. (p. 10)
- (i) Notional income/expenditure to include interest for loans on non-commercial terms. (p. 15)
- (j) Consolidation of accounting units on the basis of dominant or significant influence. (p. 9)
- (k) Form and content of audit report. (p. 28)

In addition, the annual reports were scrutinised to identify any instance of peculiar accounting and disclosure practice or any change in content/format as a result of specific events. For example, one of the key events during the period of analysis was the revelation in 2006 that donations were treated as loan transactions to avoid them from being formally recorded in the register of donations. Parliament's immediate response was to legislate for the setting up of new register of loans and credit facilities along the same principles of a register of donations (Electoral Administration Act, 2006). However, there was no updated guidance in relation to the SOA.

Table 1 summarises the analysis of the accounts of the Labour Party (LP) on the items listed previously.

Table 1 - Analysis of Labour Party (LP) Accounts (2005-2009)		
Item	Overall practice	Comments
(a)	Partial	Less expenditure items (8 instead of 10) Change of accounting policy in 2009 (PYA 2008) to remove wages and salaries costs paid to constituency labour parties (which were then recharged as income)
(b)	Provided	
(c)	Not equal in some years	In 2005, 2007 and 2009. Relevant expenditure transferred to other headings (campaign expenditure). Notional income (2% to 4%) of total income.
(d)	None	No analysis or breakdown of donation data and as such not reconcilable to the donations register figures
(e)	Provided per campaign	One line item per campaign: minimum level of disclosure
(f)	Limited disclosure	Minimal breakdown of staff costs and staff numbers but no disclosure of employees earning more than £50,000
(g)	Fairly detailed levels of disclosure but changes in 2008	Loans from accounting units on commercial terms (but not specified) Loans received per individuals named and summary of terms provided with specified commercial terms (2% above base rate). In 2008 and 2009, loans from individuals at '0% to 6.5%'
(h)	Not specified	No instance of a loan converted as a donation.
(i)	No notional interest	Loans deemed to be on commercial terms but in 2008/2009 no accounting for loans whose rates are clearly not on commercial terms
(j)	Partial consolidation	Incorporates the central organisation, its property subsidiaries, and the Scottish and Welsh organisations and some unspecified accounting units whose accounting records are managed by the central organisation. The Party has 657 accounting units but it is unclear as to what is the extent of the consolidation.
(k)	Audit report (by Horwath Clark)	Report addressed to the 'Members of the Labour Party' Accounts provide a true and fair view in accordance with GAAP and in accordance with the requirements of PPERA 2000.
Other	Investment property Visibility of the SOA	Revaluation of assets and no depreciation. No accounts are provided on Labour's website

The review of the accounts show a moderate level of adherence to the SOA guidance and the accounting relationships between the main party structure and its affiliated organisations (related party transactions) are noticeable. In effect, Labour party claims to 'transact' with its non-consolidated accounting units by providing them with a proportion of membership revenues (grant to CLPs) and charges for expenses on a commercial basis. Furthermore, development fund loans are provided by these units on a commercial basis but the details nature of these terms. The magnitude of the non-consolidated elements cannot be evaluated.

