

Report of the Comptroller and Auditor General of India

for the year ended March 2015



Government of the Union Territory of Puducherry
Report No. 1 of 2016

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PREFACE

This Report for the year ended March 2015 has been prepared for submission to the Lieutenant Governor under Section 49 of the Government of Union Territories Act, 1963.

The Report contains significant results of the Performance Audit and Compliance Audit of the Departments of the Government of Union Territory of Puducherry under the General, Social and Economic (including Revenue) services including Departments of Adi-Dravidar Welfare, Agriculture, Commercial Taxes, Co-operation, Education, Electricity, Fisheries and Fishermen Welfare, Home, Industries and Commerce, Law, Port, Public Works, Revenue and Disaster Management, Science, Technology and Environment, Stationery and Printing, Town and Country Planning, Transport and Tourism. However, Departments of Animal Husbandry and Animal Welfare, Art and Culture, Civil Supplies and Consumer Affairs, Election, Health and Family Welfare, Information Technology, Labour and Employment, Local Administration, Planning and Research, Rural Development, Social Welfare and Women and Child Development are not covered in this report.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2014-15 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; instances relating to the period subsequent to 2014-15 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

CHAPTER I

INTRODUCTION

CHAPTER I

INTRODUCTION

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.

CHAPTER II

PERFORMANCE AUDIT

CHAPTER II

This Chapter contains Performance Audit on 'Implementation of Environmental Laws in Union Territory of Puducherry'.

DEPARTMENTS OF SCIENCE, TECHNOLOGY AND ENVIRONMENT AND PUBLIC WORKS

PUDUCHERRY POLLUTION CONTROL COMMITTEE

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

Executive Summary

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.

2.1.1 Introduction

Government of India (GoI) enacted the Environment Protection Act, 1986 as an umbrella legislation to the existing laws with an aim to control pollution and protect the environment, which is implemented by Central Pollution Control Board (CPCB). In order to carry out the functions of CPCB effectively in the Union Territory (UT), the UT Government constituted Puducherry Pollution Control Committee (PPCC) during 1992 under the Department of Science and Technology. It was the responsibility of the PPCC to advise the UT Government on framing environment and industrial policy, preparation of comprehensive programme for prevention and control of pollution, collection and dissemination of information relating to natural resources, environment protection and pollution control. The Committee was also authorised to grant consent for establishing and operation of industries. As of March 2015, there were 3,728¹ industries in Puducherry.

2.1.2 Organisational structure

The Secretary to the Government of Puducherry, Department of Science, Technology and Environment (DSTE) is the Chairman of PPCC. The Director, DSTE is the Head of the Department and also the Member Secretary of PPCC. The PPCC also includes Senior Town Planner, Town and Country Planning Department, Chief Engineer, Public Works Department (PWD), Director, Health and Family Welfare Services and Director, Local Administration Department as members.

2.1.3 Audit objectives

Audit aimed to assess whether:

- environmental policies and strategies existed and were adequate for ensuring compliance with Water, Air Pollution Acts and Rules,
- funds were utilised in an efficient and economic manner in schemes implemented for protection of Environment and
- implementation of Environment Protection Acts/Rules was effective in prevention and control of air and water pollution.

2.1.4 Audit criteria

The Audit findings were benchmarked against the following:

¹ Green - 2,106, Orange - 1,354 and Red - 268

- The Environment (Protection) Act, 1986, Water (Prevention and Control of Pollution) Act, 1974 (Water Act) and Air (Prevention and Control of Pollution) Act, 1981 (Air Act)
- The Water (Prevention and Control of Pollution) Cess Act, 1977
- The Batteries (Management & Handling) Rules, 2001
- Instructions/circulars issued by GoI/UT in relation to environmental protection.

2.1.5 Scope of audit and methodology

The Performance Audit on Implementation of Environmental Laws was conducted with special emphasis on control of air and water pollution. An Entry Conference with the Secretary to Government was held in March 2015 to discuss the audit objectives, criteria and scope of audit. Related records of PPCC, DSTE and PWD were test checked between March and August 2015 covering the period 2010-15. A sample size of 230 industries was also selected for check of renewal of consent. An Exit Conference was held with the Secretary to Government in October 2015 wherein the outcomes of audit were discussed. Replies of the UT Government, wherever received, have been taken into consideration while finalising the audit findings. Audit findings are discussed below:

Audit Findings

2.1.6 Planning

Section 17 of the Water/Air Acts stipulate that Pollution Control Committees have to formulate a comprehensive programme for the prevention, control or abatement of pollution of streams, wells and air pollution and secure the execution thereof. It was noticed that PPCC had not formulated any comprehensive plan to combat air and water pollution. When pointed out, Government directed (October 2015) the Department to prepare comprehensive action plan.

Mention was made in paragraph 3.2.5.1 (i) of Audit Report 2000-01 that PPCC had requested (November 1999) Town and Country Planning Department to prepare a Zoning Atlas to have a clear idea about categorisation of different industries in the UT and such an atlas was not submitted by March 2001. During the PAC meeting, PPCC stated that scientific approach of pollution could be adopted once Zoning Atlas was notified and PAC had directed (April 2005) PPCC to take immediate action for notification of Zonal Atlas. It was, however, noticed that Zonal Atlas was prepared only for Puducherry and Yanam regions (April/December 2004) and the same was not prepared for Karaikal and Mahe regions.

When pointed out, the Department replied (December 2015) that Town and Country Planning Department was preparing a comprehensive development plan for the whole of the UT which would cover land use mapping and notifying specific industrial areas.

2.1.7 Finance

The main source of revenue for PPCC was collection of consent fees/water cess and it earned ₹ 4.17 crore (2010-15) as revenue. During 2010-15, UT Government incurred an expenditure of ₹ 4.23 crore towards strengthening and maintenance of environment and pollution control infrastructure. Apart from this, PPCC incurred an expenditure of ₹ 2.67 crore mainly towards establishment. As of March 2015, PPCC had a balance of ₹ 6.61 crore including previous years' closing balance.

2.1.7.1 Non-remittance of Water Cess collected

Section 8 of the Water (Prevention and Control of Pollution) Cess Act, 1977 provides that the proceeds of the cess levied on water utilised shall be collected by PPCC and credited to the Consolidated Fund of India. Upto 80 per cent of the cess amount collected by PPCC would be allocated to it by GoI for meeting the approved expenditure requirements. It was seen that though PPCC had collected ₹ 65.44 lakh as water cess, it did not remit the same to GoI. When pointed out, UT Government replied (October 2015) that water cess was not remitted during 2010-14 due to administrative delays. It was, further, stated that an amount of ₹ 38.49 lakh was remitted during March 2015. However, PPCC was yet to remit the remaining amount of ₹ 26.95 lakh to GoI.

2.1.7.2 Non-availing of second instalment of laboratory grant

GoI sanctioned (October 2011) ₹ 29.80 lakh towards purchase of laboratory equipment for strengthening the existing laboratories at Puducherry and Karaikal and released ₹ 22.35 lakh as first instalment (October 2011). As per the terms and conditions of the sanction order, the grant was to be utilised before the end of the financial year *i.e.*, March 2012 and release of second instalment would be considered only on submission of UC for the grant already received. Out of ₹ 22.35 lakh released, PPCC spent ₹ 18.16 lakh towards purchase of laboratory equipment and refunded (January 2014) the remaining ₹ 4.18 lakh to GoI.

Audit scrutiny revealed that though the amount was received in November 2011, proposal for purchase of laboratory equipment was initiated by PPCC only in December 2012, after a delay of 13 months. As this was well beyond the due date prescribed by GoI, PPCC could not avail of the second instalment and failed to create the required infrastructure for the laboratory as discussed in paragraph 2.1.13.1. When pointed out, the Department stated (October 2015) that delay was due to belated receipt of

sanction order. The reply is not acceptable, as the letter conveying the release of funds was received in November 2011 itself.

2.1.7.3 Deficiencies in collection of water cess

Under the provision of Section 3 of Water (Prevention and Control of Pollution) Cess Act, 1977, every person carrying on any industrial activity is liable to pay cess for utilisation of water, calculated based on the quantity of water consumed. If the same is not paid within due dates, then penal interest at the rate of two *per cent* for every month on the outstanding amount is to be levied.

In the UT, the minimum rate towards collection of water cess from hazardous waste generating industries was fixed as ₹ 500 per year (January 2011). Audit scrutiny revealed that out of 106 hazardous waste industries in the UT, PPCC had not collected water cess from 31 industries for the period from January 2011 to September 2015 resulting in loss of revenue of ₹ 0.84 lakh, including penal interest. When pointed out, the Department replied (October 2015) that action has been initiated to collect the cess amount.

2.1.8 Grant of Consent

Based on the Prevention and Control of Pollution (Uniform Consent Procedure) Rule 1999, industries are classified into Green (less polluting), Orange (moderately polluting) and Red (highly polluting) categories. The industries, which are likely to discharge sewage or trade effluent or pollute the air by process/emission, have to get consent of PPCC under Section 21 of Air Act and Section 25 of Water Act. Scrutiny of records revealed the following:

2.1.8.1 Discrepancies in issue of consent/renewal orders

The Water Act stipulated that a Consent Register was to be maintained by PPCC containing particulars of industries to which consent were granted and consent fees²/renewal of consent fees to be collected from them. It was, however, observed that PPCC did not maintain any such Register though it was mandatory. Due to non-maintenance of Consent Register, PPCC had no consolidated information of the industrial units running without consent and, hence, it could not monitor the industrial units. When pointed out, the Department replied (December 2015) that maintenance of Consent Register was laborious and time consuming and computerised data of industries was available with PPCC with all relevant details. However, a sample check of renewal of consent orders revealed the following deficiencies:

² A minimum of ₹ 500 and maximum of ₹ 25,000 depending on investment

Audit called for details of 230 selected industries out of 3,728³ industries for verification of consent renewal but PPCC produced details of 193 industries only. It was noticed that out of these 193 industries, 62 (32 per cent) industries were either operating without renewing the consent or their respective functional status was not known to PPCC. Further, a review of renewal of consent orders issued during 2010-15 revealed that out of 3,728 industrial units, only 1,396 (37 per cent) industries had renewed their consents and the remaining 2,332 industries (63 per cent) were operating without renewal of consent. In the absence of the consent register, it was observed that PPCC could not initiate action against the defaulters.

When pointed out, the Department stated (December 2015) that out of 3,728 industrial units, 2,105 units were green industries which required grant of one time consent only and the balance alone came under consent renewal purview. It further admitted that large number of industries were in operation after lapse of consent validity and consent renewal drive would be intensified.

