

Regional Consultation on Electoral and Political Reforms – Eastern Region

Date and Venue: 16th October, 2017; Ramakrishna Mission Institute, Golpark, Kolkata

Background Note

Session: Possibility of scrutiny of financial statements of political parties

The nexus between political parties and proliferation of 'black' money has been well documented by various Commission/Committee Reports. The issue of opacity in collection of funds and their spending by political parties has been red-flagged by the Election Commission (EC) since 1998. The election regulator had way back in 1998 recommended that auditing of accounts of political parties should be done by auditors approved by the Comptroller and Auditor General (CAG) only, and the audited accounts should be made public. The reluctance of the existing political establishments to give effect to the recommendations of the Election Commission of India and various Commission reports, has only permitted the situation to deteriorate and sully the electoral process.

On 29th August, 2014, the Election Commission issued transparency guidelines under Article 324 of the Constitution of India stating that with effect from 01/10/2014 the accounts maintained by the treasurers of the political parties shall conform to the "Guidance Note on Accounting and Auditing of political parties" issued by the ICAI. The objective of this move was to bring greater financial accountability in political parties especially in the upkeep of their finances. The Election Commission urged all the political parties to begin preparing their accounts and disclosures in the prescribed formats but such a change in accounting practices was **never adopted by any of the parties**.

Part IV of the Representation of People Act 1951 along with certain provisions of the Income Tax Act, 1961 only to a certain extent seeks to ensure the accountability in the party funds. At present, there is no legislation or regulation or rule which prescribes either (a) standard financial accounting and reporting framework, or (b) auditing framework for financial statements of political parties in India. Therefore in order to fill this vacuum, accounts of the political parties are required to be audited by an independent auditor on the Election Commission's approved panel or by the CAG itself. Accounting and auditing standards would help political parties maintain uniformity in presentation of financial statements, proper disclosure and transparency of their accounts.

The 255th Law Commission of India report has also recommended that each recognised party shall maintain accounts disclosing all amounts received and expenditure incurred. Within six months of the closing of the financial year, each party shall submit to the Election Commission, the accounts duly audited by a qualified practicing CA from a panel of such accountants maintained by CAG. The Election Commission should make these accounts publicly available on its website. For this, the existing Section 29C of the Representation of People Act, 1951 has to be modified and recast.

It is, therefore, essential that the conduct of political parties should be regulated by strict principles. To ascertain expert opinions on need for a CAG audit of political party's fund and to recommend appropriate ways of accounting and auditing standards, this discussion is aimed at exploring how political parties finances can be regulated and monitored and be made more transparent and accountable and what are the most effective financial safeguards for ensuring 'free and fair' elections as well as good governance in India.

It is hoped that after a discussion on the above issues, concrete suggestions to remedy the situation would emerge.

- Shivani Kapoor
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