Table 2 analyses the accounts of the Conservative Party (CP) on the same items

Table 2 - Analysis of Conservative Party (CP) Accounts (2005-2009)		
Item	Overall practice	Comments
(a)	Fully applied	As per the EC format
(b)	Provided	
(c)	Equal	Notional income is from 3.3% to 9% of total income
(d)	None	No analysis or breakdown of donation data and as such not reconcilable to the donations register figures
(e)	Provided per campaign	One line item per campaign: minimum level of disclosure
(f)	Limited disclosure	Minimal breakdown of staff costs and staff numbers but no disclosure of employees earning more than £50,000
(g)	Some disclosure of loans	Loans from accounting units on commercial and non-commercial basis (but not specified) Loans received from other individuals (names not listed, except for related parties). Terms of repayment provided but no rates of interest.
(h)	Specified	Note of loans waived (2005) and loans converted in 2006, 2007 and 2008 (from cash flow statement)
(i)	Notional interest applied	On the basis of 1-4% above Bank of England base rate. From 2006 no indication of notional rate applied and from 2008, accounting for notional interest not applied.
(j)	No consolidation	Incorporates the central organisation i.e. Conservative Central Office (CCO), and quasi-subsidiaries. Does not include any accounting units (674).
(k)	Audit report (by BDO LLP)	Report addressed to the 'Board of the Conservative Central Office' Accounts provide a true and fair view in accordance with GAAP and in accordance with the requirements of PPERA 2000.
Other	Revaluation of assets Visibility of the SOA	All properties are re-valued Accounts from 2005 to 2008 are available on the party website (not directly accessible)

In the case of the CP, the party does not (visibly) transact with its other accounting units, except for loans from Constituency Associations (both on an interest free and commercial basis). The reliance on loans declined over the period as these loans are converted into donations. The related party transactions provide extensive information on the loans and donations granted by members of the CCO Board. In contrast to the LP, the CP does not consolidate the accounts of accounting units.

Finally, Table 3 sets out the main features of the accounts of the Liberal Democrats (LD). One of the main differences between the previous two parties and the LD is the use of a federal system which distinguishes between the party structures at state, regional, and local level. There is no attempt at consolidation and as in the case of the other parties it remains difficult to assess the financial clout of each political party in its entirety. One issue, which was noticed in the accounts of the other parties, was the changing treatment of notional interest on loans that were granted on a free or favourable term by outside individuals or by other party structures. This practice of estimating a 'notional interest' charge appears to have stopped in the later years. Whilst there was no explanation for this in the CP accounts, the 2006 LD accounts (note 19, p. 18) stated that the Electoral Administration Act (EEA 2006) abolished the requirement. This could presumably be on account that all parties had to formally declare all their loans in a new register. However, a review of the EEA (and the EC's own guidance on loans and donations; EC, 2006) does not reveal any such provision which would anyway have appeared inconsistent in that a legal requirement is adopted to abolish an accounting practice set out in a guidance document.

Table 3 - Analysis of Liberal Democrats (LD) Party Accounts (2005-2009)		
Item	Overall practice	Comments
(a)	Partial	Providing more expenditure headings (14/15 instead of 10) and income and expenditure account split between General Fund and Campaign Fund
(b)	Not provided	Line item for fundraising expenses but not for fundraising income.
(c)	Equal	Notional income is from 0.1% to 2% of total income
(d)	None	No analysis or breakdown of donation data and as such not reconcilable to the donations register figures
(e)	No breakdown per campaign	One total figure of campaign expenditure
(f)	Limited disclosure	Minimal breakdown of staff costs and staff numbers but no disclosure of employees earning more than £50,000
(g)	Some disclosure of loans	Terms of repayment and interest but no further details.
(h)	Not specified	No instance of a loan waived as a donation
(i)	Notional interest applied	On the basis of 1% above Royal Bank of Scotland. From 2006 accounting for notional interest not applied, on the grounds of a change in the law.
(j)	No consolidation	The accounts do not include the financial transactions pertaining to the State, Regional, Local Parties or any other bodies.
(k)	Audit report (by Mazars LLP)	Report addressed to the 'Federal Conference of the Liberal Democrats (The Federal Party)'. Accounts provide a true and fair view in accordance with GAAP and in accordance with the requirements of PPERA 2000.
Other	Charge and Recharge Visibility of the SOA	The Federal Party meets the majority of the overheads incurred by the English, Scottish and Welsh State Parties. The costs are recovered through the Federal Party Recharge. It also receives levies and in turn provides grants to the other party bodies. There is no indication of these transactions are reflected on a commercial basis and whether they could represent short term finance/loans Accounts from 2005 to 2008 are available on the party website (not directly accessible)