2.1.8.2 Inadequate inspection of industries

As per the norms specified by PPCC, the red, orange and green industries were to be inspected once in a year, once in three years and once in five years respectively. Scrutiny of inspection reports revealed that there was a shortfall of 80 per cent in inspection of these industries during 2010-15 as per the norms prescribed by PPCC. When pointed out, the Department replied (October 2015) that sampling was necessary only if there was emission or discharge and all the industries did not discharge effluent or emission. The reply is not acceptable, as PPCC did not fulfil its own norms for inspection as 80 per cent of the industries were not inspected during 2010-15.

2.1.8.3 Non-adoption of pollution norms

CPCB had identified (February 2014) 17 industries⁴ as highly polluting industries as they were discharging environmental pollutants directly or indirectly into the ambient air and water. CPCB prescribed that these industries had to be directed to install and commission online monitoring system to check the emission and effluents.

It was noticed that two paper industries⁵ involved in processing of Paper, Pulp and Boards were not classified under this category and PPCC had not directed these industries to install online monitoring system. Similarly,

³ Red – 268, Orange-1,354 and Green-2,106

⁴ Pharmaceuticals, Chlor Alkali, Fertilizer, Oil Refinery, Dye and dye Intermediate, Pesticides, Petrochemical, Large Power Plants, Cement, Aluminium, Zinc, Copper, Iron and Steel, large Pulp and Paper, Distillery, Sugar and Tannery

⁵ M/s Nithya Packaging Limited and M/s Entice Paper

Puducherry Co-operative Sugar Mill, which also falls under this category, had not installed online monitoring system. A joint physical inspection revealed that during non-season period, the accumulated water in Effluent Treatment Plant of the Sugar Mill was let out in the adjoining vacant ground.

When pointed out, the Department accepted (October 2015) that both the industries fall under the category of industries requiring online monitoring. They have since been directed to install online monitoring device.

2.1.9 Water Pollution

2.1.9.1 River Pollution

Pandit Jawaharlal Nehru College of Agriculture and Research Institute, Karaikal conducted a comprehensive study during the year 2013-14 about the polluted stretch of Arasalar river downstream of Karaikal and Chunnambar downstream of Puducherry which revealed the following:

(i) The test report revealed (January 2015) that Chunnambar downstream had high concentration of nitrate and chromium due to mixing of sewage water into the river stream and industrial activities respectively. PPCC accepted (June 2015) that pollution was due to untreated sewage water in respect of nitrate content. It was, further, replied that there was no known source of chromium in Puducherry region and inspection along the bank of river has been intensified to trace any unauthorised activity (December 2015).

(ii) The CPCB identified (July 2013) Arasalar river as polluted since the average Biochemical Oxygen Demand (BOD) was found to be 7 mg/l constantly, which was above the CPCB prescribed level of 6 mg/l and required remedial action. PPCC replied that monitoring was done (November 2014) by it during the flow period and the level of BOD was found Nil. When Audit called for the details of test conducted, PPCC could not furnish the same. When pointed out, UT Government instructed (October 2015) the Department to do fresh sampling of Arasalar river water.

However, the above study indicated that both rivers were polluted by high concentration of nitrate/chromium and high level of BOD content respectively and PPCC had not taken any concrete action to bring down the level of pollutants.

2.1.9.2 Unabated contamination of irrigation canals and sea due to sewerage influx

According to Section 17 of the Water Act, the PPCC was required to evolve economical and reliable methods for treatment of sewage and trade effluents. Puducherry region generates waste water of about 45 mld as per

the report of Ministry of Earth Sciences, GoI. However, three Sewage Treatment Plants (STPs), operated by PWD, had a capacity to treat only 17.5 mld of waste water.

In respect of the areas which were not provided with the underground drainage system, the accumulated sullage water was being let into the erstwhile irrigation canals. There were 19 such canals in Puducherry region which carried the blackish sullage water for ultimate disposal into sea. Ministry of Earth Sciences, GoI had also confirmed that during 2012-15, Puducherry shore locations possessed significantly high level of pathogenic bacteria indicating contamination due to domestic sewage. It was observed that continued discharge of sullage water would only endanger the species in the water bodies.

When pointed out, PWD stated (October 2015) that sewerage would be completed in the remaining major urban areas by the end of financial year 2015-16.

It was, further noticed that existing STPs were operating without renewal of consent. PPCC had inspected the STPs during July 2012 and observed that consent conditions were violated and directed PWD to rectify them. However, neither PWD took any corrective action nor PPCC followed it up to ensure adherence to norms, resulting in continued pollution of ground water. At the instance of Audit (July 2015), PWD applied for renewal of consent to operate (August 2015).

2.1.9.3 Non- functioning of Water Quality Review Committee

The UT Government constituted (March 2003) State Level Water Quality Review Committee (WQRC) with the objective of protecting quality of National Water Resources in which Member Secretary, PPCC was also a member. The Committee was to meet every quarter to examine and discuss specific water quality related tasks to be carried out and recommend the mode of executing such tasks. Audit noticed that the Committee had met only twice (August 2003 and December 2003) and no meeting was conducted thereafter.

Though the Ministry of Water Resources requested (July 2008) the UT Government to reconstitute WQRC in order to make it more result oriented and to have relevant linkage with Water Resource Management at state level, the Committee was not reconstituted. When pointed out, the Department stated (December 2015) that formation of WQRC was in the domain of PWD and as a member of WQRC, PPCC would pursue with PWD to reconstitute the Committee.

2.1.10 Air Pollution

2.1.10.1 Shortcomings in air pollution monitoring

Ministry of Environment and Forest, GoI had notified (January 1988) the whole Union Territory area as designated air pollution control area. PPCC presently monitors ambient air quality at six stations (three each in Puducherry and Karaikal Districts) by measuring three standard air pollutants viz., PM, SO₂ and NO₂. As per the revised National Ambient Air Quality Standards (NAAQS) (November 2009), nine parameters⁶ have to be measured in addition to SO₂ and NO₂. With the objective of achieving this standard, CPCB proposed (March 2010) to establish Continuous Ambient Air Quality Monitoring Station (CAAQMS) in Puducherry at a cost of ₹ 110 lakh. The cost of installation was to be borne at the ratio of 50:50 by CPCB and UT and PPCC had to procure and install the system by inviting global tenders. PPCC, however, requested (May 2010) the CPCB to supply the equipment with 100 per cent financial assistance, which was not agreed to by CPCB.

When GoI sought (July 2014) acceptance for installation of CAAQMS on 50:50 basis, UT Government again addressed (November 2014/ April 2015) to provide 90/100 per cent assistance for installation of CAAQMS. As a result, CAAQMS was not established even after six years after revising NAAQS standards and air pollution was being measured only by three parameters instead of nine parameters.

When pointed out, the Department stated (October 2015) that action would be taken to install CAAQMS under Corporate Social Responsibility scheme to monitor all the parameters.

2.1.10.2 Air pollution caused by Karaikal Port

Karaikal Port, which handles coal, had a fixed tower mounted mistifier and a mobile mistifier to reduce air pollution. Apart from this, water sprinklers were also installed to reduce air pollution. Audit, however, observed that no such mistifiers were installed on the seaward side and this may lead to air pollution. Further, the Trade Merchants Union, Nagore of nearby Tamil Nadu State complained (April 2015) to Tamil Nadu Pollution Control Board (TNPCB) regarding water pollution on account of coal particles mixed with sea water and TNPCB had forwarded the complaint to the Port Authorities for necessary action.

When pointed out, the UT Government directed (October 2015) the Department to analyse the issue and give necessary directions.

2.1.11 Management of Batteries

The Batteries (Management and Handling) Rules, 2001 (BM Rules) stipulated that the manufacturer, importer, assembler or re-conditioner were to ensure that the used batteries were collected back and sent to

⁶ PM_{2.5}, CO, O₃, NH₃, C₆H₆, BaP, Pb, As and Ni

registered recycler for disposal/recycle. Every manufacturer/dealer was to submit a half yearly return regarding sale of new batteries and buyback details of old batteries by May/November to PPCC. PPCC was to ensure compliance of BM Rules and in turn had to submit annual compliance status report to CPCB by 30th April of every year.

Scrutiny of records revealed that PPCC had only 20 dealers registered with it as of 2010-11 and the same was not updated thereafter. However, as per the information collected (April 2015) from the Commercial Taxes Department (CTD), there were 13 dealers and two battery manufacturers in the UT. It was noticed that only two battery dealers submitted their Annual return upto 2012-13 and none of them submitted their returns thereafter. It was further noticed that PPCC had not coordinated with CTD to obtain the details of manufacturer/dealer in batteries. Due to non-submission of returns, the quantum of batteries recycled could not be assessed by PPCC. When pointed out, the Department stated (October 2015) that necessary remedial action would be taken.

2.1.12 Manpower

PPCC had eight posts⁷ with manpower of 12 personnel for implementation of the provisions of the Act. Scrutiny of records revealed that the Ministry of Environment and Forest had sanctioned eight posts (six technical and two non-technical) in December 2002 with salary support till the end of Tenth Five Year Plan. Though PPCC approved creation of all these posts in October 2003, no formal orders were issued, as Recruitment Rules for the same were framed and creation of posts were ratified only in February 2015. As of September 2015, PPCC had only one Environment Engineer (on deputation), one Scientist (on deputation), one Junior Scientific Assistant, two Junior Lab Assistants and one Data Entry Operator.

When pointed out, the UT Government instructed (October 2015) PPCC to conduct work assessment study.

2.1.13 Deficiencies in infrastructure facilities

2.1.13.1 Non-accreditation of PPCC laboratories under Environment Act

PPCC had a Central Laboratory at Puducherry and one Zonal Laboratory at Karaikal. As per CPCB guidelines, every laboratory should have facilities for a minimum of five essential group tests⁸ for water analysis. An environmental laboratory should also be equipped to conduct biological tests and characterisation of hazardous waste and

⁷ Scientist C (1), Scientist B (1), Junior Scientific Assistant (2), Junior Lab Assistant (2), Environment Engineer (1), Assistant Environment Engineer (1), Data Entry Operator (2) and Field Attendant (2)

⁸ Physical, Inorganic, Organic, Microbiological and Toxicity

soil/sludge/sediment/solid waste analysis. Scrutiny of related records revealed that:

- both laboratories did not have the facilities for conducting microbiological and toxicity tests for water analysis,
- there was no facility for biological tests and characterisation of hazardous waste and soil/sludge/sediment/solid waste analysis and
- in absence of these facilities, the test samples were referred to private labs which were accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) as PPCC labs were not approved by NABL due to staff constraints.

