

# Financial Oversight by Parliament

## Background Note for the Conference on Effective Legislatures

Oversight of the government’s finances involves the scrutiny of the government’s financial proposals and policies. The Indian Constitution vests this power with the Parliament by providing that (a) taxes cannot be imposed or collected without the authority of law, and (b) expenditure cannot be incurred without the authorisation of the legislature.<sup>1</sup> The Constitution therefore ensures that “the Indian government is accountable to the Parliament in its financial management”.<sup>2</sup> The Indian Parliament exercises financial oversight over the government budget in two stages: (1) at the time of presentation of the annual budget, and (2) reviewing the government’s budget implementation efforts through the year.

The Parliamentary control over public finances “is exercised primarily through the approval of the Union budget.”<sup>2</sup> The Chart below maps out the main steps in the passing of the Union Budget in Parliament<sup>3</sup>:



Parliament’s control over public expenditure also extends to scrutinising the government’s spending on plans and programmes approved by the Parliament. This can be done on the floor of the House through questions and discussions, or through the Parliamentary Committees.

In the sections below, we examine the mechanisms of oversight and the performance of Parliament in exercising oversight over the government’s finances.

### Mechanisms for oversight before the budget is passed

The Parliament scrutinises the annual budget (a) on the floor of the House, and (b) by the departmentally related standing committees.

#### Scrutiny on the floor of the House

The main scrutiny of the budget in the Lok Sabha takes place through:

- (a) General discussion and voting: The general discussion on the Budget is held on a day subsequent to the presentation of the Budget by the Finance Minister. Discussion at this stage is confined to the general examination of the Budget and policies of taxation expressed during the budget speech.
- (b) Discussion on Demand for Grants: The general discussion is followed by a discussion on the Demand for Grants of different ministries. A certain number of days or hours are allocated for the discussion of all the demands.<sup>4</sup> However, not all the demands are discussed within the allotted number of days.

#### Important Budget Documents

- (a) Annual Financial Statement – Statement of the estimated receipts and expenditure of the government.
- (b) Demand for Grants – Expenditure required to be voted by the Lok Sabha. A separate Demand is required to be presented for each department of the government.
- (c) Supplementary Demand for Grants – Presented when (a) authorized amounts are insufficient, or (b) need for additional expenditure has arisen.
- (d) Finance Bill – Details the imposition of taxes, the rates of taxation, and its regulation.
- (e) Detailed Demand for Grants – Prepared on the basis of the Demand for Grants. These show further break-up of objects by expenditure, and also actual expenditure in the previous year.

The remaining undiscussed demands are disposed of by the Speaker after the agreement of the House. This process is known as the ‘Guillotine’. Figure 1 shows the number of Demands discussed and guillotined over the last five years. It shows that nearly 90% of the Demands are not discussed every year.

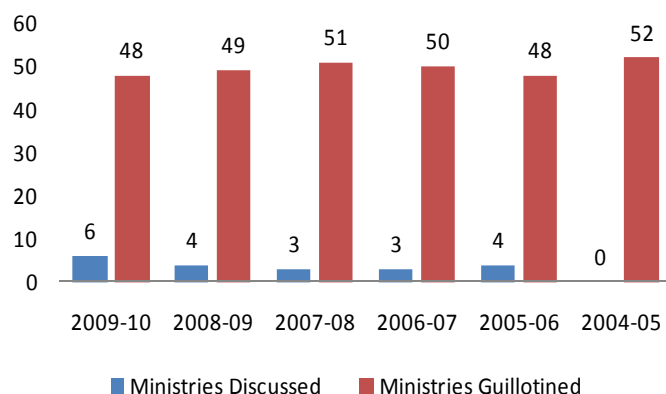
**Figure 1: Ministries discussed and guillotined (2004-2010)**

Table 1 shows the ministries whose Demands have been discussed in Parliament between 2004-05 and 2009-10:

**Table 1: Ministry-wise discussion of Demand for Grants (2004-05 to 2009-10)**

Ministry	No. of discussions
Home Affairs	5
Agriculture	3
Rural Development	3
Science & Technology	2
Consumer Affairs, Defence, HRD, Information & Broadcasting, Labour and Employment, Power, Women & Child Development	1 each
<b>Total</b>	<b>20</b>

Sources: Resumes of Work – Lok Sabha; PRS.

