

**GN(A) 32 (Issued 2012)**

## **Guidance Note on Accounting and Auditing of Political Parties**

### **Foreword**

Political Parties are one of the core organisations for functioning of a democracy. In this dynamic scenario, where the sources of funding of the Political Parties are diversified, the objectives of accountability and transparency seem to be of great importance. Transparent accounting and financial reporting are also central to the fulfilment of new age governance. The introduction of acceptable accounting practices and disclosure norms are not just technical practices but the foundations for the integrity and maturity of the Political Parties. Political Parties would, therefore, need to reflect their 'financial position' and 'financial performance' which should indicate their ability to achieve their developmental goals, meet their programme targets, their efficiency in the use of resources.

It has, however, been felt that the present system of accounting and financial reporting followed by Political Parties in India does not adequately meet the accountability concerns of the stakeholders. The ICAI, therefore, as desired by the Election Commission of India (ECI) made certain recommendations to the ECI for improving the present system of accounting followed by Political Parties in India. Subsequent to the above, it is heartening to note that the ICAI has formulated this Guidance Note on '*Accounting and Auditing of Political Parties*'. I congratulate CA. S.B. Zaware under whose able convenorship a study group was setup by the Council for finalising the draft of the Guidance Note. I also thank the other members of the group in making invaluable contribution in this endeavour.

I hope that this endeavour of the Election Commission of India and ICAI will go a long way in establishing sound accounting principles and provide guidance to the Political Parties, members and others concerned.

New Delhi  
February, 2012

**CA. G. Ramaswamy**  
*President*

## **Preface**

India being a democratic country has a large number of national as well as regional Political Parties. Political Parties are the part and parcel of a democratic system. In a democratic setup, Political Parties are the public organisations which contest elections to occupy the decisive position of authority. They provide an important link between the Government and people as these are generally concerned with provision of social welfare, macro-economic management of the economy, and economic prosperity of its people. Consequently, in a democratic society like ours, the citizens deserve a fair account of how their money is being used by the Political Parties and the Government. As public organisations, it is necessary that Political Parties be accountable to the general public. It is a widely recognised fact that one of the means of ensuring public accountability and transparency is the dissemination of relevant financial information about the operating activities of the entity and its financial condition to all stakeholders.

Keeping the above in view, the Election Commission of India (ECI) approached ICAI, to recommend changes in order to bring uniformity in Accounting and Auditing practices being followed by Political Parties presently. Taking forward a step in the direction subsequent to the submission of the recommendations on the above to the ECI, the ICAI has formulated this '*Guidance Note on Accounting and Auditing of Political Parties*' which lays down the Uniform Accounting and Auditing Framework for the preparation and presentation of financial statements by Political Parties. The Guidance Note, *inter alia*, also lays down the principles of recognition, measurement and disclosure of items of income, expenses, assets and liabilities in the financial statements of Political Parties. A uniform format of financial statements has also been recommended.

I am thankful to CA. Amarjit Chopra, former President, CA. G. Ramaswamy, President and CA. Jaydeep Shah, Vice President for opportunity given to the Study-group to deliberate and pen down the draft of the Guidance Note. I place on record my deep appreciation of CA. Nilesh Shivji Vikamsey and CA. Atul Chunilal Bheda, members of the Study-group for the invaluable contributions made by them. I also compliment the invaluable contribution made by Dr. Avinash Chander, Technical Director and Ms. Deepti Dhiman, Section Officer from Technical Directorate, involved in the formulation of the Guidance Note.

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I deeply appreciate the valuable suggestions and deliberations of Dr. S.Y. Quraishi, Chief Election Commissioner, Shri V.S. Sampath, Election Commissioner, Shri. H.S. Brahma, Election Commissioner, Mr. P.K. Dash, Director General and other officials of Election Commission of India.

I sincerely believe that this Guidance Note will prove to be useful for political parties as well as for our members and go a long way in establishing sound accounting and auditing principles for the political parties.

February, 2012

**CA. S.B. Zaware**

***Convenor***

**Study Group of the Council on**

***'Uniform Accounting and Auditing Framework for Political Parties'***

*Accounting and Auditing of Political Parties*

**Dr. S. Y. Quraishi**  
Chief Election Commissioner of India




**भारत निर्वाचन आयोग**  
**Election Commission of India**

**MESSAGE**

Transparency and Accountability are the cardinal principles of democracy. To ensure this, the Election Commission had asked the Institute of Chartered Accountants of India (ICAI) to develop standardized formats for auditing of accounts of political parties. I am happy that ICAI has come up with suitable recommendations and has decided to obtain feedback from its members and the general public on its 'Guidance Note on Accounting and Auditing of Political Parties'.

Political parties are major stakeholders in a democracy. They seek to represent public interest in legislative and executive fora. Therefore, transparency and accountability in their functioning is desirable in the best interests of democracy and their own credibility.

I would like to compliment the ICAI for its positive role and I am sure their efforts will go a long way in development of a stronger and mature democracy in India.

  
(S.Y. Quraishi)

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# **Guidance Note on Accounting and Auditing of Political Parties**

*(Following is the text of the Guidance Note on Accounting and Auditing of Political Parties, issued by the Council of the Institute of Chartered Accountants of India.)*

## **1. Introduction**

India is a democratic country with federal features and Political Parties are one of the core institutions for the democracy. Party system is inevitable in a democratic setup. In other words, a democratic Government always works through Political Parties. Political Parties are supposed to enlighten, represent and protect the people's interest in a representative democracy. Following are the features of a Political Party:

1. Organisational structure and stability
2. Definite objectives
3. Activities on the basis of ideas, principles and mandates.
4. Redressal of public issues
5. Ultimate objective of attaining governmental power

When a Political Party or group of Parties in coalition win majority of seats in election, it forms the Government. Other Parties, which do not get the majority, play the role of opposition Parties. Political Parties convey the views and demands of the people to the Government. Hence, all Political Parties that exist in a country along with the ruling Party, are generally concerned with provision of public good and services to citizens, provision of social welfare, macro-economic management of the economy, management of assets and liabilities and economic prosperity of the people of the country. Consequently, in a democratic society like ours, various stakeholders and general public at large

deserve a true and fair account of how their money is being raised and used by the Political Parties and how effectively the financial affairs of the economy are being managed.