In conclusion to this review of the accounts, there has clearly been some attempt at complying with the SOA guidance over the period 2005-2009. The different types of party governance and structures can partially explain the variability in the form and content of SOA. Arguably, one could conclude that public accountability has been satisfied at least on a symbolical basis but comparability and consistency remains an issue for the following reasons. Firstly, and in spite of a very specific requirement in the SOA, no party provided an analysis of the donation income and how it could be reconciled with the donation register. Secondly, organisations which are at the very least politically influenced, if not dominated, by the policies and decisions of the central organ of the party are not consolidated in the accounts of the main party. For example, the LP partially adopts the logic of dominant and significant influence but does not extend it to other sub-units. The LD, through its system of charge and re-charge is effectively including part of the transactions of its other bodies in the income and expenditure account - a practice the LP has recently discontinued with respect to the wages and salaries costs. Thirdly, the estimates of notional income and expenditure reveal a very low percentage of such transactions in the financial statements and one would question the extent to which such transactions are actually recorded at a commercial rate. Fourthly, the treatment of notional interest also shows a problematic issue as rates of 1% above base rate are treated as a commercial rate whilst, at the same time, there is no disclosure of the rates on the commercial loans taken by the same party. Fifthly, all the auditors consistently conclude that the accounts show a true and fair view (an inexistent requirement in PPERA 2000) and

are in accordance with UK GAAP - an impossibility given the selective adoption of accounting principles (as confirmed by the ICAEW in 2004).

The SOA consequences for the EC and the public: The penny drops....

From the EC's perspective, the issues of comparison and consistency surfaced rather quickly following the implementation of the SOA guidance. Whilst the above review of accounts focused on the main party accounts, the comparability and consistency issues were significantly compounded in the case of the smaller parties and in relation to some of the accounting units affiliated to the main parties. In parallel, media and public would regularly discuss party funding issues, typically in the aftermath of revelations pertaining to the permissibility of certain donations and donors¹²; a discussion which to a large extent would not have been possible without the transparency and accounting regulations set out by PPERA 2000. However, 2006 witnessed a flurry of renewed public and media interest in the funding of political parties arising from the reporting of donations as loans and the criminal investigation into 'cash for honours' allegations (CASC, 2006, p. 6). As part of their inquiries into the regulatory framework, both the CASC (2006) and Phillips (2007) bemoan about the lack of a comprehensive picture of the total income and expenditure of political parties. The different ways the parties are organised on a geographical basis and the degree of autonomy attributed to local parties are highlighted as a major issue. For instance, the CASC (2006) concluded:

"While the PPERA brought a degree of regulation, transparency and conformity to the way party accounts are laid and scrutinised, it did not alter the different historical pattern of how the main parties in the British political system have raised funds" (CASC, 2006, p. 10).

"At present, there is no consistency in the way in which parties' and accounting units' annual statement of accounts are presented to the Electoral Commission." (Phillips, 2007, p. 23)

The legal rules limiting the amount of campaign expenditure (at local and national levels) also led to the unintended consequence that party expenditure could be categorised as running or similar costs to avoid it from being accounted within the legal limits. In this regard, the SOA guidance did not enable the EC or any other users to ascertain whether actual spending associated to electoral campaigning exceeded the campaign spending limits. As a result, both the CASC (2007) and Phillips (2007) recommended that a common standard and format for party accounts should be implemented - whilst not acknowledging the fact that this is what the CSPL (1998) recommended in the first place.

