

Parliament's Role in Financial Oversight

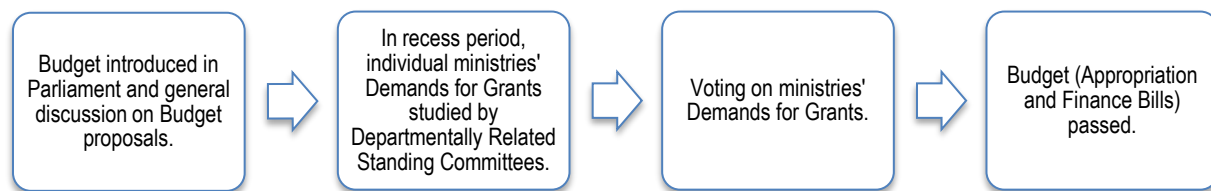
Background Note for the Conference on Effective Legislatures

Parliament performs four major functions: representation of citizens, law making, holding the executive accountable for its policies and actions and oversight of the government's financial activities. This note presents an analysis of Parliament's role of financial oversight and examines how to strengthen it. It highlights gaps and solutions to improve the existing structures affecting budgetary and other financial processes of Parliament.

Parliamentary oversight of the government's financial activities broadly involves two functions: (a) scrutinising and sanctioning the government's expenditure proposals and the taxation policies financing them; and (b) examining the efficiency of government functioning, once the funds have been allocated for various activities.

Mechanisms of financial oversight

Process of Budget scrutiny



The general discussion on the Union Budget is held a day after the presentation of the Budget by the Finance Minister, in the Lok Sabha. Rajya Sabha only has a recommendatory role with respect to the Budget. The Budget typically includes, (i) the Annual Financial Statement: summarises the expenditure and receipts of the government, (ii) Expenditure Budget: details the expenditure of various ministries and departments including the Demands for Grants of each ministry, (iii) Receipts Budget: details the tax and non-tax funding plan for the government, (iv) Finance Bill: details any changes to the existing tax laws, etc. Discussion at this stage is confined to the general examination of the Budget and policies of taxation and does not involve a vote.

After the general discussion, Parliament goes into recess for about three weeks. During this time the Departmentally Related Standing Committees (DRSCs) examine detailed estimates of different ministries' expenditure proposed called Demands for Grants.

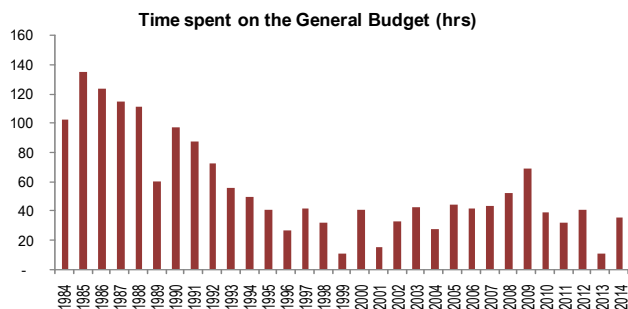
This is not a constitutional requirement and is based on Parliamentary discretion. If assigned the task these Committees submit reports on each ministry's Demands for Grants, as highlighted in the text box.¹ It may be noted that the Committees only examine the expenditure estimated to be incurred by the government but the Finance Bill (detailing the imposition and rates of taxation, and their regulation) is not examined.

DRSC on Human Resource Development in its 253rd Report on Demands for Grants of Department of School Education and Literacy: The Committee in 2013-14 made a few observations and recommendations which included, (i) attention needs to be paid to wide gap between the demands of the Department and the allocations made as well as existence of under-utilised balances, (ii) time lines mandated by the RTE/SSA must be adhered to, (iii) automatic promotion of students through elementary school may be hampering quality of education and, (v) need better coordination with states.

