

CHAPTER I

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) on Government of the Union Territory of Puducherry relates to matters arising from Performance Audit of selected programmes and activities and Compliance Audit of Government Departments, Government Companies and Autonomous Bodies.

The primary purpose of the Report is to bring to the notice of the Union Territory Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The audit findings are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

Compliance Audit refers to examination of the transactions relating to expenditure, receipt, assets and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with.

Performance Audit examines whether the objectives of an organization, programme or scheme have been achieved economically, efficiently and effectively.

This Chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the audit of transactions and follow-up on the previous Audit Reports. Chapter-II of this Report contains findings arising out of Performance Audit of selected Programmes/Activities/Departments. Chapter-III contains observations on Compliance Audit in Government Departments and Autonomous Bodies. Chapter-IV contains findings arising out of audit of Revenue Receipts and Chapter-V contains findings arising out of audit of Commercial and Trading Activities.

The cases mentioned in this Report are among those which came to notice in the course of test audit of accounts during the year 2014-15, as well as those which had come to notice in earlier years but could not be included in

Abbreviations used in this Report are listed in the Glossary at Page No. 93

the previous Reports. Matters relating to the period subsequent to 2014-15 have also been included, wherever possible.

1.2 Profile of audited entities

There are 30 Departments in the UT at the Secretariat level, headed by Development Commissioners/Secretaries, who are assisted by Directors and subordinate officers under them. There are 13 Government Companies and 73 Autonomous Bodies. These entities are audited by the Principal Accountant General (General and Social Sector Audit), Tamil Nadu and Puducherry and the Accountant General (Economic and Revenue Sector Audit), Tamil Nadu.

The comparative position of receipts of the UT Government and expenditure incurred by the Government during the year 2014-15 and in the preceding two years is given in **Tables 1** and **2** below:

Table 1: Comparative position of receipts

(₹ in crore)

Receipts	2012-13	2013-14	2014-15
Revenue receipts	3,146	4,308	4,758
Tax revenue	1,917	1,904	1,993
Non-tax revenue	118	1,193	1,300
Grants-in-aid and contributions	1,111	1,211	1,465
Capital receipts	Nil	Nil	Nil
Recovery of loans and advances	3	3	2
Public Debt receipts	529	750	704
Public Account receipts	715	911	982
Total receipts	4,393	5,972	6,446

(Source: Finance Accounts of UT of Puducherry)

Table 2: Comparative position of expenditure

(₹ in crore)

Expenditure	2012-13			2013-14			2014-15		
	Non-plan	Plan	Total	Non-plan	Plan	Total	Non-plan	Plan	Total
Revenue expenditure									
General services	1,100	39	1,139	1,191	44	1,235	1,363	54	1,417
Social services	571	681	1,252	653	1,008	1,661	717	1,114	1,831
Economic services	391	264	655	1,283	299	1,582	1,158	386	1,544
Grants-in-aid and contributions	5	Nil	5	5	Nil	5	8	Nil	8
Total	2,067	984	3,051	3,132	1,351	4,483	3,246	1,554	4,800
Capital Expenditure									
Capital expenditure	6	309	315	6	356	362	13	601	614
Loans and advances disbursed	1	Nil	1	1	Nil	1	1	Nil	1
Repayment of public debt	126	62	188	128	76	204	117	66	183
Contingency fund	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Public account disbursements	*	*	717	*	*	709	*	*	845
Total	133	62	1,221	135	432	1,276	131	667	1,643
Grand Total	2,200	1,355	4,272	3,267	1,783	5,759	3,377	2,221	6,443

(Source: Finance Accounts of UT of Puducherry)

* Bifurcation of Non-Plan and Plan not available.

1.3 Authority for audit

The authority for audit by the C&AG is derived from Article 149 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The C&AG conducts audit of expenditure and receipts of the Departments of Government of Union Territory of Puducherry under Sections 13¹ and 16² of the C&AG's (DPC) Act. He is the sole auditor in respect of three Autonomous Bodies which are audited under sections 15³ and 19(2)⁴ of the C&AG's (DPC) Act. In

¹ Audit of (a) all expenditure from the Consolidated Fund of UT having a Legislative Assembly, (b) all transactions relating to the Contingency Fund and Public Accounts and (c) all trading, manufacturing, profit & loss accounts, balance sheets and other subsidiary accounts kept in Government Departments

² Audit of all receipts which are payable into the Consolidated Fund of UT having Legislative Assembly

³ Audit of accounts of a body or authority to which grant or loan is given from Consolidated Fund of UT for any specific purpose

⁴ Audit of accounts of Corporations established by or under law made by Parliament

addition, the C&AG conducts audit of 70 other Autonomous Bodies, under Section 14⁵ of the C&AG's (DPC) Act, which are substantially funded by the Government.