When pointed out, the Department stated (December 2015) that as and when suitable space is available for expansion, facilities would be expanded to analyse other parameters also and recognition under Environment Act would be obtained.

2.1.14 Conclusion

PPCC did not have a comprehensive programme for prevention and control of pollution. Discrepancies were noticed in issue of consent renewal and PPCC was not aware of the functional status of industrial units. Besides, shortfall in inspection of units was also noticed. Sewage generated was discharged directly into irrigation canals contaminating the water bodies and ground water. Continuous Ambient Air Quality Monitoring Station for monitoring all the prescribed parameters was not installed. PPCC laboratories did not have facilities to conduct tests as specified by CPCB.

2.1.15 Recommendations

Government may consider:

- formulation and implementation of a comprehensive action plan for prevention and control of pollution in a time bound manner,
- conducting regular inspections of industries,
- prioritising the improvement of sewage treatment.

CHAPTER III

COMPLIANCE AUDIT

CHAPTER III

COMPLIANCE AUDIT

This Chapter presents the results of Compliance Audit of various Departments of the Government, their field formations, Local and Autonomous Bodies. Instances of lapses in the management of resources and failures in observance of the norms of regularity, propriety and economy have been presented in the succeeding paragraphs.

3.1 Wasteful Expenditure

ADI-DRAVIDAR WELFARE DEPARTMENT

3.1.1 Wasteful expenditure on payment of consultancy fees

Imprudent decision of the Union Territory 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.

The Adi-Dravidar Welfare Department (Department) constructed¹ dwelling units and allotted them to selected Scheduled Castes (SC) and Other Economically Backward Classes (OEB) beneficiaries prior to 1983. As many of these houses constructed were found to be in a dilapidated condition, it was decided (November 2009) to reconstruct them through Puducherry Adi-Dravidar Development Corporation Limited (PADCO) by availing negotiated loan of ₹ 145.75 crore from Housing and Urban Development Corporation (HUDCO).

The Union Territory (UT) Government appointed (June 2010) HUDCO as consultant for preparation of Detailed Project Report (DPR) for the project of reconstruction of damaged houses for SC beneficiaries in Puducherry and Karaikal regions under Adi-Dravidar Welfare Housing Scheme-II, for which a consultancy fee at 2.5 *per cent* of the project cost was payable. HUDCO submitted DPRs for demolition and reconstruction of 2,161 damaged houses in seven phases at a total cost of ₹ 145.63 crore. An amount of ₹ 0.13 crore² was paid (February 2011) as application fee to HUDCO for obtaining the negotiated loan.

¹ Subsidy of ₹ 6,000 (from the year 1991), ₹ 10,000 (from the year 1998) and ₹ 20,000 (from the year 2000) was given to the beneficiaries

² In respect of six phases for 1,876 houses

Though Tenders were invited during December 2010-February 2011 for the work, due to the enforcement of model code of conduct, tendering process was held up. After the election (May 2011), the UT Government, instead of reconstruction of houses departmentally, decided to release financial assistance (₹ four lakh) to the beneficiaries for reconstruction of houses by themselves. It was further decided (April 2012) to cover 2,952 dilapidated houses under this scheme instead of 2,161 houses for which DPRs were submitted by HUDCO. Meanwhile, HUDCO raised (October 2011) a demand of ₹ 2.41 crore towards consultancy fee.

When the proposal for release of subsidy to the beneficiaries instead of providing them with constructed houses was taken up with HUDCO (May 2012), it was turned down (August 2012) on the ground that such changes could not be accommodated in already sanctioned scheme. The UT Government, however, decided (December 2013), to release subsidy of ₹ four lakh per beneficiary as one time measure for about 4,000 beneficiaries spread over a period of three to four years for reconstruction of houses on their own under “Bharat Ratna Rajiv Gandhi Housing Scheme” and an amount of ₹ 6.23 crore was released to 286 beneficiaries as of February 2015.

As such, all the activities carried out so far including preparation of DPRs by HUDCO, calling for tenders for construction of houses, payment of application fees to HUDCO for obtaining loan, etc., became wasteful and no further action was taken for obtaining negotiated loan from HUDCO. Thus, the decision of UT Government to revise the pattern of assistance midway during implementation of the scheme resulted in wasteful expenditure of ₹ 2.54 crore towards payment of consultancy and application fees to HUDCO. Besides, the objective of constructing house for 2,161 beneficiaries was not achieved.

When pointed out, UT Government replied (December 2015) that the pattern of assistance was changed as per the decision of the new Government and consultancy fee paid to HUDCO was not wasteful as HUDCO had rendered their services for the scheme by preparing DPRs. The reply is not acceptable, as subsidy was released to the beneficiaries directly for construction of house by themselves, instead of being constructed by PADCO as per DPRs prepared by HUDCO, thus resulting in wasteful expenditure on account of consultancy and application fees.

3.2 Avoidable/Unfruitful Expenditure

PUBLIC WORKS DEPARTMENT

3.2.1 Avoidable payment of interest on arbitration award

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.

Section 34 of Arbitration and Reconciliation Act, 1996 stipulates that appeal against any arbitration award passed is to be made within three months from the date of receipt of award. Mention was made in paragraph 3.1.8.5 of Audit Report of the Comptroller and Auditor General of India for the year 2008-09 – Union Territory of Puducherry on creation of additional liability in respect of the work ‘Construction of road over bridge over the Uppar drain connecting Kamaraj Salai and Maraimalai Adigal Salai in Puducherry’. The work was commenced without administrative approval/expenditure sanction and was foreclosed later, as contractor stopped the work due to non-payment of bills. He claimed compensation of ₹ 9.21 crore towards value of the work done (₹ 3.65 crore), interest on unsettled bills and other losses (₹ 5.56 crore) and demanded appointment of an arbitrator.

The paragraph was discussed by Public Accounts Committee (PAC) which recommended (July 2013) fixing of responsibility for the failure and additional liability that would arise out of arbitration award. Meanwhile, an arbitrator was appointed (January 2011) who passed (24 April 2013) an award in favour of contractor directing Public Works Department (PWD) to pay ₹ 8.12 crore (₹ 4.18 crore towards works executed and ₹ 3.94 crore as interest, calculated at the rate of 18 *per cent* based on the fact that department would have charged contractor 18 *per cent* as interest towards mobilisation advance as per work agreement).

Scrutiny of records (January 2015) revealed that agreement was entered with the contractor as per the conditions laid down in CPWD Works Manual 1996, which stipulated that interest on mobilisation advance would be 18 *per cent*. However, this was subsequently revised (February 2003) to 10 *per cent*. The Department failed to take cognizance of this revision and entered (May 2007) into an agreement with the contractor stipulating that mobilisation advance would be recovered with 18 *per cent* interest. Had the Department adopted 10 *per cent* in the agreement as per the revised CPWD norms, the interest component could have been limited to ₹ 2.19 crore.

Though appeal against the award was to be made within three months (July 2013), the Department sought legal opinion only on 25 June 2013. As Law Department opined (July 2013) that there was no ground for appeal due to the primary failure of the Department in settling the bill for works

executed, the Department sought (August 2013) expenditure sanction for paying the award. However, when the file was submitted for approval, the Lieutenant Governor directed to pay compensation relating to the works portion alone and explore legal options for appeal in respect of the interest portion (February 2014).

Meanwhile, in order to avoid protracted litigation, the contractor sought (April 2014) a meeting with the Department for negotiating the interest portion by offering rebate. The Department, however, neither took up the matter with the UT Government to explain that appeal period had already concluded by July 2013 nor accepted the offer of the contractor for negotiation.

Thus, without exploring the possibilities to minimise its loss, the Department filed (September 2014) an appeal in the Hon'ble High Court, after a delay of 16 months from the date of passing the award. The appeal was rejected (December 2014) by Hon'ble High Court due to belated filing. Consequently, interest portion (upto September 2014) amounting to ₹ 4.74 crore was paid (July 2015) to the contractor. Thus, failures of the Department to adopt correct rate of interest in the agreement and making an appeal against the arbitration award well beyond the appeal period, led to an avoidable interest payment of ₹ 2.55 crore.

Government replied (December 2015), that various administrative processes had delayed the filing of the appeal. However, the Department was yet to fix responsibility for these failures, as directed by PAC.

TOWN AND COUNTRY PLANNING DEPARTMENT

PUDUCHERRY HOUSING BOARD

3.2.2 Unfruitful expenditure on construction of flats

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.

Puducherry Housing Board (PHB) proposed (September 2000) to construct 384 flats³ at a cost of ₹ 18.74 crore at Karaikal, based on a demand survey conducted in September 1999 wherein it received response from 1,921 persons. Approval of the Pondicherry Planning Authority for the layout plan was obtained in August 2000 and approval of UT Government was also obtained in March 2001.

³ 96 Economically Weaker Section, 192 Lower Income Group and 96 Middle Income Group

PHB conducted (October 2001) a fresh demand survey for Middle Income Group (MIG) and Lower Income Group (LIG) as it felt that there was predominant change in the scenario of real estate. Though 284 (183 for LIG and 101 for MIG) persons responded to the second demand survey, only 14 persons came forward to purchase MIG flats when individual intimations were sent (June 2002). PHB, however, decided to construct 24 LIG and 36 MIG flats and passed a resolution (June 2005) in this regard, which was pending approval by the UT Government.

In anticipation of UT Government's approval, PHB commenced construction of flats (April 2007/August 2007). Construction was completed in November 2012/August 2013 at a cost of ₹ 5.42 crore after various administrative delays in finalising the tender⁴. Due to this delay, the cost of the LIG/MIG flats which were fixed at a maximum of ₹ 1.73 lakh/₹ 4.86 lakh during 1999, was subsequently revised (February 2010/February 2014) as ₹ 10.28 lakh/₹ 24.36 lakh, pending fixation of final cost.

PHB advertised the sale of flats during February 2010, October 2010, January 2011, February 2014, March 2014 and May 2014. In response, only five individuals applied (three MIG and two LIG) and allotments were made to them (December 2011 to August 2014). In the meantime, as the response from the public was poor, PHB obtained (February 2013) approval for de-reservation of categories and also sent circulars to all Heads of Department for purchase of flats. Further, PHB had decided to allot the flats on hire purchase-cum-lease agreement scheme after remittance of 50 *per cent* of final cost of the flat and balance 50 *per cent* within a period of 10 years. However, this decision was not implemented due to non-fixation of final cost, as the tenure of the Chairman of PHB expired by March 2015 and no further action was taken in this regard. As such, 55 flats remained unsold as of July 2015.