In this dynamic scenario, where the sources of funding of the Political Parties have been diversified, the objective of accountability and transparency seems to be of great importance. One of the means of ensuring public accountability and transparency is the dissemination of relevant financial information about the operating activities of the entity and its financial condition. Financial information is generally communicated through financial reports.

It has, however, been felt that the present system of accounting and financial reporting followed by Political Parties in India does not adequately meet the accountability concerns of the contributors, donors, other stakeholders such as members/beneficiaries, volunteers and general public etc.

A large number of Political Parties exist in India. The Political Parties registered with the Election Commission of India file a return containing '*A Statement of Election Expenditure by the Party*' and '*A Statement of Contributions received by the Party during a particular year*' in a prescribed format, which is not sufficient to meet the financial information requirements of the stakeholders. Moreover, various Acts and Legislations governing the Political Parties across India do not lay down any financial accounting and reporting framework. Consequently, preparation of appropriate financial statements and maintaining proper books of account by Political Parties is of utmost importance. It is also necessary to lay down an appropriate '*Auditing Framework*' for Political Parties.

A need is, therefore, being felt for improved accountability of the financial resources used by the Political Parties. A sound accounting and auditing framework acts as an important ingredient for promoting accountability of a organisation.

## **2. Objectives**

The objectives of this Guidance Note are to recommend the following:

- (a) An Accounting & Reporting Framework for the preparation and presentation of financial statements in Political Parties. This includes recommendation of appropriate basis of accounting, the application of sound accounting principles pertaining to recognition, measurement and disclosure of various items of income and expenses, assets and liabilities in the financial

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statements of Political Parties keeping in view the peculiarities of the activities of Political Parties.

- (b) Applicability of Accounting Standards issued by the Institute of Chartered Accountants of India to Political Parties.
- (c) Standardised formats of Financial Statements for Political Parties.
- (d) Applicability of 'Auditing and Assurance Standards' issued by the ICAI, to Political Parties.

### **3. Scope**

- (a) The guidance provided under this Guidance Note is applicable to the Political Parties registered with the Election Commission of India under *the Representation of People Act, 1951*.
- (b) This Guidance Note contains a standardised framework for preparation and presentation of financial statements of Political Parties, using sound accounting principles pertaining to recognition, measurement and disclosures.
- (c) For the purpose of this Guidance Note, a Political Party is considered as the reporting entity. Most of the Political Parties have wings/branches at State Level/District/City/Town/Village Level. For the sake of convenience and transparency. A Political Party may maintain separate accounts for each such wing/branch. However, for the purpose of preparation of financial statements of the Political Party, the accounts for all branch offices have to be consolidated into that of the Political Party as the reporting entity.

### **4. Basis of Accounting**

The term 'basis of accounting' refers to the timing of recognition of revenue, expenses, assets and liabilities in accounts.

The commonly prevailing bases of accounting under Double Entry Book Keeping system are:

- (i) Cash basis of accounting; and
- (ii) Accrual basis of accounting.

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Under the cash basis of accounting, transactions are recorded when the related cash receipts or cash payments take place. Thus, revenue of Political Parties, such as donations, grants, etc. is recognised when funds are actually received. Similarly, acquisition and maintenance of assets used for rendering services as well as for employee remuneration and other items are recorded when the related payments are made. The end-output of cash basis of accounting is a statement of Receipts and Payments that classifies cash receipts and cash payments under different heads.

Accrual basis of accounting is the method of recording transactions by which revenue, expenses, assets and liabilities are reflected in the accounts in the period in which they accrue. The accrual basis of accounting includes considerations relating to accrual of income, provisioning of expenses, allocations like depreciation and amortisation. This basis is also referred to as 'Mercantile Basis of Accounting' and commonly in use.

Accrual basis of accounting records the financial effects of the transactions and other events in the period in which they occur rather than recording them in the period(s) in which cash is received or paid. Accrual basis recognises that the economic events that affect an entity's performance often do not coincide with the cash receipts and payments. The objective of accrual basis of accounting is to relate the accomplishments (measured in the form of revenue) and the efforts (measured in terms of costs) so that the reported net income/surplus measures an entity's performance during a period rather than merely listing its cash receipts and payments. Apart from income measurement, accrual basis of accounting recognises assets, liabilities or components or revenue and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in future.

In cash basis of accounting, no account is taken of whether the asset is still in use, has reached the end of its useful life, or has been sold. Thus, cash-based information fails to show a proper picture of the financial position and performance for the accounting period. A cash-based system does not provide information about total costs of an organisation's activities. On the other hand, accrual system of accounting offers the opportunity to the organisation to improve management of assets, and provides useful information about the real level of organisation's liabilities, relating to both debts and other obligations such as employee entitlements.



**Accrual is, thus, a scientific basis of accounting and has conceptual superiority over the cash basis of accounting. It is, therefore, recommended that Political Parties should maintain their books of account on accrual basis.**

## **5. Accounting Framework for Political Parties**

This Framework is concerned with General Purpose Financial Statements (hereafter referred to as 'Financial Statements') and a Cash Flow Statement, viz., the Balance Sheet, Income and Expenditure Account prepared under accrual basis of accounting. Such financial statements are prepared and presented at least annually and are directed towards the common information needs of a wide range of users such as the general public, regulators (Election Commission of India), and donor agencies. These users have to rely on the financial statements as their major source of financial information and cannot prescribe the information they want from an organisation. The General Purpose Financial Statements should, therefore, be prepared and presented with their needs in view. Special purpose financial reports, for example, computations prepared for taxation purposes or others having the authority to obtain the type of information they need are outside the scope of this Framework. Where the General Purpose Financial Statements prepared in accordance with the recommendations contained in this Guidance Note do not provide such specific requisite information, it would be appropriate to prepare a separate statement for the specific purpose envisaged in the relevant statute/regulation or specified in the donor requirements. The recommendations contained in this Guidance Note may be applied to such specific purpose statements to the extent appropriate.

With a view to recommend suitable accounting system for Political Parties, it would be imperative to understand the major ingredients of an accounting framework as discussed in the following paragraphs:

### **(a) Elements of financial statements basically comprising Income, Expenses, Assets and Liabilities**

The framework aims to identify the items that should be considered as income, expenses, assets and liabilities by Political Parties (hereafter referred to as 'entity') for the purpose of including the same in the financial statements by defining the aforesaid terms.