The financial statements of the Government Companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by Statutory Auditors, who are appointed by C&AG as per the provisions of Section 139 (5) or (7) of the Act. The Statutory Auditors shall submit a copy of the Audit Report to the C&AG, which among other things, include financial statements of the Company under Section 143 (5) of the Act. These financial statements are subject to supplementary audit to be conducted by C&AG within 60 days from the date of receipt of the Audit Report under the provisions of Section 143 (6) of the Act. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

1.4 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various Departments and Corporations/Companies of Government based on expenditure incurred, revenue collected, criticality, complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the Heads of the Departments/Corporations/Companies. The Departments/Corporations/Companies are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Report, which is submitted to the Lieutenant Governor of the Union Territory under Article 149 of the Constitution of India and Section 49 of the Union Territories Act, 1963.

⁵ Audit of all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of UT having Legislative Assembly

1.5 Significant audit observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through Performance Audits as well as on the quality of internal controls in selected Departments which impact the success of programmes and functioning of the Departments. Similarly, deficiencies noticed during Compliance Audit of the Government Departments/Organisations are also reported upon.

1.5.1 Performance Audit of Programmes/Activities/Departments

The present Report contains two Performance Audits. The highlights of audit findings are given in the following paragraphs:

1.5.1.1 Performance Audit on 'Implementation of Environmental Laws in Union Territory of Puducherry'

With an aim to control pollution and protect the environment, Government of India enacted Environment and Protection Act, 1986. Performance Audit on 'Implementation of Environmental Laws in Union Territory of Puducherry' revealed the following significant audit findings:

There was no comprehensive programme for the prevention, control or abatement of pollution.

There were delays in issue of consent renewal order for industries and 80 *per cent* shortfall was noticed in inspection of industries.

Sewage generated was discharged directly into irrigation canals contaminating water bodies and ground water.

Continuous Ambient Air Quality Monitoring Station for monitoring all the prescribed parameters was not installed.

Laboratories in Puducherry and Karaikal did not have the facilities for conducting microbiological and toxicity tests for water analysis and characterisation of hazardous waste and soil/sludge/sediment/solid waste analysis as prescribed by Central Pollution Control Board.

(Paragraph 2.1)

1.5.1.2 Performance Audit on 'Functioning of the Excise Department'

The Performance Audit on 'Functioning of the Excise Department' revealed the following significant audit findings:

Non-consideration of the element of additional excise duty for determination of the amount of security deposit led to short collection of ₹ 23.36 crore.

Non-verification of the correctness of 'declared price' furnished by the licensees led to short levy of additional excise duty of ₹ 3.49 crore.

Omission to collect excise duty and additional excise duty at revised rates led to short realisation of revenue of ₹ 76.43 lakh.

(Paragraph 4.11)

1.5.2 Compliance Audit

Audit of financial transactions test-checked in various Departments of the Government, their field offices and Government Companies revealed instances of loss of revenue, wasteful/avoidable expenditure, blocking of funds and other irregularities. Some of the important audit findings are given below:

Imprudent decision of the UT Government to revise the pattern of assistance during implementation of the scheme resulted in wasteful expenditure of ₹ 2.54 crore towards consultancy and application fees paid to Housing and Urban Development Corporation.

(Paragraph 3.1.1)

Failure of Public Works Department to adopt correct rate of interest and file appeal against arbitration award within the stipulated period resulted in avoidable interest payment of ₹ 2.55 crore.

(Paragraph 3.2.1)

Construction of flats at Karaikal by Puducherry Housing Board despite poor demand resulted in an unfruitful expenditure of ₹ 5.42 crore as the flats could not be sold.

(Paragraph 3.2.2)

Failure to operationalise the Girls' hostel for more than seven years since its construction resulted in an unfruitful expenditure of ₹ 1.73 crore, besides avoidable expenditure of ₹ 12.87 lakh towards rent.

(Paragraph 3.2.3)

Failure to allot newly constructed Police quarters for more than three years resulted in an unfruitful expenditure of ₹ 1.65 crore.