Thus, construction of flats by PHB at Karaikal despite poor response, delay of nearly 15 years in conceiving and completing the project and failure to fix the final cost resulted in unfruitful expenditure of ₹ 5.42 crore. PHB contended that it had constructed the flats on trial basis, but accepted the fact that it had failed to assess the desire of the public regarding purchase of flats, as they were interested only in purchasing of individual plots. However, the fact remains that flats could not be sold as general public were not willing to purchase them.

The matter was referred to Government (October 2015); reply has not been received (January 2016).

⁴ The avoidable liability of ₹ 0.83 crore to Government on this delay was commented and included in the Audit Report for the year 2008-09 *vide* paragraph 2.1.1

EDUCATION DEPARTMENT

3.2.3 Unfruitful expenditure on construction of Girls' Hostel

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.

UT Government sanctioned (February 2004) ₹ 4.29 crore for construction of administrative block, library block and hostels for the Dr. Ambedkar Government Law College (College). The work, *inter alia*, included construction of Girls' hostel (Hostel) at a cost of ₹ 1.73 crore (approximately) as a sub-work, for the girl students who were being accommodated in a private rented building. The work was completed and the building was handed over to the College in April 2008. In addition, a compound wall around the hostel was also constructed (January 2008) at a cost of ₹ 14.89 lakh.

Scrutiny of records revealed (April 2015) that the hostel was not put to use and kept idle for the past seven years. As a result, the college continued to operate the hostel in a private building and paid ₹ 12.87 lakh as rent from February 2007 to August 2015. Further due to non-occupation for years together, the hostel building sustained damages such as termite attack, broken window panes, missing taps, broken pipelines and sanitary fittings etc. Apart from this, though the college had sent a requisition to Public Works Department (July 2011) for increasing the height of parapet wall and raising the height of western side gate as security measures, no action was taken on this request. Though a proposal was sent to Government (July 2013) for creation of a post of Deputy Warden, the same had not materialised yet and there was no exclusive hostel staff like warden, cook, etc., for effective functioning of the hostel. Thus, the hostel building constructed at a cost of ₹ 1.73 crore remained idle for more than seven years, sustaining damages due to non-occupation.

When pointed out, the College replied (October 2015) that though action was taken to provide security and food through outsourcing, girl students were not interested in staying in the hostel as it is away from the town and that the Jammer installed in the Jail nearby disrupted the communication inside the hostel. The reply is not acceptable, as the hostel was located inside the Law College campus and failure in taking concerted efforts to open the hostel, led to an avoidable expenditure of ₹ 12.87 lakh towards rent for accommodating the students in a private building.

The matter was referred to Government (October 2015); reply has not been received (January 2016).

HOME DEPARTMENT

3.2.4 Unfruitful expenditure on construction of Police quarters

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

Government sanctioned (March 2009) ₹ 1.67 crore for the construction of staff quarters (Type II quarters – 16 units; Type III quarters – two units) for police personnel of Kirumampakkam Police Station under the scheme of ‘Modernisation of Police Force’. Puducherry Housing Board (PHB) constructed the quarters at a cost of ₹ 2.03 crore and handed over to the Police Department in May 2012.

Scrutiny of the records revealed (January 2015) that except the two Type III quarters occupied by the Forensic Science Laboratory, the remaining 16 Type II quarters remained vacant, though 28 police personnel were working in Kirumampakkam Police Station. When pointed out, Superintendent of Police, Puducherry replied (March 2015) that as most of the staff working in the police station were coming from the town, they were reluctant to occupy the quarters which was located in rural area. He further stated that as the villagers residing adjacent to quarters were objecting to the utilisation of water provided by Municipality, PWD had been requested (December 2011) to drill a new borewell and as soon as the water problem was rectified, the quarters would be allotted to the staff.

The reply is not acceptable as the Department should have taken necessary action to ensure availability of water and the fact remains that the quarters were kept unoccupied for more than three years, resulting in unfruitful expenditure of ₹ 1.65 crore on construction of 16 Type II quarters.

The matter was referred to Government (May 2015); reply has not been received (January 2016).

TOURISM AND PUBLIC WORKS DEPARTMENTS

3.3 Infrastructure Development by Department of Tourism with Central Assistance

3.3.1 Introduction

Government of India (GoI) provided financial assistance under the scheme “Product/Infrastructure Development for Destinations and Circuits” for improvement of existing tourism products and developing new ones to the world standard, besides focusing on Integrated Infrastructure Development of tourism sites. GoI provided financial assistance upto ₹ five crore for selected destinations, excluding items which were exclusive responsibilities of State/Union Territory Government. Any other cost over and above the financial assistance provided by GoI was to be met by the UT Government. GoI sanctioned projects based on detailed cost estimates furnished by the UT Government and released first instalment (80 per cent) of the sanctioned cost. The second instalment (20 per cent) was released by GoI on completion of the work and receipt of Utilisation Certificate (UC).

Audit of the scheme ‘Destination Development’ was conducted between January and April 2015 to assess whether GoI guidelines were followed, grants received from GoI were utilised for the intended purpose and works were completed as planned and put to use. Records relating to 7⁵ out of 10⁶ works sanctioned during 2007-12 and completed between November 2009 and June 2012 were test checked. Results of audit are discussed below:

Audit findings

3.3.2 Execution of works

Against the estimated cost of ₹ 35.64 crore for seven works, GoI sanctioned ₹ 27.52 crore and released ₹ 22.01 crore as first instalment during 2007-10. Of the remaining ₹ 13.63 crore, the UT Government was to release ₹ 5.51 crore being 20 per cent of the project cost reimbursable by GoI on completion of the work. The remaining amount of ₹ 8.12 crore was to be entirely borne by the UT Government. It was, however, noticed that the UT Government released ₹ 4.68 crore only against ₹ 13.63 crore due to non-availability of funds.

⁵ Development of beach Promenade in Puducherry, Revitalisation of Gandhi Thidal and Crafts Bazaar in Puducherry, Revitalisation of Karaikal Ammaiyyar Koil Tank in Karaikal, Development of Eco beach in Karaikal, Development of walk way along Arasalar River in Karaikal, Development of Recreation Park at Buddha Lake in Yanam and Landscaping and tourist amenities around Yanam Obelisk

⁶ Two works were later dropped and one relates to construction of institutional building for Puducherry Institute of Hotel Management and Catering Technology

Consequently, Public Works Department (PWD), the executing agency, was instructed⁷ to revise some of the components of the approved projects limiting the estimated cost to the amount sanctioned by GoI. Accordingly, works were curtailed to match the amount sanctioned by GoI. As a result, UT Government could not get second instalment of ₹ 1.90 crore⁸ from GoI as components were changed without GoI's prior approval. Further, due to delay in execution of the projects and consequent cost escalation/short release of funds, the works though reported as completed, remained incomplete or were partially completed as discussed below:

3.3.2.1 *Development of Beach Promenade*

Against the project proposal of ₹ 7.99 crore, GoI sanctioned (September 2007) ₹ five crore towards 'Beautification of beach promenade' which included the work of laying granite slab pavement for 1,500 m and released ₹ four crore as first instalment. The work, commenced in May 2009, was completed in February 2011 at a cost of ₹ 6.07 crore. The following shortcomings were noticed:

- The estimate was revised in May 2008 to curtail the expenditure within ₹ five crore sanctioned by GoI. Further, the UT Government took one year to accord administrative sanction (August 2008). There was also delay in finalisation of tender (April 2009). These delays resulted in cost escalation. As a result, scope of the work was curtailed and the work was executed for 1,220 m against 1,500 m sanctioned by GoI.
- Certain components of works sanctioned by GoI such as mild steel/granite bollards, signages and pergolas were not executed stating that it would cause hindrance to the pedestrians.
- As the above changes were made during execution of works without GoI's prior approval, the UT Government could not avail of the remaining 20 *per cent* (₹ one crore) grant from GoI.

When pointed out, it was replied that due to cost escalation, the length of pavement was reduced and that since the scope of the project was not changed, reduction in length was not intimated to GoI. However, the fact remains that UT Government had to meet the expenditure of ₹ one crore from its own budget which would have, otherwise, been reimbursed by GoI.

⁷ As per the decision taken in a high level meeting held during March 2008 in which Hon'ble Minister of Tourism, Secretary to Government (Tourism and PWD), Director of Tourism and Chief Engineer (PWD) participated

⁸ ₹ 100 lakh (Development of Beach Promenade) + ₹ 90 lakh (Development of Eco beach at Karaikal)

3.3.2.2 *Revitalisation of Gandhi Thidal and Crafts Bazaar*

GoI sanctioned (September 2007) ₹ 2.67 crore for the work 'Revitalisation of Gandhi Thidal and Crafts Bazaar'. The work, among other things, included construction of 54 shops (30 shops on southern side and 24 shops on northern side) and GoI released ₹ 2.14 crore as first instalment. The work was awarded (May 2009) to a contractor at a cost of ₹ 2.93 crore with stipulation to complete the work within six months (November 2009). Scrutiny of records revealed the following:

The construction of shops in the northern side necessitated demolition of an existing building and shifting of transformer. Though the Department awarded the work in May 2009, it initiated action to demolish the building only in June 2010, after one year. Similarly, the transformer was shifted in February 2015. Due to delays in demolishing/shifting of transformer, construction of 28 shops alone was completed at a cost of ₹ 2.73 crore in January 2012, after a delay of two years, and the contract was foreclosed in August 2013. No work was taken up thereafter.

Thus, against the original plan to construct 54 shops at a sanctioned cost of ₹ 2.67 crore, only 28 shops could be completed after spending ₹ 2.73 crore and the work was partially completed.

3.3.2.3 *Development of Eco beach at Karaikal*

GoI sanctioned ₹ 4.46 crore for the work 'Development of new beach area in Puducherry' and released ₹ 3.25 crore (September 2004). The main components of the work included gardening, roads, children play area, shops and sanitary provisions. As the work could not be taken up due to Tsunami (December 2004), the UT Government requested (February 2005) GoI for change of site and proposed the work 'Development of Eco Beach' at Karaikal, which included provision of fun court, shopping court, sports court, children play area, basket ball and tennis courts.