In addition, the experiences of the EC officers in dealing with SOA are of relevance. When prompted as to whether the form and content was actually being verified:

"We don't actually have to.... Well some bits they have to follow, but most of the guidance they don't have to follow. There's no set format. They are illustrative formats. We give them guides [but] they don't have to follow the guidance so they all come up all completely different headings, so it's very difficult if you want to compare one Party with another. It is impossibility really." (EC1)

¹² The issue of permissibility was reflected in the accounts of some parties e.g. refer to contingent liability disclosures (LD, 2005, note 28, p. 23) and notes to accounts (LP, note 4 for 2009, 2008 and 2007)

“... I mean this is the key one, and obviously if you’re trying to look at and do your own consolidation, we don’t attempt to consolidate....because we haven’t got the information to do it. And also you haven’t got the complete picture, because you don’t get the stuff that’s under £25K’s. So it’s an exercise we just don’t even attempt to do.” (EC2)

“Just on the income side...so (looking at the paperwork) just looking at this bit. You’ve got the Conservative Party. They used more than 84 income categories alone. 24 are used by 20 of both; two categories were used by 90% and obviously that’s their donations, donations, subscriptions, 25 categories are used by a single accounting unit and 15 categories were only used by two units” (EC2)

The gist of the discussion suggests that there has been very little attempt to ensure that the reporting organisations adhere to the SOA guidance and that the SOA framework was merely ‘guidance’. Whilst strongly suggesting that compliance with the guidance ensured that the accounts would be consistent and in line with best practice (EC, 2002; 2004), there was little appetite to verify or hold parties to account for any visible departures. But at the same time, it was clear that the informational content of the submitted SOAs impaired on the EC’s ability to monitor a party’s financial affairs - in relation to its legal mandate to enforce donation and expenditure rules. The comments by the second respondent reveal the practical difficulties in dealing with wide variations in the use of income and expenditure headings at local party level. Although this practice could be a conscious attempt by certain reporting organisations to cloud information, he argues that the complexity of the initial SOA guidance may also explain a general lack of understanding amongst the volunteer treasurers, most of who have little experience of accounting concepts and terminologies:

“You might have a volunteer treasurer who happens to be an accountant; [but] a large number of them are volunteer treasurers. The route I think we went down was, you know, this is exactly like the charity commission, and so the guidance we issued referenced a lot of, you know, sort of phraseology and terminology that an accountant would recognise straight away, but it’s actually to a volunteer quite frightening” (EC2)

“... it’s a weighty tome; it’s not necessarily very helpful information for those who really don’t have trained accountants, and it can be quite frightening I think to some of the volunteer treasurers.... We’d actually spoken with an external accountancy firm who’d reviewed the guidance, and they certainly didn’t think that it reflected you know, how people should and could keep accounts; it was very old fashioned some of the accounting principles were slightly out-dated and unnecessary as well, for the nature of ... what I guess you could parallel to charity accounts; they’re certainly typically not for profit. (EC3)

From a regulatory life-cycle perspective, Bernstein (1955) identifies youth as the stage where the inexperienced regulator is outmanoeuvred by the regulatees but in this case, I would argue that it is equally about the case of a regulator having been outwitted by its own guidance in that it failed to identify the full implications of a private-sector driven accounting regime. Financial statements prepared according to UK GAAP (and the EC was also ‘aspiring’ to adopt IFRS) was a symbol of ‘best practice’ and as promoting it as the preferred reporting regime for political parties - irrespective of the warnings by the ACCA and ICAEW - was in many ways an attempt at legitimising the role of EC as ‘serious regulator’ and in delivering

greater confidence, trust, and transparency to the accounts of the political parties. However, as criticisms become more vocal and public, one could argue that the EC's organisational legitimacy is affected and thus required a change of direction, particularly in the aftermath of the CASC (2006) and Phillips (2007) reports. This leads to the decision of the EC in 2008 to launch a public consultation on the standardisation of accounts and to give closer attention to the compliance problems faced by political parties (especially the smaller units).