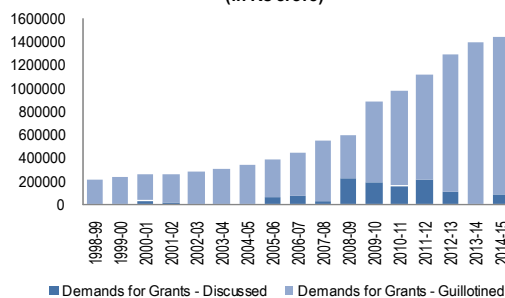
The submission of reports is followed by a discussion on the Demands for Grants of ministries after which the Lok Sabha votes on these. Once the Demands for Grants are passed, they are consolidated into an Appropriation Bill, which seeks to withdraw funds from the Consolidated Fund of India for the sanctioned expenditure. A certain number of days or hours are allocated for the discussion of all the demands. However, not all the demands are discussed within the allotted number of days. On the last day, the remaining demands are clubbed together and voted upon, in a process called 'guillotining'. Finally, the Finance and Appropriation Bills are voted upon.

As shown in the graph on the right, in the past decade an average of 86% of these proposals were passed without discussion. For example, in the year 2013 all Demands for Grants, amounting to Rs 16.6 lakh crore, were voted and passed without any discussion in the House. Similarly in 2004, 100% of the Demands for Grants passed were guillotined. In the Budget Session of 2014-15, 94% of the Demands for Grants were guillotined.

Over the years, as can be seen from the graph below, the



Demands for Grants Discussed vs. Guillotined (in Rs crore)



time spent discussing the Budget (general discussion as well as discussion on reports of DRSCs on Demands for Grants) has reduced from an average of 123 hours in the 1950s to 41 hours in the last decade. It could be argued that more time is being spent by Committees instead, examining the Budget. However, the purpose of Committees examining Demands for Grants was to allow for more time for deliberation within the House.

Review by Parliamentary Committees

Parliamentary committees are composed of Members of Parliament (MPs) from both Houses. There are essentially two types of committees relevant to the budgetary process, DRSCs and Financial Committees. DRSCs are responsible for pre-approval scrutiny of the proposed Demands for Grants, if Parliament deems necessary. The task of Financial Committees is that of post-facto examination of use of funds. They review various aspects of government spending, once the Budget has been passed.

Financial Committees: Oversight by the Parliament after the Budget is passed is crucial for ensuring that the amounts allocated to the government are being utilised appropriately. Financial Committees scrutinise and exercise parliamentary control over government expenditure/finances and table reports in Parliament. This elicits a response from the government highlighting the recommendations of the committee accepted or rejected by them. Based on this the committee prepares an Action Taken Report (ATR) and lays it on the table of the House. There are three types of Financial Committees:

Public Accounts Committee (PAC): Article 151 of the Constitution mandates reports of the Comptroller and Auditor General (CAG) of India, relating to the Union, to be tabled in Parliament. Since it is difficult and time-consuming for Parliament to discuss each of these reports, the PAC has been tasked with scrutinising government finances and reports of the CAG. It does this to ensure that the government is spending money for the purpose for which Parliament voted upon.

Typically the Speaker of the Lok Sabha appoints a member from the main opposition party in the House, as the chairman of the PAC. An example of a PAC report and its recommendations is given in the text box above.²

Estimates Committee: This Committee examines estimates of ministries and whether the money allocated conforms to and is well within the limits of the policy implied in the estimates. It suggests alternative policies so as to bring about efficiency and economy in administration. Earlier, this Committee carried out the task of examining proposed estimates of expenditure by various ministries. Post 1993, the DRSCs took over this function leaving the Estimates Committee to largely examine the working of certain government organisations, except those looked at by the Public Undertakings Committee.

Public Undertakings Committee: This Committee examines reports and accounts of public undertakings, including reports by the CAG on public undertakings. It also oversees whether the autonomy and efficiency of an undertaking is being managed according to sound business principles.

