# Executive Summary

The Twelfth Finance Commission recommendations were not applicable to the Union Territory of Puducherry. Consequently, no fiscal responsibility legislation was enacted by the Union Territory Government of Puducherry and target set for containing its fiscal deficit. The Government had not announced any policy initiative on the subject in its budget.

**The Report**

Based on the audited accounts of the Government of Union Territory of Puducherry for the year ending March 2010, 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 2010. It provides an insight into trends in committed expenditure and borrowing pattern, 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

### 1. Finances of the Union Territory Government

**Fiscal position:** Revenue receipts and revenue expenditure of the Union Territory Government increased by 16 *per cent* and 20 *per cent* respectively during 2009-10 over the previous year, resulting in a 118 *per cent* increase in the revenue deficit. The fiscal deficit during the year increased by 55 *per cent.* Fiscal liabilities of the Government grew by 17 *per cent* during 2009-10. The Government should make concerted efforts to contain the revenue deficit.

**Need to compress Non-Plan expenditure:** The revenue expenditure was 89.26 *per cent* of the total expenditure, of which 64.71 *per cent* was under Non-Plan. Non-Plan expenditure increased by 13.51 *per cent.* Moreover, the committed expenditure comprising salaries, pension, interest payments and subsidies constituted 74.83 *per cent* of Non-Plan expenditure during 2009-10. As of 31 March 2010, the Government paid two instalments (70 *per* cent) of the Pay Commission arrears to Government servants and pensioners with a liability of payment of the third and final instalment (30 *per cent)* in 2010-11.

**Review of Government investments:** The return on Government's investments in Government companies and co-operatives was 0.7 *per cent* while the Government paid interest at a rate of eight *per cent* on its borrowings during 2009-10. This is obviously an unsustainable proposition. The Government should, therefore, speed up to seek better value for money on 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 compress the Non-Plan expenditure and mobilize additional tax and non-tax resources in 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 for the project planning and implementation mechanism so as to adequately overcome inadequacies and avoid further time and cost overruns.

## 2. Financial management and budgetary control

During 2009-10, expenditure of ₹ 3,628.28 crore was incurred against total grants and appropriations of ₹ 4,562.83 crore, resulting in a saving of ₹ 934.55 crore. Savings of ₹ 166.47 crore effected in seven grants were not surrendered and out of the total savings of ₹ 472.58 crore in four grants, only ₹ 390.27 crore was surrendered. In 200 cases, expenditure fell short by more than ₹ 50 lakh in each case or by more than 20 *per cent* of the total provision, resulting in savings of ₹ 1,183.31 crore. In 96 cases, the expenditure exceeded the approved provisions, resulting in excess of ₹ 265.80 crore. Supplementary provision of ₹ 2.50 crore made in one case proved unnecessary as no expenditure was incurred against the provision. In 33 cases, expenditure exceeding ₹ 10 lakh or by more than 50 *per cent* of the total expenditure for the year was incurred in March 2010, indicating rush of expenditure in the closing month of the financial year. Even though there were no immediate requirements, ₹ 8.58 crore was drawn on 31 March 2010 and kept outside the Government account in violation of the financial rules. 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.

## 3. Financial Reporting

The Union Territory Government's compliance with various rules, procedures and directives was not adequate, which was evident from the pendency in furnishing of utilisation certificates by various grantee institutions for grants-in-aid of ₹ 354.13 crore. The pendency ranged between one to more than nine years. Thirty one autonomous bodies/authorities had not submitted their annual accounts due for the period upto 2008-09 to the Government as well as to Audit as of September 2010. The Union Territory Government departments reported 299 cases of misappropriation, loss, defalcation, etc., involving Government money of ₹ 7.48 crore up to March 2010. Final action on these cases was pending for periods ranging from one to 20 years. Departmental enquiries in these 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.