*The beginning of regulatory 'maturity' or another example of accounting 'inexperience'?
The EC's standardisation agenda*

In July 2008, the EC published its proposal to standardise accounts¹³. Its consultation document acknowledged there was no statutory requirement to submit accounts in a standard format (2008, p. 4) and accepted that the previous regime has caused three main problems, namely (i) difficulty for the EC and others to make meaningful comparisons between different parties, (ii) unclear accounts which can potentially undermine public confidence in party and election finance, and (iii) preventing the EC from developing a risk-based approach to the regulation of party finances. It therefore sought to issue regulations which would specify the form and content of the statement of accounts. This would be legally enforceable and accounts not in compliance would have to be revised. Other than requiring the disclosure of information that were already identified in the original SOA guidance (income headings, campaign expenditure), the EC would require that intra-party transfers (income and expenditure) exceeding £1,000 be disclosed on an individual basis and it also proposed that that depreciation policies and revaluation periods for tangible assets would be specified.

The consultation paper (2008) expected a rather prompt switch to a standard format. However a subsequent update (EC, 2009) suggested that there has been resistance to particular aspects of accounts standardisation and also in relation to the fact the required changes in the accounting systems would be time-consuming and expensive, with a disproportionate impact on smaller volunteer-led organisations. In total, 23 organisations (mainly main party bodies and party branches) responded to the consultation. None of the accounting bodies officially submitted their views. In light of the emphasis of the paper on the consequences for the three main national parties, I focus on their responses to the substantive changes in accounting practice and reporting.

Except for the CP, which argued that there was not yet a demonstrable case that a regulated standardisation would be better than the current system, both the LP and the LD agree on principle with the idea of standardisation. At the same time, the CP and LP believe that the EC's accounting pronouncements need to be consistent with the true and fair view requirement and GAAP - although this is not what PPERA provided for, and arguably expected, in the first instance:

"In the United Kingdom, we have developed a principles-based accounting regime. This informs the approach to preparation of accounts (and auditing) where the overriding principle is that financial statements must give a true and fair view. By definition, such a regime does not lend itself to a compliance approach which seeks to set out and enforce detailed rules....This is typical of US accounting standards but is alien to the UK approach and is incompatible with existing UK accounting standards" (CP, 2008, p. 5)

¹³ A freedom of information (FOI) request which was published on the EC's website confirms that the standardisation project was supported by technical advice from an external accounting firm (PwC) "...to ensure that the new requirements accurately reflect current accounting practice while continuing to be relevant to party and election finance" (FOI 117/08, p. 2).

“We are also of the view that any Electoral Commission regulations and guidance in respect of annual accounts complies with but does not exceed UK GAAP principles” (LP, 2008, p. 1)

There was considerable resistance to the additional disclosure of intra-party transfers in the accounts on different grounds:

“This represents a major departure from the principles of donation control in political parties...[on the subject of transfers in kind between sub-units]...there will be considerable difficulty in complying since such transactions are nowhere recorded and the accounting systems make no provision for these to be identified, valued and recorded” (CP, 2008, p. 5)

“Paragraphs 4.9 and 4.12 [on the subject of transfers] are very poorly thought out. The objective appears to be to make transparent where the parties are targeting their resources but by only including transfers from the ‘central’ party the proposal leaves a massive loophole, namely that the parties could use an intermediary within their party e.g. the ‘central’ party could transfer money to a regional party, which would then pass the money onto the ‘target’ seat.....Another problem with this particular proposal is the £1,000 threshold which is so easily avoided as to be laughable.” (LD, 2008, p. 2)

“In relation to para 4.9 we do not support the proposal to show transfers from central office to accounting units. This goes beyond what is required by PPERA as internal transfers are not regulated” [LP, 2008, p. 2]

With respect to the suggestion that standardisation should extend to the treatment of fixed assets, again both the LP and CP are critical of the proposed accounting changes:

“Electoral Commission regulation and guidance on the treatment of fixed assets must be consistent with UK GAAP principles - which do not specify detailed procedures for fixed assets. The major parties and large accounting units already present audited accounts with full details of fixed assets. We are concerned to avoid an increased administrative or financial burden on accounting units with little return in terms of transparency – in particular the regular (and expensive) revaluation of property or requiring depreciation of other fixed assets of little value (one or two computers and a printer etc)” (LP, 2008, p. 3)

“The proposal for defining depreciation rates for fixed assets is at variance with normal accounting practice whereby the choice of depreciation method, useful economic life and residual value is a matter for accounting judgement.....The requirement ...to have sound processes for valuing assets might be hard to define. Would the audits envisaged be audits of process, or accounting judgments or both? If the latter, what process is envisaged to resolve differences of opinion?” (CP, 2008, p. 6)

Finally, the LD party identifies that the issue that standardisation can only operate if headings or items are properly defined:

“Although we are in favour of a standard format we do not believe this will make the accounts any more useful than now unless specific categories of income and expenditure are properly defined e.g. what will be the definition of membership

income? Shouldn't the definition of 'Campaign expenditure' be related to the requirements of the Campaign Expenditure Return? Would the cost of someone specifically recruited for 'Campaigns' be charged to 'staff costs' or 'Campaigns'? Similarly, whilst we accept it is important to include notional income and expenditure in the accounts, it is not actually very helpful to understanding and comparing them. What would be much more useful would be if they were included in the relevant income and expenditure line on the face of the accounts with a note to the accounts showing where they appear." (LD, 2008, pp. 1-2)

Overall, and whilst the political parties' response to the standardisation agenda raised a number of implementation and timing issues, the other substantial message is that of a fairly strong rebuttal of the accounting experience and knowledge of the EC. In particular, the CP's response can be seen as a rather embarrassing lesson in introductory accounting to a regulator tasked with developing and enforcing accounting and reporting regulations. This to some extent confirms that the EC had been captured by its own regulatory regime i.e. a reliance on mainstream accounting conventions and principles, which is now paradoxically used by the main parties to resist any attempts by the EC to change to a more stringent and standardised reporting regime. As mentioned previously the update published by the EC (2009) essentially delayed the process on account of the issues raised¹⁴ and the impending general election campaign in 2010.

One EC interviewee commented on the fact that the formal consultation process might have been rushed and that the parties should have first been involved more informally, as is suggested to be more the case now:

"...my next meeting you know in the next few weeks are with the Directors of Compliance ...and what we're going to do is come together with some income and expenditure categories and definitions, and we can all agree and work around, and develop the guidance from there. ...So it's an informal consultation; it's a discussion. And obviously anything, you know, that they come up with, in conjunction with me, is going to be better than something I write in a dark room, put out to a consultation, they have to make it then and make a formal response, which involves just basically, you know, finding every fault with it that they can". (EC2)

Reflecting on the responses received in response to the proposal to issue regulations for the standardisation of accounts, another EC interviewee commented on the EC's change of approach after the consultation:

"...Some treasurers have reported that they saw our existing guidance when they took on the role as treasurer, and it made absolutely no sense to them and that's probably not helped them to be forthcoming in approaching us. So we recognise there is this sort of area where we need to get clear guidance. It's not going to sort of scare people. And I think, it would be quite a heavy decision to make regulations, because by making regulations we then are almost compelled, to, to look at those who, who've breached those regulations quite seriously ... – I don't personally don't think it would be wise to use regulations now. I think – and [Name] will perhaps have told you – if we sort of have a gentle, gentle introduction over a number of years and just explain what we're trying to do and then if we don't have any take up

¹⁴ There was, as such, no official public report on the consultation process.

of it, if people still don't use our voluntary guidance or voluntary forms, then it may be that there is a point in the future, in a few years, where we might need to make regulations to encourage people to, to, to send those standard accounts in. Because we do believe that there's a policy benefit from having standardisation of the information in accounts, and how we get that standardisation...it depends on the reaction we get from those we regulate.” (EC3)