'Assets' are resources controlled by an entity from which future economic benefits or service potential is expected to flow to the entity. It may thus be noted that the definition of 'asset' would remain the same whether an entity is a business enterprise or a Political Party, insofar as expectation of the future economic benefits is concerned. In other words, what is considered as an asset by a business entity e.g., Land, Building, Furniture and Equipment etc., would be considered as asset by a Political Party also. However, in case of a Political Party, certain items which may not have future economic benefits but have service potential would also be considered as assets. Many assets, for example, computers and buildings have a physical form. However, physical form is not essential to the existence of an asset. Hence, intangible assets such as copyrights and computer software are also assets, if they are controlled by the Political Party and future benefits from their use are expected to flow to the Political Party.

A 'liability' is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or a statutory requirement. This is normally the case, for example, with amounts payable for goods and services received and taxes, if any, to be paid. Obligations also arise, however, from normal practices followed by the entity, custom and a desire to maintain good relations or act in an equitable manner.

'Income' is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in owners' interest, other than those relating to contributions from owners.

Revenue arises in the course of ordinary activities of an organisation. Revenue in case of Political Parties is in the form of :

- (i) Grants from government/foundations/donor agencies on the basis of duly approved grant letters, specifying the timeframe/guidelines for grant accrual;
- (ii) Donations;

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- (iii) Fee and Subscription from Members;
- (iv) Sale of Publications, if any;
- (v) Interest and dividend from investments; and
- (vi) Collection from sale of coupons.

Gains represent other items that meet the definition of 'Income' and may or may not arise in the course of the ordinary activities of Political Parties. Gains represent increases in economic benefits and as such are no different in nature from revenue. Gains include, for example, profits arising from the disposal of fixed assets and sale of investments. When gains are recognised in the 'Income and Expenditure Account, they are usually disclosed separately.

'Expenses' are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in owners' interest, other than those relating to distributions to owners.

The definition of 'Expense' encompasses both expenses that arise in the course of the ordinary activities of Political Parties as well as losses. Expenses that arise in the course of the ordinary activities of Political Parties include monetary expenses such as election expenditure; office administration/maintenance expenses; salaries and other employee costs; and non-monetary expenses such as depreciation. The expenses take the form of an outflow or depletion of assets or enhancement of liabilities.

Losses represent other items that meet the definition of 'Expense' and may or may not arise in the course of the ordinary activities of Political Parties. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising from the disposal of fixed assets. The definition of expenses also includes unrealised losses. These losses are generally recognised in the Income and Expenditure account, and are usually disclosed separately.

**(b) Principles for recognition of items of Income, Expenses, Assets and Liabilities**

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These principles lay down the *timing* of recognition of the aforesaid items in the financial statements of Political Parties. In other words, these principles lay down *when* an item of Income, Expense, Asset or Liability should be recognised in the financial statements.

There is no difference in the application of the recognition principles to business enterprises and Political Parties. For example, the timing of the recognition of a grant/donation/contribution as an income in the financial statements of an organisation does not depend upon the purpose for which the organisation is run. A grant is recognised as income in the financial statements, under accrual basis of accounting, when it becomes reasonably certain that the grant/donation/contribution will be received and that the organisation will fulfill the conditions attached to it. Thus, a business enterprise and a Political Party would both follow the aforesaid criteria for recognition of grant as income. Similarly, principles for recognition of other Incomes, Expenses, Assets and Liabilities would be the same for other entities and Political Parties for which Framework for the Preparation and Presentation of Financial Statements as in case of commercial entities, may be referred.

#### *Recognition Criteria for Items of Income*

An item that meets the definition of income becomes eligible to be recognised in the financial statements if:

- (i) it is probable that the inflow or other enhancement of future economic benefits has occurred; and
- (ii) the inflow or other enhancements of future economic benefits can be measured reliably.

#### *Recognition Criteria for Items of Expense*

An item that meets the definition of expense becomes eligible to be recognised in the Income and Expenditure account when and only when:

- (i) it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred;
- (ii) the consumption or loss of future economic benefits can be measured reliably.

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Under accrual basis of accounting, expenses are recognised on the following basis:

- (i) *Identification with revenue transactions:* Costs directly associated with the revenue recognised during the relevant period (in respect of which whether money has been paid or not) are considered as expenses and are charged to income for the period.
- (ii) *Identification with a period of time:* In many cases, although some costs may have connection with the revenue for the period, the relationship is so indirect that it is impracticable to attempt to establish it. However, there is a clear identification with a period of time. Such costs are regarded as 'period costs' and are expensed in the relevant period, e.g., salaries, telephone, travelling, depreciation on office building, etc. Similarly, the costs the benefits of which do not clearly extend beyond the accounting period are also charged as expenses.

Expenses relating to a future period are accounted for as 'prepaid expenses' even though they are paid for in the current accounting period. Similarly, expenses of the current year, for which payment has not yet been made as 'outstanding expenses', are charged to the Income and Expenditure account for the current accounting period.

### *Recognition of Assets*

An asset should be recognised in the Balance Sheet when and only when:

- (i) it is probable that the future economic benefits embodied in the asset will be received; and
- (ii) the asset possesses a cost or value that can be measured reliably.

Assets can be classified into various categories depending on their nature and life such as fixed assets; intangible assets; investments – both current and long-term; and current assets – inventories, loans and advances, cash and bank balances.

### *Recognition of Liabilities*

A liability should be recognised in the balance sheet when and only when:

- (i) it is probable that any future sacrifice of economic benefits will be required;  
and
- (ii) the amount of the liability can be measured reliably.

*Contingent liabilities:*

Terms 'contingent liability' is defined as below:

***"A contingent liability is:***

- (a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or***
- (b) a present obligation that arises from past events but is not recognised because:***
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or***
  - (ii) a reliable estimate of the amount of the obligation cannot be made."***

***"Possible obligation – an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable."***

A Political Party should not recognise a contingent liability on the face of financial statements, but it should make the following disclosures, for each class of contingent liability, in the notes to financial statements, unless the possibility of any outflow in settlement is remote:

- (i) a brief description of the nature of the contingent liability;
- (ii) an estimate of its financial effect;
- (iii) an indication of the uncertainties relating to any outflow; and
- (iv) the possibility of any reimbursement.