(Paragraph 3.2.4)

Audit of Infrastructure Development by Department of Tourism revealed that works sanctioned by GoI were curtailed and certain sanctioned

components were not taken up in order to restrict the expenditure within the amount sanctioned by GoI. Prior approval of GoI was not obtained for change in approved components resulting in non-release of second instalment by GoI. Further, failure on the part of the UT Government to complete the works with its own funds resulted in the works remaining incomplete/partially completed. Monitoring Committee did not meet at regular intervals and delays in commencing the work led to cost escalation.

(Paragraph 3.3)

Renewable Energy Agency (REAP), Puducherry did not take speedy action to implement the Energy Conservation Act to achieve energy conservation/efficiency as envisaged. Recommendations of energy audits and annual energy saving plans were not implemented and anticipated energy saving did not accrue. Shortfalls and delays were noticed in implementation of energy conservation/efficiency schemes and REAP did not conduct necessary awareness programmes to educate the public about the importance of renewable energy.

(Paragraph 3.4)

1.5.3 Revenue Receipts

Application of incorrect rate of tax in respect of inter-state sale not covered by declaration form resulted in short levy of tax of ₹ 20.69 lakh.

(Paragraph 4.12)

Failure to recover the concession amount while registering the gift deed resulted in non-realisation of ₹ 6.63 lakh on account of stamp duty and transfer duty.

(Paragraph 4.13)

There was short levy of stamp duty and registration fees of ₹ 7.93 lakh due to failure to adopt the guideline value in respect of two instruments.

(Paragraph 4.14)

There was short collection of stamp duty and registration fees of ₹ 6.71 lakh due to mis-classification of instrument.

(Paragraph 4.15)

1.5.4 Commercial and Trading Activities

As on 31 March 2015, there were 12 working Government Companies and one non-working Government Company in the UT of Puducherry.

The working PSUs registered a turnover of ₹ 401.26 crore, as per their latest finalised accounts as of September 2015. This turnover was equal to 1.55 *per cent* of State Gross Domestic Product (GSDP) for 2014-15. The working PSUs incurred loss of ₹ 32.50 crore, as per their latest finalised accounts, as of September 2015. They had employed 4,600 employees as at the end of March 2015.

As on 31 March 2015, the total investment in working PSUs consisted of 98.26 *per cent* towards capital and 1.74 *per cent* in long-term loans. The investment has grown by 1.63 *per cent* from ₹ 723.88 crore in 2010-11 to ₹ 735.68 crore in 2014-15.

As there were arrears in accounts in 12 working PSUs upto 2014-15, their net worth could not be assessed in Audit. As per the latest finalised accounts, out of 12 working PSUs, two PSUs earned a profit of ₹ 13.54 crore and eight PSUs incurred a loss of ₹ 46.04 crore, leading to overall loss. Two companies neither earned profit nor incurred any loss.

(Paragraph 5.1)

Construction of “Export Facilitation Centre” at a cost of ₹ 1.95 crore by utilising grant received under the Government of India’s Assistance to States for Developing Export Infrastructure, without ascertaining the demand, led to idleness of the Centre.

(Paragraph 5.2)

1.6 Response to Audit

Thirteen Draft Paragraphs (DPs) and two Performance Audits (PA) were forwarded demi-officially to the Development Commissioners/Secretaries of the Departments concerned between June and December 2015 with the request to send their responses within six weeks. Government replies have been received in respect of two PAs and three DPs. The replies, wherever received, have been suitably incorporated in the Report.

A review of the Inspection Reports (IRs) issued upto 31 March 2015 revealed that 4,110 paragraphs relating to 1,058 IRs remained outstanding at the end of June 2015 (**Appendix 1.1**).

1.7 Follow up on the Audit Reports

The Committee on Public Accounts (PAC) prescribed a time limit of three months for the Departments for furnishing replies to the audit observations included in the Audit Reports indicating the corrective/remedial action taken or proposed to be taken by them and for submission of Action Taken Notes on the recommendations of the PAC by the Departments. The pendency of paragraphs/recommendations for which replies/Action Taken Notes had not been received is as follows:

- (a) Out of 76 paragraphs included in the Audit Reports relating to the years from 2009-10 to 2013-14, Departmental replies were not received for 34 paragraphs as of January 2016.
- (b) Government Departments had not furnished Action Taken Notes as of January 2016 on 486 recommendations made by the PAC in respect of Audit Reports pertaining to the period 1988-89 to 2008-09.