This change of approach is consistent with the life-cycle perspective of moving into a maturity stage where political support has faded and where the regulator's concerns switches more actively to understanding and appreciating the needs of the regulatees. [To be developed]

5. Tentative reflections for discussions:

- (a) A concern with public transparency and accountability of the democratic system leads to a belief that accounting statements are the solution. The assumption is that more visibility of the income sources and expenditure of political parties will prevent parties from relying too much on large donors and from engaging in spending frenzies during, and in between, electoral campaigns. But these are unrealistic expectations as argued by Roberts (2009),

“Again it is important to emphasise the value of transparency as a source of confidence to distant others and, precisely because of the recognition that it threatens, as a powerful counter to local collusion. Transparency becomes problematic only when we believe in its perfection; when we believe or act as if all there is to accountability is transparency; that transparency is adequate and sufficient as a form of accountability.”(2009, p. 968)

- (b) There are underlying issues with the expectation (i) that an ‘accounting logic’ based primarily on the financial measurement of inputs and outputs can enhance transparency and lead to changes in party structures, actions and activities, and (ii) that accounting statements prepared in accordance with GAAP and true and fair requirements are appropriate reflections of political party financial activities, and as such of use to the EC and to other users.

In addition, a more critical outlook of the issue is that the use of accounting logic and GAAP reinforces the view that party funding is inescapably dependent on private sources and that only the scale and flexibility of private sources can ensure that the political party system and the democratic ‘game’ will continue to operate.

- (c) The EC is an example of regulator buying into this accounting logic and transparency assumptions in an uncritical fashion. In spite of a few warnings by selected accounting bodies (ACCA and ICAEW), the EC almost unilaterally develops an accounting framework and this is to some extent consistent with the ‘centralised’ regulatory space Irvin and Ryan (2010) refer to. The EC's actions – in the case of the SOA guidance - can also be explained by Bernstein (1955) life cycle perspective to regulation where public interest may be a genuine motivation - but the implementation of this motivation is misguided by the prevailing discourse on ‘best practice’ (private sector) and a willingness to embrace GAAP. As a new regulator, the EC might be seeking legitimacy for itself and

for the political class - whose dealings with financial matters have always caused issues of confidence and trust.

- (d) The relative absence of main accounting bodies and regulators (e.g. ASB, CC, firms) can be explained from different perspectives (a) a private interest in that political parties are not significant customers of accounting and audit services and therefore there is little incentive to intervene in the regulation process or that the sensitive nature of the sector makes it a compelling private interest case for not intervening, (b) that the EC, as the sole independent regulator of the electoral game, is keen to avoid the influence of, and dependence on, other bodies in its work. This 'regulatory space' is thus characterised by an exclusion of all relevant actors (including politicians) and by extension this excludes accounting bodies.
- (e) The consequence of the EC's regulation is the SOA guidance which (i) is inconsistent with the original intentions of the reforms, and (ii) is at odds with the notion of GAAP and true and fair view requirement. Political party adherence to the SOA is (ii) de facto sketchy and limited but yet argued to be appropriate due to the unqualified (and wrongly understood) opinions of external auditors, and (ii) insufficient for the EC to enable comparisons and further regulatory work.
- (f) External pressures from inquiries (CASC, 2006; Phillips, 2007) confirm the inadequacy of the SOA outputs and thus compel the EC to change to a standardisation agenda. This initially leads to a strong negative reaction due to the political parties' preference for the flexibility and symbolism of GAAP accounts. Alternatively, acceptance would be conditional on ensuring that the standardisation agenda can ensure that political opponents are forced to disclose more sensitive information. Attempts by the EC to issue regulations (instead of guidance) are now resisted and expectedly so as the EC does not have any more the political and public support it might have enjoyed initially. Evidence that the EC has now moved to a maturity stage of regulation with the abandonment of standardisation regulations (guidance instead issued) and the removal of detailed guidance for the larger parties [To be developed].

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