Where any of the information required in the paragraph above is not disclosed because it is not practicable to do so, that fact should be stated.

**(c) Principles of measurement of items of Income, Expenses, Assets and Liabilities**

These principles lay down at what amount the aforesaid items should be recognised in the financial statements. Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and statement of Income and Expenditure. This involves the selection of the particular basis of measurement. Ordinarily, the same principles of measurement would be applicable in case of Political Parties as those for business enterprises. A number of different measurement bases are employed to different degrees and in varying combinations in financial statements such as historical cost, current cost, realisable (settlement) value and present value depending on the nature of the asset.

**(d) Presentation and disclosure principles**

These principles lay down the manner in which the financial statements are to be presented by Political Parties and the disclosures to be made therein. Insofar as presentation of financial statements is concerned, the principles in case of Political Parties may differ from those applicable to other entities. Similarly, there may be some specific disclosures which the Political Parties may be required to disclose.

## **6. Accounting Standards and their Applicability to Political Parties**

Accounting is often said to be a social science. It operates in an open and ever-changing economic environment. The nature of transactions entered into by various entities and the circumstances surrounding such transactions differ widely. This characteristic of accounting measurements historically led to the adoption of different accounting practices by different entities for dealing with similar transactions or situations.

Recognising the need for bringing about a greater degree of uniformity in accounting measurements, the trend all over the world now is towards

formulation of Accounting Standards to be adopted in preparation of accounting information and its presentation in financial statements. Accounting Standards lay down the rules for recognition, measurement, disclosures and presentation of accounting information by different entities.

In India, the task of formulating Accounting Standards has been taken up by the Institute of Chartered Accountants of India (ICAI). The Accounting Standards issued by the Institute of Chartered Accountants of India are applicable to Commercial, Industrial and Business enterprises.

Political Parties fall under non-commercial, non-industrial or non-business entities, hence Accounting Standards are usually not applicable to these entities.

'*Preface to the Statements of Accounting Standards*' issued by the ICAI has, however, clarified that even if a small portion of a charitable organisation is considered to be commercial, industrial or business in nature, then it cannot claim exemption from application of Accounting Standards. In that case Accounting Standards should apply to the entity as a whole and not only to commercial, industrial or business transactions.

The Preface states the following:

"3.3 Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any entity (whether organised in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to entities only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an entity from the applicability of the Accounting Standards would be permissible only if no part of the activity of such entity is commercial, industrial or business in nature. Even if a very small proportion of the activities of an entity is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature."

Since the wholesome principles contained in the Accounting Standards provide



most appropriate guidance even in case of those organisations to which Accounting Standards do not apply, it is recommended that Political Parties, irrespective of the fact that no part of the activities is commercial, industrial or business in nature that all Political Parties should follow Accounting Standards(See Appendix I). These Accounting Standards would help Political Parties to maintain uniformity in presentation of financial statements, proper disclosure and transparency. However, while applying the Accounting Standards, certain terms used and content/context in the Accounting Standards may need to be modified for Political Parties. For instance, where an Accounting Standard refers to the term 'Statement of Profit and Loss', in the context of Political Parties, the term 'Income and Expenditure account' should be used.

## **7. Books of Account to be Maintained by Political Parties**

The Political Parties should maintain the following books of account –

1. Cash Book/Bank Book
2. Journal Book
3. Ledger

Books of account should be maintained like any other commercial organisation following the rules of Double Entry Book Keeping System and generally accepted accounting practices prevailing in India.

Political Parties with reference to specific requirements may also other books of account e.g. Receipt Book, Purchase Book, Inventory Register and Voucher files etc. as deemed necessary.

Every Political Party should maintain proper books of account with respect to:

- (i) all sums of monies received by the Political Party and the matters in respect of which receipts take place, showing distinctly the amounts received from income generating activities and through grants/donations/contribution;
- (ii) all sums of money expended by the Political Party and the matters in respect of which expenditure takes place;

(iii) all assets and liabilities of the Political Party .

Proper books of account would not be deemed to be kept with respect to the matters specified therein:

- (i) if such books are not kept as are necessary to give a true and fair view of the state of affairs, income and expenditure and cash flows of the Political Party, and to explain its transactions;
- (ii) if such books are not kept on accrual basis and according to the double entry system of accounting.

## **8. Formats of Financial Statements under Accrual Basis of Accounting**

It is suggested that the following statements should form part of General Purpose Financial Statements of a Political Party:

1. Balance Sheet
2. Income and Expenditure Account
3. Cash Flow Statement
4. Notes forming part of financial statements.

An integrated Balance Sheet for the Political Party as a whole should be presented. In the Balance Sheet, assets and liabilities should not be set-off against each other, even though these may be related to the same programme/project. Rather these should be disclosed separately. Balances of various funds should be distinctly disclosed in the Balance Sheet.

In the preparation and presentation of financial statements, the overall consideration should be that they give a true and fair view of the state of affairs of the Political Party and of the surplus or deficit as reflected in the Balance Sheet and the Income and Expenditure Account, respectively. The financial statements should disclose every material transaction, including transactions of an exceptional and extraordinary nature. The financial statements should be prepared in conformity with relevant statutory requirements, accounting standards and other recognised accounting principles and practices.

For use by Political Parties, for which the governing statute does not prescribe any formats, the formats of financial statements are given in the *Appendix II*. The formats should be viewed as the minimum rather than the maximum information that Political Parties should present in their financial statements. Those Political Parties who wish to present more detailed information are encouraged to do so.

## **9. Auditing Framework for Political Parties**

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with the Standards on Auditing (SAs) and relevant ethical requirements enables the auditor to form that opinion. The auditor's opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements.

In some cases, however, the applicable laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the SAs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.