GoI, on receipt of clarification from the UT Government regarding cost break-up for each of the components to be executed, accorded (October 2007) sanction for commencing the work at the new site with instructions to carry out the work as per the terms and conditions stipulated for the dropped work at Puducherry and permitted utilisation of ₹ 3.56 crore⁹ released earlier. However, the components as proposed at the new site were taken up (February 2008) and completed (November 2009) with three blocks containing 25 shops, two restaurants, information centre, cyber café centre and video games centre at a cost of ₹ 3.50 crore.

⁹ Includes the amount of ₹ 3.25 crore released for the old work and saving of ₹ 0.31 crore under three other schemes

When Tourism Department approached (December 2009) GoI for release of second instalment of ₹ 90 lakh to complete the remaining works, GoI sought clarifications regarding changes made in the components of works without its prior approval (July 2011). Though Tourism Department replied (August 2011) that it was not aware of the components to be executed and completed the works as per the project report submitted for Karaikal, GoI however, did not release the second instalment. No further work was taken up and the scope of the work was restricted to the amount released in the first instalment.

Though shops (rooms) constructed were allotted during March 2010 to 11 licensees, none of the allottees started business as of March 2015 due to lack of tourism activities. Thus, action of the Department in taking up the work without ensuring the components to be executed resulted in an unfruitful expenditure of ₹ 3.50 crore and non-release of funds by GoI to complete the remaining work.

3.3.2.4 Development of walkway along Arasalar River in Karaikal

GoI sanctioned (September 2007) ₹ 4.78 crore towards the work of ‘Development of walkway along Arasalar River in Karaikal’ and released ₹ 3.82 crore as first instalment. The work included formation of walkway for a distance of 1,000 m alongwith fixing of ornamental decorative iron grills, decorative lamp posts, granite park seats and cast iron benches. The work commenced in January 2009, was stopped in October 2009 after incurring an expenditure of ₹ 4.08 crore. Scrutiny of the records revealed the following:

Due to non-settlement of bills, contractor stopped the work after executing the walkway (paver block) for 1,000 m. Other works such as fixing of handrails, benches and avenue lighting were completed upto length of 200 m only. It was noticed that due to paucity of funds, UT Government did not release its 20 *per cent* share to complete the remaining work. When GoI was approached in November 2009 for release of second instalment, it was replied that (March 2011) amount could be released only as reimbursement, after completion of the work. However, no funds were released as the work remained incomplete.

Though the facilities created were thrown open to the public (November 2009), the work actually remained incomplete due to non-provision of required funds under UT share.

3.3.2.5 Landscaping and tourist amenities around Yanam Obelisk

Tourism Department proposed (July 2009) to take up the work ‘Landscaping and tourist amenities around Yanam Obelisk’ for construction of an entrance gate, compound wall, ancillary building, toilets, washrooms and pathways alongwith interior electrification around an Obelisk constructed by M/s Reliance Industries Limited at Yanam. GoI

sanctioned (December 2009) ₹ 4.86 crore for the work and released ₹ 3.89 crore as first instalment. The work, commenced in February 2011 was completed in June 2012. Scrutiny of records and joint inspection by Audit with departmental staff revealed the following:

The work of construction of ancillary building was taken up as a sub-work



at a cost of ₹ 1.85 crore. During execution, ₹ 36 lakh out of the sanctioned amount was utilised for payment of price escalation of steel and cement used in the work. Further, due to non-provision of funds, the work was stopped and the building remained incomplete at roof

level as shown in the picture. However, the work was reported as completed (January 2013) and payment of ₹ 2.01 crore was made to the contractor for the work done.

Even though the building remained incomplete, Tourism Department furnished UC reporting that work was completed and received (April 2015) second instalment of ₹ 97.38 lakh from GoI. When pointed out, PWD replied (August 2015) that work as contemplated could not be completed due to payment of escalation cost and paucity of funds and that the remaining work would be taken up in the next phase.

When the deficiencies in execution of works as discussed above were pointed out, the Secretary, Tourism Department stated (August 2015) that deviations should have been brought to the notice of GoI by PWD, before the same were raised by GoI. It was further stated that the Director, Tourism was instructed to monitor execution of the works and put a proper system in place to avoid non-release of funds by GoI in future.

3.3.3 Lack of sustainable maintenance plan

According to scheme guidelines, UT Government was responsible for maintenance of the assets created and was to include a sustainable maintenance plan in the project proposal itself. It was, however, noticed that Tourism Department failed to frame a sustainable maintenance plan. Further, the Chief Secretary had also instructed (August 2012) to find out ways to meet the maintenance expenditure. However, no follow up action was taken in this regard.

When pointed out, the Secretary, Tourism Department accepted (August 2015) the audit point and instructed the Director, Tourism to issue necessary administrative orders to PWD/Municipalities concerned to maintain the assets. He further stated that funds would be provided separately for maintenance of assets.

3.3.4 Monitoring

A State Level Monitoring Committee with Secretary (Tourism) as Chairman along with a member from the Ministry of Tourism, GoI and members of executing agencies was to be set up for periodical monitoring of the works. It was noticed that though the Committee was constituted in February 2010, it did not have a member from Ministry of Tourism, GoI. Though the Committee was to meet every three months to monitor progress of works, it met only eight times during 2009-13 against 16 meetings and no meeting was held after September 2012.

Lack of monitoring resulted in the following deficiencies:

- None of the works had administrative approval of the UT Government, which led to substantial delay in according expenditure sanction.
- Though GoI had specifically instructed to commission all the five projects discussed above within a year of sanction, none of them was completed within the stipulated period.
- Administrative delays ranging from 6 to 24 months were noticed in commencing the work after sanction and receipt of funds from GoI leading to cost escalation, which resulted in the works being curtailed and non-completion/partial completion of works.
- Change in specifications of the works without intimating the GoI resulted in non-release of second instalment by GoI.
- Though GoI indicated absence of signage boards, drinking water facilities and accessibility for disabled persons etc., and instructed to provide these facilities, no follow up action was taken so far by the Department.

When pointed out, the Director replied (April 2015) that efforts would be made to convene meetings regularly. However, the fact remains that State Level Monitoring Committee had been formed belatedly and had the Committee meetings been held regularly during the period of execution of works, the above mentioned deficiencies could have been avoided facilitating successful completion of works.

3.3.5 Conclusion

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.

The matter has been referred to Government in July 2015; reply has not been received (January 2016).

AGRICULTURE, EDUCATION, ELECTRICITY, PUBLIC WORKS AND SCIENCE, TECHNOLOGY AND ENVIRONMENT DEPARTMENTS

RENEWABLE ENERGY AGENCY, PUDUCHERRY

3.4 Implementation of Energy Conservation Act by Renewable Energy Agency, Puducherry

3.4.1 Introduction

Union Territory Government of Puducherry (UT Government) established (November 2005) the Renewable Energy Agency, Puducherry (REAP), to implement schemes for power generation from non-conventional and renewable sources of energy and to provide for conservation of energy at the source of generation, distribution and/or consumption. The UT Government designated (September 2006) REAP as 'Designated Agency' to co-ordinate, regulate and enforce provisions of Energy Conservation Act, 2001 (EC Act) within Union Territory of Puducherry (UT). Audit of activities of REAP during the period 2012-15 was conducted between April and July 2015 to assess whether (i) initiatives were taken to implement EC Act and (ii) various renewable energy conservation and energy efficiency programmes were implemented and operationalised. Audit findings are discussed below.

Audit Findings

3.4.2 Implementation of EC Act

3.4.2.1 *Non-utilisation of Puducherry Energy Conservation Fund*

As provided in the EC Act, ‘Puducherry Energy Conservation Fund’ (PECF) was constituted (August 2011) in order to utilise the fund for promoting energy conservation/efficiency, to create awareness, organise training programmes, perform research and development, develop testing and certification of energy consuming devices and implement demonstration projects and pilot projects related to energy conservation/efficiency in UT.

REAP, being the Designated Agency, was to operate PECF and an amount of ₹ six crore was released (Bureau of Energy Efficiency (BEE) - ₹ four crore and UT Government - ₹ two crore) to REAP up to October 2013. Audit noticed that the entire amount remained idle (March 2015), as REAP did not carry out the envisaged activities. When pointed out, REAP replied (November 2015) that State Level Steering Committee (SLSC) was not constituted for administering PECF and action was being taken to send a proposal to UT Government for constitution of SLSC. The reply is not acceptable as SLSC was not constituted even after delay of four years from the date of constitution of PECF.

3.4.2.2 *Non-installation of star rated appliances*

As provided in the EC Act, UT Government issued (November 2012) orders making it mandatory for Government Departments to use four star and above rated electrical fittings and appliances in new Government buildings and to replace old fittings in the existing buildings as and when required to ensure energy efficiency. The order, further, made installation of four star rated pump sets mandatory, whenever new tube wells were installed by farmers by availing Government subsidy. In this connection, the following observations were made.

(i) Estimates for procurement of materials by Public Works Department (PWD) were to be prepared based on Puducherry Schedule of Rates (PSR). However, neither REAP nor PWD took action to incorporate star rated electrical appliances in PSR, even after two years from the date of Government order (November 2012). Consequently, in 46 electrical works carried out during 2012-15, star rated equipment/appliances were not installed to ensure energy efficiency. When pointed out, Government replied (November 2015) that necessary energy conservation items would be included in PSR at the earliest.

(ii) During 2012-15, Agriculture Department paid subsidy of ₹ 37.31 lakh to 104 farmers for purchase of submersible pump sets.

However, neither Agriculture nor Electricity Department insisted for installation of star rated pump sets for tube wells. Consequently, none of the farmers installed star rated pump sets though subsidy was released to them after site visits by field staff.

When pointed out, it was replied (June 2015) that guidelines for release of subsidy were formulated even before the Government order (November 2012) and hence installation of star rated pump sets was not insisted. It was further stated that action would be taken to promote use of star rated pump sets in future and that suitable instructions have been issued (June 2015) by Electricity Department to field officers to issue certificate only to the consumers who had erected star rated pump sets. However, the fact remains that Government order was not complied with by the Departments.

The above failures resulted in non-accrual of energy saving. When pointed out, REAP replied (November 2015) that powers to specify the matters to be included for the purpose of inspection was solely vested with GoI. The reply is not acceptable, as REAP was the Designated Agency under EC Act and it was to ensure that provisions of EC Act were being complied with.