PAC 87th Report on Tax Administration 2013-14 for the Department of Revenue: The Committee made the following observations and recommendations, (i) tax buoyancy (tax-GDP ratio) has decreased despite an increase in total direct tax collections over the years, (ii) high net worth assesses should be brought into the tax net by targeting specific sectors/channels responsible for tax evasion, (iii) speedy implementation of the Direct Taxes Code will result in enhanced taxes from the expanding corporate sector, (iv) various errors committed by the Assessing Officers during assessment of Corporation Tax.

Departmentally Related Standing Committees: Aside from scrutinising Bills, DRSCs also carry out the function of scrutinising Demands for Grants of ministries and table reports on the same, which may be discussed in the Lok Sabha. This is not compulsory and the recommendations of the Committees are only advisory in nature. DRSCs cannot suggest cut motions (akin to no-confidence motions moved in the House to criticise the policy, etc. underlying an estimate) either. In the Budget Session of 2014-15, due to the paucity of time the Demands for Grants were not referred to DRSCs. Being an election year, the Committees had also not been constituted in time for such a review.

Strengthening financial oversight by Parliament

Linking financial outlays to outcomes

The government prepares the Outcome Budget, summarising the most important results or outcomes that a ministry or department aims to achieve at the end of a financial year, given the amount of financial resources. These Outcome Budgets are submitted in Parliament allowing it to hold the government accountable for intended outcomes achieved, once money has been allocated for various activities. This Budget typically highlights the physical targets or outputs achieved against the allocated funds, and do not always measure the outcomes. Without linking financial outlays (and physical outputs) against outcomes, it would not be possible to determine whether the money approved for various ministries has been successful in achieving intended objectives.

For example under the Sarva Shiksha Abhiyan, a scheme to universalise elementary education, there are various inputs for which funds are allocated such as, building of toilets, drinking water and other infrastructural requirements for schools. However, the availability of these does not directly measure a child's learning levels, which is the core purpose of providing school education. This can only be done in certain ways such as through the National Achievement Survey of the government, measuring children's learning levels through examinations, etc. Currently, no direct link exists between the amount allocated for the department and the final outcome in terms of learning levels of school children. There is a need for Parliament to ensure direct linkage of the Budget to actual outcomes and evaluate the Budget in accordance with these criteria.

Parliamentary Budget Office (PBO)

Many countries are characterised by a specialised body dedicated to conducting essential budget-related and financial research for Parliament, such as the US (Congressional Budget Office), UK (Office for Budget Responsibility), Australia (Parliamentary Budget Office), etc, set up through Acts of the legislature.

The US Congressional Budget Office (CBO) is a non-partisan organisation set up by US Congress, producing independent analyses of budgetary and economic issues to support the Budget process. It does not make policy recommendations. The Speaker of the House of Representatives and the President of the Senate appoint the CBO Director.³ The UK Office for Budget Responsibility also answers parliamentary questions on its economic forecasts and gives evidence to parliamentary committees.⁴ The Australian PBO has similar functions including furnishing research requests of MPs, prepare responses related to policy costing (and others), prepare submissions to inquiries of parliamentary committees, and research and analysis of Budget and fiscal policy.⁵

A report by the National Commission to Review the Working of the Constitution (NCRWC) had also recommended establishing a Nodal Standing Committee on Economy to oversee major issues of fiscal, monetary, financial, and industrial and trade policies in an integrated manner. Internal groups of the Committee would evaluate performance against physical targets and draft reports, which would together be presented as an annual report to Parliament, by the Committee.⁶ These functions could be included within those of a PBO.

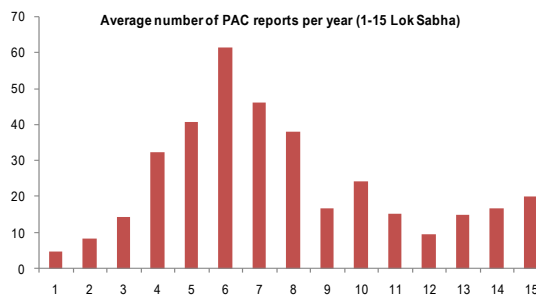
Strengthening the committee system

Public Accounts Committee

The importance of this Committee comes from its function of highlighting financial irregularities and wasteful expenditure by the government, if any. It also employs the help of specialized advisors in the process. Some PAC reports in the past have generated a lot of debate, media attention and discussion on the floor of the House.