In conducting an audit of financial statements, the overall objectives of the auditor are:

- (i) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

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- (ii) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

Ordinarily, the basic flow of an audit of financial statements, conducted in accordance with the Standards on Audit, issued by the Institute of Chartered Accountants of India, would be as follows:

Stage 1: Client acceptance/retention procedures

Stage 2: Agreeing the Terms of engagement

Stage 3: Audit Planning

Stage 4: Performing risk assessment procedures

Stage 5: Assessing risk of material misstatements

Stage 6: Responding to assessed risks

Stage 7: Performing further audit procedures

Stage 8: Evaluating audit evidence obtained

Stage 9: Communication and Reporting

It must, however, be noted that aspects like audit documentation, audit planning and risk assessment are iterative and pervasive to any audit. Further, the Institute has issued 35 Standards covering the above mentioned stages of an audit. Since the subject matter of an audit are the financial statements themselves, it is, therefore, necessary to first crystallise the formats of the financial statements of a political party which would then be the starting point for an audit.

**An illustrative format of Auditor's Report on the Financial Statements of a Political Party is given in *Appendix III*.**

## **Appendix I**

### **Applicability of Accounting Standards issued by the ICAI to Political Parties**

#### **Accounting Standards issued by the ICAI**

<b>AS No.</b>	<b>Title</b>
1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statement
4	Contingencies and Events occurring after the Balance Sheet Date
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6	Depreciation Accounting
7	Accounting for Construction Contracts
9	Revenue Recognition
10	Accounting for Fixed Assets
11	Accounting for the Effect of Changes in Foreign Exchange Rates
12	Accounting for Government Grants
13	Accounting for Investments
14	Accounting for Amalgamations
15	Accounting for Retirement Benefits in the Financial Statements of Employers
16	Borrowing Costs
17	Segment Reporting
18	Related Party Disclosures
19	Leases
20	Earnings Per Share
21	Consolidated Financial Statements

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<b>AS No.</b>	<b>Title</b>
22	Accounting for Taxes on Income
23	Accounting for Investment in Associates in Consolidated Financial Statements
24	Discontinuing Operations
25	Interim Financial Reporting
26	Intangible Assets
27	Financial Reporting of Interests in Joint Venture
28	Impairment of Assets
29	Provisions, Contingent Assets and Contingent liabilities
30	Financial Instruments: Recognition and Measurement
31	Financial Instruments: Presentation
32	Financial Instruments: Disclosure

It may be noted that, so far, the Institute of Chartered Accountants of India has formulated 32 Accounting Standards out of which one Standard [viz., Accounting Standard (AS) 8, *Accounting for Research and Development*] is no longer in force and three Standards [viz., Accounting Standard (AS) 30, *Financial Instruments: Recognition and Measurement*; Accounting Standard (AS) 31, *Financial Instruments: Presentation*; and Accounting Standard (AS) 32, *Financial Instruments: Disclosure*] are not yet mandatory even in case of commercial entities.

It may also be noted that the following Accounting Standards may not be relevant to Political Parties. However, it is suggested that Political Parties should follow such Accounting Standards to the extent relevant, keeping in view the activities carried out by them:

- (AS 7) Accounting for Construction Contracts
- (AS 14) Accounting for Amalgamations
- (AS 16) Borrowing Costs
- (AS 17) Segment Reporting
- (AS 20) Earnings Per Share

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- (AS 21) Consolidated Financial Statements
- (AS 22) Accounting for Taxes on Income etc.
- (AS 23) Accounting for Investment in Associates in Consolidated Financial Statements
- (AS 24) Discontinuing Operations
- (AS 25) Interim Financial Reporting
- (AS 27) Financial Reporting of Interests in Joint Venture
- (AS 28) Impairment of Assets

It may also be noted that where an Accounting Standard on the subject matter relevant to Political Parties does not exist, the Political Parties may draw guidance from Accounting Standards for Local Bodies (ASLBs) issued by ICAI and in case of non existence of guidance even from ASLBs, the Political Parties may draw guidance from the corresponding International Public Sector Accounting Standards (IPSASs).

**Appendix II**

**Formats of Financial Statements (Political Parties)**

**NAME OF POLITICAL PARTY** \_\_\_\_\_

**BALANCE SHEET AS AT** \_\_\_\_\_

(` .....)

<b>SOURCES OF FUNDS</b>	<b>Schedule</b>	<b>Current Year</b>	<b>Previous Year</b>
CORPUS FUND	1		
GENERAL FUND	2		
EARMARKED FUNDS	3		
RESERVES	4		
LOANS/BORROWINGS	5		
Secured			
Unsecured			
CURRENT LIABILITIES & PROVISIONS	6		
<b>TOTAL</b>			
<b>APPLICATION OF FUNDS</b>			
FIXED ASSETS	7		
Tangible Assets			
Intangible Assets			
Capital Work-in-progress			
INVESTMENTS	8		
Long Term			
Current Investments			
CURRENT ASSETS	9		
LOANS, ADVANCES & DEPOSITS	10		
<b>TOTAL</b>			
Significant Accounting Policies	20		
Notes on Accounts	21		



**NAME OF POLITICAL PARTY** \_\_\_\_\_

**INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD/ YEAR ENDED** \_\_\_\_\_

(` .....)

<b>INCOME</b>	<b>Schedule</b>	<b>Current Year</b>	<b>Previous Year</b>
FEE & SUBSCRIPTIONS	11		
GRANTS / DONATIONS/ CONTRIBUTIONS	12		
COLLECTION BY ISSUING COUPONS/SALE OF PUBLICATIONS	13		
OTHER INCOME	14		
<b>TOTAL (A)</b>			
<b>EXPENDITURE</b>			
ELECTION EXPENDITURE	15		
EMPLOYEE COSTS	16		
ADMINISTRATIVE AND GENERAL EXPENSES	17		
FINANCE COSTS	18		
DEPRECIATION & AMORTISATION EXPENSES			
OTHER EXPENSES	19		
<b>TOTAL (B)</b>			
<b>Balance being excess of Income over Expenditure (A-B)</b>			
Transfers to/from reserves			
<b>Balance Being Surplus (Deficit) Carried to General Fund</b>			
Significant Accounting Policies	20		
Notes on Accounts	21		

## **General Instructions**

1. The financial statements of Political Parties (viz., Balance Sheet and Income and Expenditure Account) should be prepared on accrual basis.
2. A statement of all significant accounting policies adopted in the preparation and presentation of the Balance Sheet and the Income and Expenditure Account should be included in the Political Party's Financial Statements. Where any of the accounting policies is not in conformity with Accounting Standards, and the effect of departures from Accounting Standards is material, the particulars of the departure should be disclosed, together with the reasons therefore and also the financial effect thereof except where such effect is not ascertainable.
3. Accounting policies should be applied consistently from one financial year to the next. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change, should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
4. The accounting treatment and presentation in the financial statements should be governed by their substance and not merely by the legal form.
5. In determining the accounting treatment and manner of disclosure of an item in the financial statements, due consideration should be given to the materiality of the item.
6. Notes to the financial statements should contain the explanatory material pertaining to the items included therein.
7. If the information required to be given under any of the items or sub-items in these formats cannot be conveniently included in the Balance Sheet or the Income and Expenditure Account itself, as the case may be, it can be furnished in a separate schedule or schedules to be annexed to and forming part of the Balance Sheet or the Income and Expenditure account. This is recommended where items are numerous.

