Executive Summary

Background

The Comptroller and Auditor General's Audit Reports in the past included comments upon the Union Territory's finances. Since these comments formed part of the Audit Reports, it was felt that the audit findings on the Union Territory finances remained camouflaged and they did not receive adequate attention because the majority of the audit findings were on compliance and performance aspects. In recognition of the need to bring Union Territory finances to centre-stage, a stand-alone report on Union Territory finances was considered an appropriate audit response to this challenge. Accordingly, from the report year 2008-09 onwards, the Comptroller and Auditor General has decided to bring out a separate volume titled 'Report on Union Territory Finances'.

As the recommendations of the Twelfth Finance Commission were not applicable to the Union Territories, no fiscal responsibility legislation was enacted by the UT Government. Consequently, no target was set by the Government for containing the fiscal deficit.

The report

Based on the audited accounts of the Government of Union Territory of Puducherry for the year ended 31 March 2009, this report provides an analytical review of the Annual Accounts of the Union Territory Government. The report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Government's fiscal position as at 31 March 2009. It provides an insight into trends of committed expenditure and borrowing patterns, besides giving a brief account of Central funds transferred directly to State implementing agencies through the off-budget route.

Chapter II is based on audit of Appropriation Accounts and gives a grant-wise description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter III is an inventory of the Government's compliance with various reporting requirements and financial rules. The report also has additional data collated from several sources in support of the findings.

Audit findings and recommendations

Fiscal discipline: Revenue deficit of the Union Territory Government deteriorated from Rs 43 crore in 2006-07 to Rs 111 crore in 2008-09. The fiscal deficit during the year increased by Rs 39 crore (11.78 *per cent)* over the previous year. No target was set by the Government for containing the fiscal deficit during 2006-09 and the fiscal deficit during 2008-09 was 3.14 *per cent* of the Gross State Domestic Product.

Need to compress Non-Plan expenditure: Revenue expenditure was 90.69 *per cent* of the total expenditure, of which 67.98 *per cent* was under Non-Plan. Non-Plan expenditure increased by 28.59 *per cent* against the decrease of 2.49 *per cent* in Plan expenditure under Revenue heads and 5.22 *per cent* in Plan expenditure under Capital heads. Moreover, the Non-Plan committed expenditure comprising salaries, pension, interest payments and subsidies constituted 55.42 *per cent* of Non-Plan expenditure during 2008-09. The expenditure on salaries and pensions increased by 55 *per cent* and 38 *per cent* respectively over the previous year, mainly due to implementation of the Sixth Central Pay Commission's recommendations. The Government needs to arrest the increase in committed expenditure on salaries and subsidies.

Review of Government investments: The average return on the Government's investments in Government companies and co-operatives was 0.36 *per cent* in the last three years while the Government paid interest at an average rate of 8.9 *per cent* on its borrowings during 2008-09. This was obviously an unsustainable proposition. The Government should, therefore hasten to seek better value for money in its investments. Otherwise, high-cost borrowed funds invested in projects with low financial returns will continue to strain the economy.

Increasing fiscal liabilities accompanied with negligible rates of return on Government investments and inadequate interest cost recovery of loans and advances might lead to a situation of unsustainable debt in the medium to long run unless suitable measures are initiated to curtail the Non-Plan expenditure and to mobilise additional tax and non-tax resources in the ensuing years.

Delays in completion of projects: Inordinate delays in completion of projects of the Public Works Department resulted in blocking of capital, escalation in their costs and postponement of accrual of benefits to the society. Therefore, adequate priority should be given to project planning and implementation so as to overcome the inadequacies and avoid further time and cost overruns.

Need for adequate thrust to capital expenditure: The ratio of capital expenditure to the aggregate expenditure during 2008-09 at 9.20 *per cent* was far below the all States' average of 16.87 *per cent*, indicating the low priority given by Government for asset creation.

Financial management and Budgetary Control : During 2008-09, expenditure of Rs 2,998 crore was incurred against the total grants and appropriations of Rs 4,057 crore, resulting in a saving of Rs 1,059 crore. Savings of Rs 320.73 crore effected in 15 grants were not surrendered and in three grants, out of the total savings of Rs 738.04 crore, Rs 401.73 crore were not surrendered. In 90 cases, expenditure fell short by more than Rs 50 lakh in each case and also by more than 20 *per cent* of the total provision, resulting in savings of Rs 1,195.50 crore. In 55 cases, the expenditure exceeded the approved provisions, resulting in excess of Rs 137.12 crore. Supplementary provision of Rs 264.02 crore made in nine cases proved unnecessary as no expenditure was incurred against those provisions. In 34 cases, expenditure exceeding Rs 10 lakh and also more than 50 *per cent* of the total expenditure for the year was incurred in March 2009, indicating rush of expenditure in the closing month of the financial year. In nine cases, the entire expenditure was incurred in March 2009. Budgetary controls should be strengthened to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/surrender orders should be avoided.

Financial Reporting : The Union Territory Government's compliance with various rules, procedures and directives was unsatisfactory as evident from the pendency in furnishing utilisation certificates by various grantee institutions for grants-in-aid of Rs 394.12 crore and non-submission of annual accounts due for the period up to 2007-08 to Government as well as to Audit by 37 autonomous bodies/authorities. The annual accounts were pending for periods ranging from one to more than nine years. The departments reported 301 cases of misappropriation, loss, defalcation, etc. involving Government money of Rs 7.47 crore up to March 2009. Final action on those cases was pending for periods ranging from one to 20 years. Departmental enquiries in respect of those cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases in future.