3.4.2.3 *Delay in implementing Energy Conservation Building Code*

UT Government stipulated (March 2012) that Energy Conservation Building Code (ECBC) shall apply to new buildings such as hospitals and marriage halls, where there was a system of installation for supplying hot water, auxiliary solar water heaters were to be installed. Scrutiny of records of Puducherry Planning Authority (PPA) revealed that PPA while issuing building permits, did not incorporate the condition of use of renewable energy sources and that none of the 11 building permits issued during 2012-15 to hospitals/marriage halls included mandatory requirement of installing solar water heaters. When pointed out, REAP replied (September 2015) that a proposal to set up ECBC Cell for monitoring purpose was under consideration.

3.4.2.4 *Non-adherence to Energy Audit recommendation*

Based on a direction of BEE (March 2008), REAP identified 13 Government buildings¹⁰ and conducted Energy Audit (EA) (April 2008-February 2009 and May-November 2012) by engaging a Government agency¹¹ which recommended replacement of all incandescent bulbs/tube

¹⁰ Chief Secretariat, Director of School Education, Government General Hospital, Government Maternity Hospital, PAJANCOA, Collectorate (Karaikal), Puducherry Government Guest House (New Delhi), Revenue Department, Civil Station (Karaikal), Electricity Department (Puducherry), Raj Niwas (Puducherry), Government Guest House (Uppalam) and Bharathiar Government College for Women

¹¹ NSIC Technical Services Centre, Chennai

lights with Compact Fluorescent Lamp (CFL), all Air Conditioners (AC) with star rated ACs, installation of automatic ON/OFF switches with timers, light energy saver instruments and removal of sodium vapour lamps. The total energy saving projected was 9.95 lakh units per annum. Test check of implementation of EA in four offices, where EA was conducted, revealed the following:

- Though REAP had forwarded (June 2010) EA report to Education Department, only worn out equipment were replaced instead of complete replacement. When pointed out, the Department replied (June 2015) that major works would be carried out by Electricity Department.
- Rajiv Gandhi Government Women and Children Hospital (RGGWCH) (previously Government Maternity Hospital), was shifted (June 2011) to a new building. When the progress in respect of EA was called for (May 2015) by Audit, RGGWCH replied (June 2015) that EA report was not traceable.
- At Pandit Jawaharlal Nehru College of Agriculture and Research Institute, old tube lights with copper chokes were replaced with tube lights with electronic chokes. No action was taken to implement the other recommendations.
- At Indira Gandhi Government General Hospital and Research Institute, lights were purchased as per the recommendations of EA, but were replaced as and when the existing lights failed.

It could be seen from the above that neither the Departments nor REAP took necessary follow up actions to ensure implementation of the recommendations of EA and this resulted in non-accrual of the anticipated annual energy saving. When pointed out, REAP replied (November 2015) that respective Departments were instructed to implement the recommendations within a period of three months from the date of issue of recommendations (March 2013). However, as discussed above, the recommendations were not implemented in full and REAP had not ensured its implementation.

3.4.2.5 *Failure to direct designated consumers to conduct energy audit*

EC Act provided for identification of designated consumers based on their quantity of energy consumed to establish and prescribe energy consumption norms for them. The designated consumers were to be directed to conduct energy audit for the purpose of efficient use of energy and its conservation and to provide information regarding energy consumed and action taken on the recommendation of the Energy Auditor.

In respect of UT, though REAP had identified six¹² designated consumers, it did not direct them to conduct energy audit. On being pointed out, REAP replied that necessary reports were called for (February/March 2015) from designated consumers. However, the fact remains that REAP did not enforce the provisions of EC Act and thus failed to ensure efficient energy utilisation by designated consumers.

3.4.2.6 Implementation of Annual Energy Saving Plan

REAP prepared (June 2013) Annual Energy Saving Plan (AESP) in four sectors¹³ and the report envisaged energy saving of 50.26 MU, costing ₹ 21.88 crore in all the four sectors based on certain energy saving action plan to be implemented by the respective Departments. However, REAP communicated the recommendations to the Departments concerned for implementation only in February 2015 and hence AESP recommendations were not implemented in any of the four sectors. When pointed out, REAP replied (September 2015) that the recommendations were communicated to the Departments after obtaining the approval from BEE. It was further stated that funds available in PECF would be utilised for implementation of the recommendations. However, the fact remains that AESP recommendations were not implemented even after two years.

3.4.3 Implementation of Energy conservation/efficiency schemes

REAP had implemented various schemes formulated by BEE/Ministry of New and Renewable Energy (MNRE) for efficient use of energy and use of renewable source of energy. Audit findings on the above initiatives taken by REAP are discussed below:

3.4.3.1 Non-implementation of Solar City Programme

Ministry of New and Renewable Energy (MNRE) launched (January 2011) a programme on 'Development of Solar City' with an aim to reduce projected demand of conventional energy by a minimum of 10 per cent at the end of five years. Puducherry was selected to be developed as 'Solar City' (February 2013) for which MNRE would provide grant upto ₹ 2.50 crore for setting up of various renewable energy related projects, subject to the condition that UT Government would provide matching grant. Further, MNRE would also provide an amount of ₹ 50 lakh towards preparation of master plan, Detailed Project Report (DPR) and other related activities. REAP appointed (January 2014) a consultant to prepare DPR and UT Government also sanctioned (March 2014) an amount of ₹ 2.13 crore to REAP as matching grant.

¹² Soundaraja Mills Limited, Karaikal, Cannanore Spinning and Weaving Mill, Mahe, Pondicherry Co-operative Spinning Mill Limited, Puducherry, Sree Rajeswari Mills (Unit B), Karaikal, Snam Alloys Pvt. Limited, Puducherry and Sri Rangaraj Steels, Karaikal

¹³ Agriculture, Industries, Street lights and Water

Meanwhile, REAP approached (February 2014) MNRE for release of ₹ 50 lakh towards preparation of DPR. Though MNRE sanctioned (September 2014) ₹ 49.40 lakh, the sanctioned amount was not released due to non-furnishing of UCs by REAP for old schemes. The Consultant submitted (February 2015) a master plan and DPR which envisaged energy saving for 39.25 MU. REAP forwarded (March 2015) DPR to MNRE alongwith pending UCs with request to release funds. However, MNRE did not release funds and no further activities were taken up under the scheme. Thus, the objective of developing Puducherry as ‘Pilot Solar City’ was not achieved even after two years and an amount of ₹ 2.13 crore released to REAP remained idle.

When pointed out, REAP replied (September 2015) that action would be taken to obtain matching grant from MNRE as pending UCs were already forwarded. It was further stated that on approval of DPR by MNRE, the programme would be taken up for implementation.

3.4.3.2 Failures in LED Village campaign

BEE launched (July 2009) a nationwide LED Village Campaign and REAP identified (August 2009) two villages¹⁴ in UT of Puducherry for this scheme. Work order was issued (January 2011) to a firm for installation of 20 LED street light fittings and 750 LED bulbs at the rate of three bulbs per household for each of the two villages. The items so supplied were to be covered under warranty for five years. The scheme was completed (February 2011) at a cost of ₹ 25.50 lakh. The scheme envisaged energy saving of 68,500 units of electricity costing ₹ 1.65 lakh in respect of street lights and in respect of LED bulbs, they were expected to save 90 *per cent* of electricity consumed by incandescent bulbs which would save ₹ 30 lakh on purchase cost of power to UT Government over a period of five years.

A joint physical inspection (June 2015) conducted by Audit alongwith REAP staff to verify the functioning of LED street lights revealed that only one out of 40 LED street lights installed was functioning. Further, a survey of 10 household beneficiaries revealed that out of the 30 LED bulbs supplied, only two were working. It was noticed that Electricity Department had replaced 10 of the LED street lights with sodium vapour lamps and the LED bulbs supplied to houses were not replaced despite repeated requests by the beneficiaries. Thus, the objective of achieving energy conservation/efficiency was not achieved resulting in unfruitful expenditure of ₹ 25.50 lakh.

When pointed out, REAP replied (September 2015) that maintenance of LED street lights was the responsibility of Electricity Department. It was further stated (November 2015) that the firm which supplied street lights had rectified them after a direction from REAP in this regard. However, the reply is silent on non-replacement of LED bulbs given to houses.

¹⁴ Valavil and Parakkal villages in Mahe Region

3.4.3.3 Street lights

REAP installed (June 2011/February 2012) 120 Solar Street Lamps (SSL) at a cost of ₹ 29.99 lakh. It was noticed that only 63 of them were in working condition. The remaining SSLs were not functioning due to missing batteries, solar modules and luminaries. The agreement for supply provided for insurance cover for five years and comprehensive maintenance up to March 2016. The firm which installed the above SSLs neither conducted site visits nor submitted quarterly performance reports to REAP and despite these failures, REAP did not forfeit the security deposit and performance guarantee of ₹ three lakh furnished by the firm.

When pointed out, REAP replied (November 2015) that complaints have been lodged with respective police stations regarding missing items in order to make insurance claim. It was further stated that on receipt of First Information Reports, action would be taken to forfeit the security deposit and performance guarantee. However, the fact remains that the SSLs were neither maintained nor insured and as a result, 57 SSLs were not working.

3.4.4 Creation of awareness

3.4.4.1 Undue delay in setting up of State Level Energy Education Park

With the aim of educating the public, especially the younger generation about the need and nature of renewable energy, energy conservation and care for the environment, GoI proposed setting up of a State Level Energy Education Park (SLEEP) consisting of static exhibits and working models and outdoor demonstration models of various aspects of Renewable energy. GoI sanctioned (March 2006) ₹ one crore and released ₹ 50 lakh with a condition that the project should be completed within a period of two years from the date of sanction.

REAP entrusted civil works to Puducherry Agro Services and Industrial Corporation (PASIC). Supply/installation of exhibits was entrusted to a firm at a cost of ₹ 0.99 crore (January 2007). Though the firm had supplied the exhibits in December 2008, the same were not installed as PASIC completed the civil works only in June 2013 after a delay of nearly seven years. However, SLEEP was opened to the public only in May 2015, after a further delay of 18 months incurring an expenditure of ₹ 2.50 crore. Meanwhile, when REAP approached MNRE (January 2014) for release of remaining ₹ 50 lakh, MNRE did not release the amount citing delay in completion of SLEEP and directed (January 2014) REAP to return the amount released to it with penal interest.

A joint inspection of SLEEP by Audit in June 2015 revealed that Energy Film Corner inside the exhibition hall was not provided with required equipment and exhibits such as four solar cars, solar cookers, wind battery

charger and solar powered water pump 3 KW SPV Integrated Power Plant installed were not working.