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8. The schedules referred to above, accounting policies and explanatory notes should form an integral part of the financial statements.
9. The corresponding amounts for the immediately preceding financial year for all items shown in the Balance Sheet and the Income and Expenditure Account and Cash Flow Statement should also be given in the Balance Sheet or Income and Expenditure Account and Cash Flow Statement, as the case may be.
10. A cash flow statement may be annexed to the Balance Sheet, wherever applicable, showing cash flows during the period covered by the Income and Expenditure Account and during the corresponding previous period.
11. Disclosures as suggested in the formats are minimum requirements. A Political Party is encouraged to make additional disclosures.
12. The figures in the financial statements, if rounded off, should be rounded off as below:

<b>Amount of Gross Revenue (in `)</b>	<b>Rounding off to (`)</b>
Up to one crore	Actual in rupees
One Crore or more but less than one hundred crore	Lakh / Million
One hundred Crore or more	Crore / Billion

## **Schedules Forming Part of Accounts**

**NAME OF ENTITY** \_\_\_\_\_

### **SCHEDULES FORMING PART OF BALANCE SHEET**

**AS AT** .....

#### **SCHEDULE 1 – CORPUS FUND**

- (a) Corpus Fund refers to funds contributed by founders/promoters/members of the Political Party.
- (b) The Opening Balances, Additions and the Closing Balance of the Corpus/Capital Fund should be shown under this head.

#### **SCHEDULE 2 – GENERAL FUND**

- (a) Donations/contributions from Companies, individuals/general public should be included under this fund.
- (b) This head should also include the funds contributed by the members of the party other than the members referred to in above schedule.
- (c) The balance, if any, in the income and expenditure account after appropriation, i.e., surplus/(deficit) is transferred to this fund.

#### **SCHEDULE 3 – EARMARKED FUNDS**

- (a) Designated/Earmarked funds are funds set aside by the Political Parties for specific purposes or to meet specific future commitments.
- (b) The following should be shown in respect of each of the designated fund:
  - (i) Balance at the beginning of the year
  - (ii) Additions during the year
  - (iii) Deductions during the year
  - (iv) Balance at the end of the year

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- (c) Disclosures should be made under relevant heads based on self-imposed conditions/restrictions on the grants.
- (d) Assets, such as investments, and liabilities related to each designated fund should be disclosed separately.

**SCHEDULE 4 – RESERVES**

**Following reserves may be created by a Political Party**

- (a) Revaluation reserve is created to reflect effects of changing prices, fixed assets otherwise stated at historical costs, are revalued and the historical cost substituted by a revaluation, normally done by competent valuers. Such substitution resulting in an upward revaluation is required to be shown as a “Revaluation Reserve”.
- (b) Special reserves comprise the reserves required to be created pursuant to any statutory or regulatory requirement applicable to the entity.
- (c) General reserve is a reserve other than capital reserve and revaluation reserve.
- (d) Following particulars should be shown in respect of each reserve:
  - (i) Balance at the beginning of the year.
  - (ii) Additions during the year.
  - (iii) Deductions during the year.
  - (iv) Balance at the end of the year.

**SCHEDULE 5 – LOANS/BORROWINGS**

- (a) The head should be classified into funds borrowed from, Financial Institutions, banks or other institutions or agencies etc. and separately disclosed.
- (b) Borrowings should further be sub-classified as secured and unsecured and specified separately in each case. Secured loans

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and borrowings should be such as are against hypothecation/pledge/charge on asset on the entity. Unsecured loans and borrowings comprise amount in respect of which no asset of entity is charged as security or encumbered.

- (c) Terms of repayment of term loans and other loans should be stated.
- (d) Loans, if any, should also be classified on the basis of due date into the following categories:
  - (i) Loans repayable within 12 months
  - (ii) Loans repayable within 1 to 5 years
  - (iii) Loans repayable after 5 years
- (e) Interest free loans should be disclosed separately from interest bearing loans, interest accrued and due on loans should be included under appropriate sub-head.
- (f) Nature of security should be specified separately in each case.

**SCHEDULE 6 – CURRENT LIABILITIES & PROVISIONS**

- (a) Current Liabilities should be classified and disclosed separately as:
  - (i) Creditors
  - (ii) Statutory Liabilities
  - (iii) Interest accrued but not due on borrowings
  - (iv) Expenses Payable
  - (v) Other Current Liabilities (specify)
- (b) Provisions should be classified and disclosed as follows:
  - (i) For retirement benefits
  - (ii) Others (specify)

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- (c) Where any item constitutes ten percent or more of the total current liabilities and provisions, the nature and amount of such items may be shown separately and may not be included under the head 'Others'

**SCHEDULE 7 – FIXED ASSETS**

Under this head, classification and disclosures should be as follows:

<b>TANGIBLE ASSETS</b>	
<b>Land</b>	Includes freehold land and leasehold land.
<b>Buildings</b>	Include office and other buildings, residential buildings, school and college buildings, hospital buildings, public buildings, temporary structures and sheds.
<b>Plant and machinery</b>	Includes air conditioners, generator sets, television sets, fire extinguishers, etc.
<b>Vehicles</b>	Include buses, lorries, vans, cars, scooters, etc.
<b>Office equipments</b>	Include such items as fax machines, photocopiers, EPABX, typewriters, duplicating machines, etc.
<b>Computers/Peripherals</b>	Include computers, printers and other peripherals like CDs, U.P.S & Software etc.
<b>Furniture, fixtures and fittings, and electrical appliances</b>	Furniture includes items such as cabinets, almirahs, tables, chairs and partitions include electrical fixtures and fittings such as fans, bulbs and tube lights and electrical appliances such as air-conditioners, water and air coolers, etc.
<b>Library Books</b>	In some cases the number of Library Books could be very large or there may be an established Library. In such cases these books may be disclosed as a separate category of assets. Library books will include books/journals/information stored in CD ROMs
<b>CAPITAL WORK-IN-PROGRESS</b>	Fixed assets in the course of construction should be shown against this head till they are ready

	for their intended use. Plant, machinery and equipment acquired and pending installation should be included here. Advances to suppliers/contractors on capital account should also be included.
<b>INTANGIBLE ASSETS</b>	Should be classified as computer software purchased, patents, trade marks etc. and should be specified separately.