Table 1 also shows that the demands of a very small proportion of the total number of ministries get discussed in Parliament. This implies that a large portion of the Demand for Grants is not discussed in the Lok Sabha (Table 2).

**Table 2: Percentage of Demand for Grants guillotined every year (2004-05 to 2009-10)**

Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Percentage guillotined</b>	100	85	83	95	63	79

Sources: Demand for Grants; Resume of work – Lok Sabha; PRS Legislative Research.

### Scrutiny of Demands for Grants by Parliamentary Committees

One of the functions of the Parliamentary Standing Committees is to consider the Demands for Grants of the ministries under their supervision. In mid-March, Parliament adjourns and the Committees prepare reports on individual Demands for Grants submitted by various departments. The reports are presented in the House when Parliament reconvenes. The government is also expected to reply to the Committees recommendations. The Committee then frames an Action Taken Report (ATR) on the basis of the government's reply (Table 3 shows the average percentage of recommendations accepted by the government between 2004-2008), and the ATR is also laid on the table of the House.

**Table 3: Percentage of Standing Committee recommendations accepted by the government**

Year	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Average acceptance rate</b>	50%	46%	50%	47%	50%

Sources: Action Taken Reports on Demands for Grants of different ministries (2004 – 2008); PRS.

Table 3 above shows that (a) approximately half of the recommendations made by Standing Committees were accepted by the government, and (b) the proportion of recommendations accepted has remained almost constant during these years. The percentage of recommendations accepted varies.<sup>5</sup> Table 4 shows the time taken by the Committees to publish the ATRs on the Demands for Grants. The table shows that on an average, there is a delay of eight months in the presentation of the ATRs after the budget session ends. That is, the ATR is usually published just before the end of the financial year.

**Table 4: Time taken for publication of ATR**

Year	Average time taken (in months)
2004-05	6.0
2005-06	8.5
2006-07	8.5
2007-08	8.0
2008-09	9.5

Sources: ATRs on Demands for Grants (2004 – 2008); PRS.

### Scrutiny of Supplementary Demands for Grants

Supplementary Demands for Grants are presented (a) when there is a need for additional expenditure, and (b) for making up any advances made from the Contingency Fund of India.

Supplementary Demands for Grants are not usually referred to the Standing Committees even though the amounts proposed may be significant. Table 5 shows that the proportion of the amounts proposed in the supplementary demands for grants seems to be increasing compared to the general demands for grants from 2006-07 to 2008-09.

**Table 5: Supplementary Demands for Grants (DfG) compared to Demands for Grants (Rs crore)**

Year	Total DfGs	Supplementary DfGs	Percentage of Supplementary DfGs
2006-07	448,109	38,836	9%
2007-08	547,020	65,358	12%
2008-09	597,662	158,859	27%

Sources: Supplementary Demands for Grants 2006-2008; PRS.

### Mechanisms for oversight after the budget is passed

Oversight by Parliament after the Budget is passed is necessary to make sure that the sanctioned amount is being used in an appropriate manner. Parliament may also look at systemic improvements in financial management of the government. The three financial committees of Parliament, (a) the Public Accounts Committee, (b) Estimates Committee, and (c) the Committee on Public Undertakings serve as important means of Parliamentary control over government agencies.

#### Public Accounts Committee (PAC)

The PAC is entrusted with the task of scrutinising how the expenditure authorised by parliament is being spent. Its stated functions are: (a) legal and appropriate disbursement of the expenditure authorised by Parliament, (b) compliance with rules for appropriations and re-appropriations of money, (c) accounts of state corporations, trading and manufacturing schemes, balance sheets of certain public utilities, (d) finances of autonomous bodies whose audit has been conducted by the Comptroller and Auditor General of India (CAG), (e) to consider the report of the CAG if the CAG has been asked to conduct a specific audit by the government.

#### Comptroller and Auditor General of India (CAG)

The CAG is an independent constitutional body to audit the accounts of the union and state governments. The audited accounts along with the audit reports of the government are laid before Parliament. The CAG examines whether: (a) amounts shown in the accounts have been spent legally and properly, and (b) whether the assessment and collection of revenues has been properly done. The audit reports of the CAG are considered by the PAC.

Table 6 below lists the twenty-two ministries discussed by the PAC, and the number of reports on each ministry.

Through the fifty-four reports the PAC has presented in the last five years, it has examined ministries which have cumulatively received around 80% of the budgetary allocations in the last five financial years.