Although it is open to the Lok Sabha to discuss reports of the Committee, such discussion is seldom held. Till 1946, reports of the PAC could be discussed in the Lok Sabha through a formal motion moved by the Finance Minister.⁷ Adopting this practice again could ensure that reports of the PAC, examining crucial aspects of government functioning, are debated and discussed by the House.

Reports tabled by the PAC have been decreasing in number since the 6th Lok Sabha (1977). As can be seen in the graph, the average number of reports submitted by the PAC has fallen to 10-20 reports per year over the previous few Lok Sabhas. Comparatively the UK Parliament's PAC has submitted an average of 49 reports per year, spanning 2001-10.



Supplementary Demands for Grants are not scrutinised by any Committee. On the other hand, any money that has been spent by a ministry after the Budget has been passed, in excess of the amount granted by Parliament, is examined by the PAC. This is done to determine the facts leading to such an excess and make recommendations. In order to expedite the regularisation of excesses over grants, the PAC recommended that the CAG should report these excesses to Parliament, in advance of submitting the Audit Report on the Appropriation Accounts.⁷

Estimates Committee

The Committee was established in 1950 to scrutinise the government's Budget estimates before it is put to vote in the House. Its reports would not be discussed or voted upon in Parliament but it was understood that the recommendations would be implemented by the government as they were (unless they were impracticable in which case they were negotiated). This practice has been discontinued since the setting up of DRSCs in 1993. The Estimates Committee should start examining a strategy paper detailing the objectives of the Budget, circulated by the Ministry of Finance, before the Budget Session. This would better inform the general debate.⁶

The NCRWC report recommended dismantling the financial committees (Estimates and Public Undertakings) and handing over their functions to the DRSCs. The report stated that this would help in a better streamlining of functions, prevent duplication and overlapping of roles and lead to a greater economy of expenditure.⁶

However, this recommendation misses another important aspect of financial oversight that could be conducted by the Estimates Committee. DRSCs examine the expenditure for individual departments. They do not delve into broader resource allocation. For example, the DRSC on Defence may examine the funds proposed for Defence-related activities and their utilisation. However, none of the DRSCs would examine whether the overall pie of estimated expenditure, comprising the Budget, is being allocated appropriately across departments, e.g., defence vs. education vs. health, etc. The Estimates Committee could fill in this gap and carry out the function of overseeing the overall expenditure and borrowings of the government.

Scrutiny of Supplementary Demands for Grants

After Parliament passes the Budget during the Budget Session, the government may require additional expenditure authorised over the rest of the year. Supplementary Demands for Grants can be passed when such a need arises. These too, are consolidated into an Appropriation Bill. Supplementary Demands are not scrutinised by DRSCs and there is no prescribed limit to how much of such expenditure can be approved by Parliament.

Evolving a system by which Supplementary Demands for Grants are discussed by DRSCs would strengthen Parliamentary oversight. The Estimates Committee should also examine why there was a need for Supplementary Demands, and why these could not be anticipated in the initial Demands.

1. "253rd Report, Demands for Grants, Department of School Education and Literacy, Ministry of Human Resource Development", Standing Committee on Human Resource Development, April 26, 2013.

2. "87th Report, Tax Administration, Department of Revenue (Ministry of Finance)", Public Accounts Committee, August 29, 2013.

3. US Congressional Budget Office, <https://www.cbo.gov/sites/default/files/cbofiles/attachments/2012-IntroToCBO.pdf>.

4. UK Office for Budget Responsibility, <http://budgetresponsibility.org.uk/>.

5. Parliament of Australia, http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/role.

6. "Report of the National Commission to Review the Working of the Constitution", Ministry of Law and Justice, March 31, 2002.

7. "Practice and Procedure of Parliament", M. N. Kaul and S. L. Shakdher, 2009.

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