- (a) Fixed assets are those assets which are held with the intention of being used for the purpose of producing or providing services and not held for sale in the normal course.
- (b) Under each head, the original cost, the additions thereto and deductions there from during the year, depreciation written off or provided during the year, and the total depreciation written off or provided up to the end of the year should be stated.
- (c) The cost of a fixed asset should be determined by adding to the purchase price any attributable costs of bringing it to its working condition for its intended use.
- (d) The cost of construction of a fixed asset should be determined by adding to the purchase price of the materials and consumables used, the costs incurred by the Political Party which are attributable to the construction of that asset.
- (e) Advance payments to contractors and suppliers should be classified as capital work-in-progress.
- (f) Separate disclosure under each of the above heads should be made in respect of donated assets (i.e., assets that have been received free of cost as non-monetary grant/at concessional value donation by the Political Party and assets financed under a lease agreement).
- (g) Fair values of all the donated fixed assets, existing on the Balance Sheet date, should be disclosed in the notes to accounts. If it is not practicable to determine the fair values of the assets on each



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balance sheet date, then such values may be determined after a suitable interval, say, every three years. In such a case, date of determination of fair values should also be disclosed along with the fair values of assets.

- (h) Restrictions, if any, on the utilisation of each asset should also be disclosed in the notes to accounts.

**SCHEDULE 8 – INVESTMENTS**

- (a) The investments should be classified and disclosed under long term investments and current investments.
- (b) ‘Current Investment’ means an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.
- (c) ‘Long-term Investment’ means an investment other than a current investment.
- (d) Both ‘Long-term Investment’ & ‘Current Investment’ should be classified and disclosed as follows:
  - (i) Investment made in Government Securities
  - (ii) Other approved Securities
  - (iii) Others (to specified)
- (e) Long-term investments should be measured at cost. The book value of long-term investments should be reduced to recognise a decline, other than temporary, in their value. Such reduction should be determined and made for each investment individually.
- (f) Aggregate amount of the Political Party’s long-term quoted investments and also the market value thereof should be shown. Aggregate amount of the Political Party’s unquoted investments should also be shown.

- (g) 'Quoted investment' for this purpose, means an investment in respect of which a quotation or permission to deal on a recognised stock exchange has been granted, and the expression 'unquoted investment' should be construed accordingly.
- (h) Current investments should be shown at the lower of cost and fair value, which should be determined either on an individual investment basis or by category of investment.
- (i) The significant restrictions on the right of ownership, realisability of investment should be disclosed by way of notes.

#### **SCHEDULE 9 – CURRENT ASSETS**

- (a) If the net realisable value of any current asset, except items held for distributing either free of cost or at a nominal amount, is lower than its book value, the amount to be included in respect of that asset should be the net realisable value.
- (b) The current assets should be classified and disclosed as follows:
  - (i) Inventories: Include items that are held in the normal course, or in the form of materials or supplies to be consumed.
    - Mode of valuation of the Inventories should be disclosed.
  - (ii) Receivables should be classified and disclosed as:
    - Grants/Donations/Contributions in respect of which, there is a reasonable assurance that (i) the entity will comply with the conditions attached, and (ii) the donation/grants will be received.
    - Others (specify)
    - Any debts due by the employees of the entity should be separately stated.

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- (iii) Balances with Banks & Post office should be shown as follows:
- With Scheduled Banks
  - With Non-scheduled Banks
  - With Post Office
  - Particulars should be given of balances lying on current account, call accounts and deposit accounts should be given.
  - Bank deposits with more than 12 months maturity should be disclosed separately.
  - Where any deposit accounts are pledged or charged as security or are encumbered, the fact should be disclosed.
  - Overdue/matured deposits should be separately disclosed.
- (iv) Cash and Cash equivalents should be classified as cash on hand, cheques and drafts on hand, balance with banks and others (specify) and disclosed accordingly.
- (v) Other current assets should be classified and disclosed as follows:
- 'Other current assets' is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.
  - Interest accrued on investments should be included under this head.
  - Where any item constitutes ten percent or more of the total or more of the total current assets, the nature and amount of such items may be shown separately.

**SCHEDULE 10 – LOANS, ADVANCES & DEPOSITS**

- (a) These should be classified and disclosed as follows:
  - (i) Loans & advances to-
    - Staff (interest bearing and non-interest bearing should be shown separately)
    - Others (includes (i) other amounts recoverable in cash or kind for value to be received, and (ii) prepaid expenses)
  - (ii) Deposits (other than with bank) such as for telephone and electricity etc.
  - (iii) Others (specify)
- (b) Where any item constitutes ten percent or more of total loans, advances and deposits, the nature and amount of such item may be shown separately and the same may not be included under the head 'Others'.

## **Income and Expenditure Account**

1. The Income and Expenditure Account should disclose every material feature and should be so made out as to clearly disclose the result of the working of the Political Party during the period covered by the account.
2. Donations and grants should be recognised only at a stage when there is a reasonable assurance that the Political Party will comply with the conditions attached, and the donations and grants will be received.
3. Any item under which income/expense exceed one percent of annual gross revenue of the Political Party or Rs. 50,000/- whichever is higher should be shown as a separate and distinct item against an appropriate account head in the Income and Expenditure Account. These items, therefore, should not be shown under the head miscellaneous and other income/expense.
4. Depreciation should be provided so as to charge the depreciable amount of a depreciable asset over its useful life. As the matter of guidance, Schedule XIV to the Companies Act, 1956, may be followed for rate(s) of depreciation.
5. A Political Party should disclose the following additional information by way of notes:
  - (a) Fair value and quantitative details of the services rendered by volunteers/members for which no payment has been made (wherever practicable).
  - (b) Net gain/loss on foreign currency transaction.
  - (c) Details of items of exceptional and extraordinary nature.
  - (d) Prior period items.