When pointed out, REAP replied (September 2015) that delay in completion of civil works by PASIC was due to their financial constraints and delay in opening of Park was due to administrative reasons. It was further stated (November 2015) that completion report was submitted to MNRE and on receipt of the remaining grant from MNRE, the non-functioning and damaged exhibits would be repaired. The reply is not acceptable, as it took nearly nine years to set up SLEEP and even after spending an amount of ₹ 2.50 crore, SLEEP was not made fully operational, thereby defeating the objective of educating the public.

3.4.5 Conclusion

REAP did not take speedy action to implement the EC 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.

CHAPTER IV

REVENUE RECEIPTS

CHAPTER IV

REVENUE RECEIPTS

4.1 Trend of Revenue Receipts

4.1.1 The tax and non-tax revenue raised by the Government of the Union Territory of Puducherry and the grants-in-aid received from the Government of India during the year 2014-15 and the corresponding figures for the preceding four years are mentioned in **Table 4.1.1**.

Table 4.1.1: Trend of revenue receipts

(₹ in crore)						
Sl. No.	Category	2010-11	2011-12	2012-13	2013-14	2014-15
I	Revenue raised by the Government					
	(a) Tax revenue	1,074.47	1,329.43	1,917.22	1,904.51	1,992.74
	(b) Non-tax revenue	742.78	153.31	118.15	1,192.59	1,300.36
	Total (I)	1,817.25	1,482.74	2,035.37	3,097.10	3,293.10
II	Receipts from the Government of India – Grants-in-aid	1,382.78	1,288.68	1,110.77	1,210.51	1,464.80
III	Total receipts of the Government (I + II)	3,200.03	2,771.42	3,146.14	4,307.61	4,757.90
IV	Percentage of I to III	57	54	65	72	69

(Source: Finance Accounts of the respective years)

During the year 2014-15, the revenue raised (₹ 3,293.10 crore) by the Union Territory Government was 69 per cent of the total revenue receipts (₹ 4,757.90 crore), as against 72 per cent in the preceding year. The balance (₹ 1,464.80 crore) 31 per cent of the receipts during 2014-15 were obtained from the Government of India as grants-in-aid and contributions.

4.1.2 The details of tax revenue raised during the period from 2010-11 to 2014-15 are given in the following table.

Table 4.1.2 : Details of Tax Revenue raised

(₹ in crore)												
Sl. No.	Heads of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+)/ decrease (-) in 2014-15 over 2013-14
		Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	
1	Taxes on Sales, Trade, etc.	680.78	595.00	1,481.83	750.15	1,395.61	1,287.10	1,505.00	1,256.71	1,380.00	1,313.13	(+) 4.49
2	State Excise	475.00	378.55	778.00	447.27	688.49	503.98	620.00	511.72	560.00	544.67	(+) 6.44
3	Stamp Duty and Registration fees	102.00	51.93	113.96	77.43	121.29	72.67	98.00	82.79	96.00	74.96	(-) 9.46
4	Taxes on vehicles	58.00	48.27	89.86	53.55	87.66	52.64	66.00	51.95	63.00	58.46	(+) 12.53
5	Land Revenue	1.15	0.62	1.42	0.80	1.35	0.55	0.80	1.14	0.80	1.30	(+) 14.04
6	Others	0.22	0.10	0.93	0.23	0.29	0.28	0.20	0.20	0.20	0.22	(+) 10.00
Total		1,317.15	1,074.47	2,466.00	1,329.43	2,294.69	1,917.22	2,290.00	1,904.51	2,100.00	1,992.74	

(Source : Finance Accounts of the respective years)

The increase in receipts (12.53 per cent) under 'Taxes on Vehicles' in 2014-15 over 2013-14 was mainly due to more collection under Indian Motor Vehicles Act and State Motor Vehicles Taxation Acts.

4.1.3 The details of non-tax revenue raised during the period from 2010-11 to 2014-15 are given in the following table.

Table 4.1.3 : Details of Non-tax revenue raised

(₹ in crore)

Sl. No.	Heads of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) / decrease (-) in 2014-15 over 2013-14
		Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	
1	Power	889.61	662.71	---	58.73	---	29.58	1,200.00	1,055.15	1,220.00	1,159.92	(+) 9.93
2	Interest receipts, Dividends and Profits	53.44	42.15	71.91	38.72	39.87	35.64	36.29	68.44	81.62	93.28	(+) 36.29
3	Medical and Public Health	7.49	10.77	10.04	8.46	16.43	13.94	14.50	9.46	10.97	9.15	(-) 3.28
4	Education, Sports, Art and Culture	0.89	0.61	1.19	0.84	0.30	0.73	0.26	0.91	1.00	0.99	(+) 8.79
5	Crop Husbandry	0.36	0.41	0.48	0.48	0.52	0.51	0.46	0.38	0.41	0.43	(+) 13.16
6	Other receipts	34.47	26.13	46.38	46.08	63.88	37.75	58.49	58.25	46.00	36.59	(-) 37.18
	Total	986.26	742.78	130.00	153.31	121.00	118.15	1,310.00	1,192.59	1,360.00	1,300.36	

(Source : Finance Accounts of the respective years)

The increase in receipts (36.29 per cent) under 'Interest Receipts, Dividends and Profits' in 2014-15 over 2013-14 was mainly due to receipt of more interest on Consolidated Sinking Fund Investment/Cash balance investment.

The receipts from other Departments decreased from ₹ 58.25 crore in 2013-14 to ₹ 36.59 crore in 2014-15. The decrease was mainly due to less collection of receipts from motor garages, less cargo landing at Karaikal Port, less receipt under mineral concession, fees, rent and royalties and release of share to local bodies for previous years, etc.

4.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 under the principal heads of revenue amounted to ₹ 782.52 crore, of which ₹ 161.58 crore was outstanding for more than five years, as detailed in **Table 4.2.**

Table 4.2 : Arrears of revenue

(₹ in crore)

Sl. No.	Departments/ Directorates	Total arrears	Arrears outstanding for more than five years	Remarks
(1)	(2)	(3)	(4)	(5)
1	Commercial Taxes	474.27	94.51	Arrears related to collection of tax under PGST/CST and VAT Acts and major portion was covered under court cases.
2	Electricity	238.87	50.90	Arrears were due to non-payment of electricity charges.
3	Excise	47.89	8.98	Arrears were mainly due to non-payment of <i>kist</i> by the lessees of <i>arrack</i> and <i>toddy</i> shops.
4	Public Works	16.08	4.96	Arrears related to water charges due from consumers.
5	Government Automobile Workshop	1.92	0.14	Arrears were due from Government departments towards sale of petrol, oil and lubricants and work bills.
6	Port	0.58	0.57	Arrears were mainly due from Container Corporation of India Limited, Government of India Undertaking, towards land rent.
7	Stationery and Printing	0.43	0.07	Arrears related to non-recovery of printing charges from Government departments.
8	Town and Country Planning	0.02	0.02	Arrears related to final cost of plots due from the allottees of various housing schemes.
9	Tourism	0.14	0.04	Arrears were mainly due from guests / other Government Officials towards room rent.
10	Co-operation	0.09	0.01	Arrears related to audit fees.
11	Judicial	0.05	0.03	Arrears were due to accused undergoing imprisonment in some cases and pendency of appeals in courts.
12	Industries and Commerce	0.11	0.09	Arrears related to rent due from defunct industrial units.
13	Transport	0.55	0.36	Arrears were due to non-recovery of motor vehicles tax.
14	Agriculture	0.32	0.16	Arrears due from PASIC and local bodies towards rent, cost of seeds and other services.
15	Information and Publicity	0.13	0.12	Arrears of rent to be collected mainly from PRTC.

(1)	(2)	(3)	(4)	(5)
16	Hindu Religious Institutions and Wakf Board	0.58	0.24	Arrears were due to shortfall in collection of dues from temples.
17	Accounts and Treasuries	0.47	0.36	Arrears were due to non-remittance of audit fee by religious institutions at stipulated time.
18	Fisheries and Fishermen Welfare	0.02	0.02	Arrears of lease amount on diffused fish farm at Coringa river, Yanam.
	Total	782.52	161.58	

Other Departments did not furnish (December 2015) the details of arrears of revenue, if any.

4.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year, as furnished by the Commercial Taxes Department (CTD), in respect of Value Added Tax, are shown below in **Table 4.3**.

Table 4.3 : Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2014-15	Total assessments due	Cases disposed of during 2014-15	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
VAT						
Scrutiny Assessments	8,453	12,750	21,203	2,660	18,543	12.55

As the percentage of disposal is very low, the Department may take adequate steps for speedy finalisation of cases which were selected for detailed scrutiny.

4.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the CTD, cases finalised and the demands for additional tax raised as reported by the Department are given in **Table 4.4**.

Table 4.4 : Evasion of Tax

(₹ in crore)

Head of revenue	Cases pending as on 31 March 2014	Cases detected during 2014-15	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc., raised		Number of cases pending for finalisation on 31 March 2015
				Number of cases	Amount of demand	
Sales Tax/VAT	220	108	328	15	0.14	313

It would be seen from the above table that the number of cases pending at the end of the year had increased compared to the number of cases pending at the beginning of the year. The Department may institute appropriate measures for finalisation of pending cases, so as to ensure early realisation of revenue.

4.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2014-15, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2014-15, as reported by the CTD, is given in Table 4.5.

Table 4.5 : Details of pendency of refund cases

Sl.No.	Particulars	Number of cases	Amount (in ₹)
1	Claims outstanding at the beginning of the year	Nil	Nil
2	Claims received during the year	1	30,000
3	Refunds made during the year	1	30,000
4	Balance outstanding at the end of year	Nil	Nil

4.6 Response of the Departments/Government towards audit

Accountant General (Economic and Revenue Sector Audit), Tamil Nadu arranges periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as per the prescribed rules and procedures. These

inspections are followed up with Inspection Reports (IRs). Important irregularities are included in the IRs, issued to the Heads of offices inspected with copies to the next higher authorities, for taking corrective action. The Heads of offices/Government are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report compliance to the office of the Accountant General within one month from the dates of issue of the IRs. Serious irregularities are also brought to the notice of the Heads of Departments by the office of the Accountant General.

Inspection Reports, issued upto 31 December 2014, disclosed that 696 paragraphs involving ₹ 245.36 crore relating to 192 IRs remained outstanding at the end of June 2015, alongwith the corresponding figures for the preceding two years, as mentioned below in **Table 4.6**.