The ministries submit ATRs on the recommendations of the PAC. Figure 2 shows that, on average, 70 percent of the recommendations of the PAC are accepted by the concerned ministry.

The PAC also scrutinises the working of the ministries as per the audit findings of the CAG. Since it is not possible to examine every audit finding in a formal manner, ministries have to submit Action Taken Notes to the PAC on all audit paragraphs. A 2009-10 report of the PAC however noted that there were 4,934 audit paragraphs still pending with various ministries.<sup>6</sup>

**Table 6: Ministries on which the PAC has presented reports (2005-2010)**

Ministry	Number of Reports
Finance	10
Health and Family Welfare	6
Human Resource Development	5
Commerce, Urban Development	4 each
Defence, Railways	3 each
Planning, Communications and IT, Rural Development, Environment and Forests	2 each
Water Resources, Development of NE Region, Power, Consumer Affairs, Home Affairs, External Affairs, Road Transport and Highways, Labour and Employment, Agriculture, Civil Aviation, Social Justice	1 each
<b>Total</b>	<b>54</b>

Sources: Reports of the PAC (14<sup>th</sup> and 15<sup>th</sup> Lok Sabha); PRS.

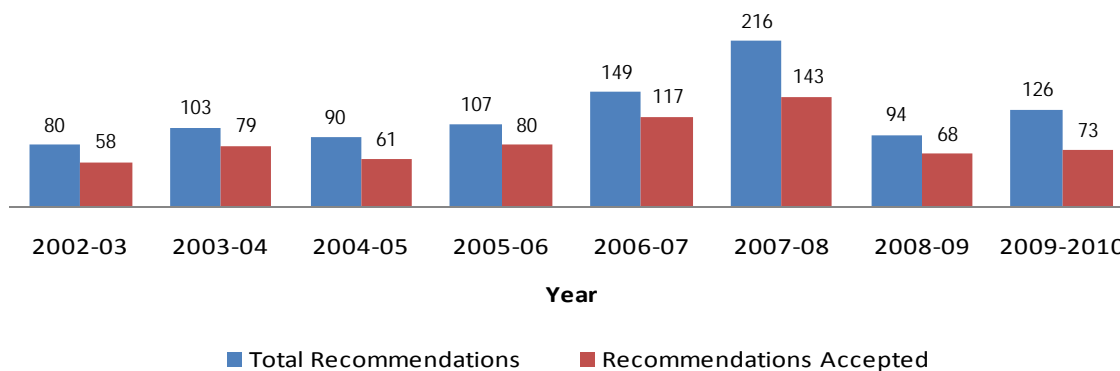
## Estimates Committee

The Committee facilitates Parliament's control over the expenditure sanctioned and incurred, and also over the general policies of the administration. The Committee's main tasks are to (a) report on the improvements and administrative reform that can be made, (b) to suggest alternative policies in order to bring about efficiency in administration, and (c) to suggest whether the proposed expenditure is within the limits of government policy.<sup>2</sup>

## Committee on Public Undertakings

The Committee exercises scrutiny over the accounts of public corporations. The Committee examines the annual reports of public undertakings, and examines CAG reports on public undertakings. The Committee however cannot examine matters of major government policy with regard to public undertakings, or matters of their day to day administration.<sup>2</sup>

**Figure 2: Recommendations made by the PAC and their acceptance**



1. Articles 265, 266, and 112 of the Constitution.

2. Budget Manual, Ministry of Finance, Department of Economic Affairs, Budget Division, New Delhi, September 2010.

3. Budget Manual; PRS Primer on The Budget Process,

([http://prsindia.org/index.php?name=Sections&id=5&parent\\_category=&category=49&action=bill\\_details&bill\\_id=484](http://prsindia.org/index.php?name=Sections&id=5&parent_category=&category=49&action=bill_details&bill_id=484))

4. Parliament of India, The Thirteenth Lok Sabha 1999-2004, Lok Sabha Secretariat, New Delhi.

5. Fourteen of the 363 ATRs which were available for the 14<sup>th</sup> Lok Sabha reported that the government accepted less than ten percent of the recommendations of the Committee. Five out of 363 ATRs stated that the government accepted more than 90% of its recommendations.

6. Eleventh Report of the PAC on "Non-compliance by the ministries/departments in timely submission of action taken notes on non-selected audit paragraphs", presented on April 29, 2010.

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