### **SCHEDULE 11 – FEES & SUBSCRIPTIONS**

- (a) This should be classified and disclosed as follows:
  - (i) Entrance Fees

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- (ii) Annual Fees/Subscriptions from members
  - (iii) Subscriptions for Publications (if any)
  - (iv) Others (Specify)
- (b) In case the fees like entrance fee, subscriptions etc. are in the nature of capital receipts, such amount should be recognised to the Corpus Fund. Otherwise such fees will be incorporated in this schedule.

**SCHEDULE 12 – GRANTS/DONATIONS/CONTRIBUTIONS**

The grants/donations/contributions received should be classified and disclosed as follows:

- (a) Individual donors
- (b) Companies/Organisations
- (c) Institutions/Welfare Bodies
- (d) Others (Specify)

**SCHEDULE 13 – COLLECTION FROM ISSUANCE OF COUPONS/ SALE OF PUBLICATIONS**

Income under this head should be classified and disclosed as follows:

- (a) Revenue from issuance of Coupons of different denominations should be disclosed separately.
- (b) Revenue from sale of publications of the party (if any) should be disclosed.

**SCHEDULE 14 – OTHER INCOME**

Other incomes should be classified and disclosed as follows:

- (a) Interest earned on government securities, bonds & debentures, deposits with scheduled & non-scheduled banks, saving accounts and loans & advances given to employees or others etc.

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- (b) Income from investments in mutual funds etc.
- (c) Profit on sale of investments
- (d) Profit on sale of fixed assets
- (e) Rent received
- (f) Other miscellaneous income
- (g) Items of material amounts included in miscellaneous income should be separately disclosed.

**SCHEDULE 15 – ELECTION EXPENDITURE**

These should be classified and disclosed as follows:

- (a) Publicity expenses:
  - (i) Printed Material, like manifestos, pamphlets, posters, handbills, etc.
  - (ii) Electronic Media(including hiring time slots, etc., in TV channels)
  - (iii) Making & distribution of video films
  - (iv) Making & distribution of audio CDs
  - (v) Advertising in newspapers, magazines, souvenirs, etc.
  - (vi) Cut-out, hoarding banners, flags, arches, gates etc.
  - (vii) Others (specify)
- (b) Travel expenses of leaders & workers:
  - (i) Aircrafts/Helicopters
  - (ii) Others
- (c) Other expenses:

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- (i) Boarding & lodging expenses
- (ii) Public Meetings
- (iii) Other Misc. (specify)

**SCHEDULE 16 – EMPLOYEE COSTS**

These should be classified and disclosed as follows:

- (a) Salaries and Wages
- (b) Allowances and Bonus
- (c) Contribution to Provident and other Funds
- (d) Employees Retirement and Terminal Benefits
- (e) Others (specify)

**SCHEDULE 17 – ADMINISTRATIVE AND GENERAL EXPENSES**

These should be classified and disclosed as follows:

- (a) Rents
- (b) Rates and taxes
- (c) Communication expenses
- (d) Printing & stationery
- (e) Electricity
- (f) Travelling & conveyance expenses
- (g) Insurance charges
- (h) Remuneration to auditors
- (i) Professional Charges



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- (j) Repair & Maintenance of Building, Furniture & Fixture, Plant & Machinery etc.
- (k) Others (specify)

**SCHEDULE 18 – FINANCE COSTS**

Finance cost should be classified and disclosed as follows:

- (a) Interest on fixed loans
- (b) Interest on other loans
- (c) Bank charges
- (d) Others (specify)

**SCHEDULE 19 – OTHER EXPENSES**

Other expenses should be classified as write-offs, provisions, miscellaneous expenses, loss on sale of investments and fixed assets etc. and disclosed as accordingly.

**SCHEDULE 20 – SIGNIFICANT ACCOUNTING POLICIES**

Political Parties should disclose their significant accounting policies and this disclosure should be made at one place.

Where a Political Party has followed a basis of accounting other than accrual, a disclosure in this regard should be made. An illustrative list of accounting policies that a Political Party could disclose is as follows:

- (a) The bases of recognition of major types of expenses and revenue
- (b) Accounting for income from and expenditure on specialised activities such as welfare programmes
- (c) Conversion or translation of foreign currency (in case of organisations receiving foreign funds)
- (d) Method(s) of depreciation

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- (e) Valuation of inventories
- (f) Valuation of investments
- (g) Treatment of employee benefits
- (h) Valuation of fixed assets
- (i) Treatment of contingent liabilities

**SCHEDULE 21 – NOTES ON ACCOUNTS**

- (a) Significant contributions/donations/collection from issuance of coupons exceeding Rs. 5,00,000/- to any individual or any other party should be disclosed with names.
- (b) Donation received from outside India should be disclosed with names.
- (c) Penalties on electoral officers alongwith the material electoral officers should be disclosed.

### ***Appendix III***

## **Illustrative Format of Auditor's Report on the Financial Statements of a Political Party**

### **Auditor's Report**

To

The President/Chief (or equivalent),  
Name of the Political Party

We have audited the attached Balance Sheet of ..... (name of the Political Party), as at 31<sup>st</sup> March 2XXX, and also the Income and Expenditure Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Political Party's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Further, we report that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) In our opinion, proper books of account have been kept by the Political Party so far as appears from our examination of those books (and proper returns adequate for the purposes of our audit have been received from the branches not visited by us);

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- (iii) The Balance Sheet, Income and Expenditure Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
- (iv) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give a true and fair view in conformity with the accounting principles generally accepted in India:
  - a) in the case of the Balance Sheet, of the state of affairs of the Political Party as at 31<sup>st</sup> March 2XXX;
  - b) in the case of the Income and Expenditure Account, of the Surplus/ Deficit year ended on that date; and
  - c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For ABC & Co.  
Chartered Accountants

Signatures  
(Name of the Member Signing the Audit Report)  
Membership Number

Place of Signature

Date