Table 4.6 : Details of pending IRs

	June 2013	June 2014	June 2015
Number of outstanding IRs	173	180	192
Number of outstanding audit observations	576	678	696
Amount involved (₹ in crore)	209.63	290.26	245.36

(Source: As per data maintained in the office of the AG (E&RSA), Tamil Nadu)

4.6.1 Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amounts involved are mentioned in **Table 4.6.1**.

Table 4.6.1 : Department-wise details of IRs

(₹ in crore)

Sl. No.	Tax Heads	Outstanding		Amount
		Inspection Reports	Audit Observations	
1	Sales Tax	57	314	101.30
2	Stamp Duty and Registration fees	64	160	2.53
3	Taxes on vehicles	37	148	4.27
4	State Excise	34	74	137.26
	Total	192	696	245.36

(Source: As per data maintained in the office of the AG (E&RSA), Tamil Nadu)

4.6.2 Non-production of records to audit for scrutiny

The programme of local audit of commercial tax offices is prepared sufficiently in advance and intimated to the Department one month before the commencement of local audit to enable them to keep relevant records ready for audit scrutiny.

During 2014-15, 87 sales tax assessment records relating to three offices were not made available for audit.

The delay in production of records for audit would render audit scrutiny ineffective, as rectification of under-assessments, if any, might become time barred by the time these records are produced to audit.

The matter regarding non-production of records in each office and arrears in assessment is brought to the notice of the Department through the IRs of the respective offices.

4.6.3 Response of the Departments to draft Audit Paragraphs

Six draft paragraphs including one Performance Audit proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2015 were forwarded to the Secretaries of the respective Departments during September 2015 through demi-official letters. The Secretaries of the Departments did not send replies to five draft paragraphs (December 2015). These paragraphs have been included in the Report without the response of the Secretaries of the Departments concerned.

4.6.4 Follow-up on Audit Reports

The internal working system of the Public Accounts Committee (PAC), laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. Seventeen paragraphs (including five Performance Audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Union Territory of Puducherry for the years ended 31 March 2009, 2010, 2011, 2012, 2013 and 2014 were placed before the Legislative Assembly of UT between April 2010 and May 2015. The action taken explanatory notes from the concerned Departments in respect of 12 paragraphs were received late with average delay of more than 18 months, while in respect of five paragraphs included in the Audit Reports for the year ended 31 March 2013 and 2014, explanatory notes were not received.

The PAC discussed two selected paragraphs pertaining to the Audit Report for the year ending 31 March 2009 and its recommendations were incorporated in 35th Report of XIII Assembly. Further, action taken notes in respect of eight recommendations of PAC pertaining to paragraphs included in the Audit Report for the year ending 31 March 2009 were awaited from the Excise Department.

4.7 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of addressing the issues highlighted in the IRs / Audit Reports by the Departments / Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 4.7.1 to 4.7.3 discuss the performance of the Registration Department under revenue head '0030' and cases detected in the course of local audit during the last 10 years and also the cases included in the Audit Reports for the years 2004-05 to 2013-14.

4.7.1 Position of Inspection Reports

The summarised position of the IRs issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2015 are tabulated in **Table 4.7.1**.

Table 4.7.1: Position of Inspection Reports

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance		
	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value
2005-06	58	166	1.17	2	13	0.01	3	22	0.01	57	157	1.17
2006-07	57	157	1.17	8	18	0.11	7	28	0.10	58	147	1.18
2007-08	58	147	1.18	5	13	0.39	3	12	0.17	60	148	1.40
2008-09	60	148	1.40	6	15	0.43	9	13	0.10	57	150	1.73
2009-10	57	150	1.73	7	16	0.21	2	8	0.02	62	158	1.92
2010-11	62	158	1.92	8	38	1.14	3	9	0.03	67	187	3.03
2011-12	67	187	3.03	1	5	0.04	9	36	0.36	59	156	2.71
2012-13	59	156	2.71	5	15	0.09	0	7	0.29	64	164	2.51
2013-14	64	164	2.51	7	14	0.06	4	13	0.03	67	165	2.54
2014-15	67	165	2.54	5	28	1.92	2	5	0.01	70	188	4.45

(Source: As per data maintained in the office of the AG (E&RSA), Tamil Nadu)

As against 58 IRs involving 166 paragraphs which were pending at the beginning of 2005-06, the number at the end of 2014-15 had increased to 70 IRs involving 188 paragraphs.

4.7.2 Recovery of accepted cases

During the last 10 years, six draft paragraphs, including one Performance Audit involving ₹ 8.46 crore, were included in the Revenue Receipts Chapter of the Report of the Comptroller and Auditor General of India, Government of the Union Territory of Puducherry. The Department accepted five audit observations involving ₹ one crore and recovered ₹ 3.36 lakh as of March 2015.

It is evident from the above that the progress of recovery even in accepted cases was very slow throughout, during the last ten years. The recovery of accepted cases was to be pursued, as arrears recoverable from the concerned parties.

4.7.3 Action taken on the recommendations accepted by the Department/Government

The draft Performance Audits are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These Performance Audits are also discussed in Exit Conference. The Department's/Government's views are considered while finalising the Performance Audits for the Audit Reports.

A Performance Audit on “Stamp Duty and Registration Fee” was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2011. Three recommendations, *viz.*, maintaining a consolidated data of revenue earned and foregone for effective control, introducing internal audit system/internal audit wing and ensuring registration of compulsorily registerable documents, were made. The Government accepted the audit recommendations and stated that the points under the recommendations would be followed in future.

4.8 Audit planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations, nature/volume of transactions, etc. The Annual Audit Plan is prepared on the basis of risk analysis which, *inter-alia*, includes statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during the past five years, etc.

During the year 2014-15, the audit universe comprised 33 auditable units. Eleven units were planned and audited during the year 2014-15, *i.e.*, 33.33 *per cent* of the total auditable units.

4.9 Results of audit

Test check of the records of sales tax, state excise, stamp duty and registration fees and taxes on vehicles conducted during the year 2014-15 revealed under-assessment/short levy/loss of revenue amounting to

₹ 57.17 crore in 85 audit observations. During the course of the year, the Departments accepted and recovered ₹ 3.42 lakh in nine audit observations, of which ₹ 2.34 lakh pertaining to two cases were pointed out during the year and the rest in earlier years.

4.10 Coverage of this Chapter

This Chapter contains a Performance Audit on 'Functioning of the Excise Department' and five paragraphs on 'Sales Tax and Stamp Duty and Registration Fee', involving money value of ₹ 32.09 crore. The Departments/Government accepted audit observations, involving ₹ 2.98 crore, of which ₹ 62.77 lakh had been recovered by the Departments.

EXCISE DEPARTMENT

4.11 Performance Audit on 'Functioning of the Excise Department'

Highlights

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.

(Paragraph 4.11.9.2)

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

(Paragraph 4.11.10.2)

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

(Paragraph 4.11.10.4)

4.11.1 Introduction

The Seventh Schedule to the Constitution of India empowers the State Government to levy excise duty (ED) on alcoholic liquors for human consumption, on opium, Indian hemp and other narcotic drugs

manufactured or produced in the State. State excise is the second largest tax revenue of the Union Territory of Puducherry (UT) and it contributed 27 per cent to the total tax revenue of the UT in 2013-14. The excise revenue consists of duties of excise levied and collected on the quantity of any excisable article produced or manufactured in or issued from a distillery, brewery and warehouse or imported into the UT. The revenue also consists of fees, which are collected by the Department, viz., licence fee, import fee, administrative service fee, label fee and the monthly rental to run *arrack*¹ shops, which is being collected as *kist*². The levy and collection of excise revenue is governed by the Puducherry Excise Act, 1970 (PE Act) and the Puducherry Excise Rules, 1970 (PE Rules). The PE Act provides for a uniform law relating to regulation of production, manufacture, possession, import, export, transport, purchase and sale of liquor and intoxicating drugs and the levy of duties of excise thereon in the UT.

4.11.2 Organisational Set up

The Excise Department functions under the control of the Excise Commissioner, who is also Secretary (Excise). The Excise Commissioner is assisted by the Deputy Commissioner (Excise), Puducherry at Headquarters and the Deputy Collectors of outlying regions of Karaikal, Mahe and Yanam, who are notified as Deputy Commissioners (Excise) in respect of their regions. They are assisted by Tahsildars and Deputy Tahsildars in collection of excise revenue. Besides, each distillery has an Excise Supervisory Officer.

4.11.3 Audit Objectives

Audit aimed to assess whether:

- terms and conditions for the grant / renewal of licences were adhered to;
- provisions and system for regulating levy and collection of excise duty / additional excise duty / import fee / export fee and other levies were adequate and complied with;
- provision and system of leasing out the *arrack* shops and the terms and conditions prescribed in this regard were adequate and transparent; and
- adequate internal control mechanism was in existence.

4.11.4 Audit Criteria

The audit criteria are derived from the following:

- The Puducherry Excise Act, 1970

¹ Country liquor (Distilled alcoholic drink made from the fermented sugarcane)

² Monthly rent paid by the arrack shops

- The Puducherry Excise Rules, 1970
- Notifications/Orders issued by the Government.

4.11.5 Scope of Performance Audit

For the Performance Audit, records pertaining to the period from 2009-10 to 2013-14 were examined in the Offices of the Deputy Commissioners of Excise, Puducherry, Mahe, Karaikal and Yanam alongwith all its distilleries³ and one brewery⁴, between August 2014 and January 2015.

An Entry Conference was held in November 2014 during which the Department was apprised of the objectives, scope and methodology of audit. The audit observations were reported to the Government in March / April 2015. The draft Performance Audit report was discussed with the Secretary, Excise Department in the Exit Conference held in November 2015. The views expressed during the Exit Conference and replies furnished by the Department have been considered and incorporated in the relevant paragraphs of the report.

4.11.6 Acknowledgment

The Indian Audit and Accounts Department acknowledges the co-operation of the Excise Department in providing the necessary information and records to Audit.

4.11.7 Trend of revenue receipts

The actual receipts from State excise during the years 2009-10 to 2013-14, alongwith the total tax receipts during the same period, is exhibited in the following table.

³ Deekay Exports Ltd., Khoday Distilleries, Premier Distilleries Ltd., Puducherry Distilleries Ltd., Ravikumar Distilleries, United Spirits Ltd. and Vinbros and Company

⁴ SAB Miller (Previously SKOL Breweries)

Table 4.11.7

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation Excess(+)/ Shortfall(-)	Percentage of variation (Col.4 to 2)	Total tax receipts of the UT	Percentage of actual receipts vis-à-vis total tax receipts (Col.3 to 6)
1	2	3	4	5	6	7
2009-10	300.00	329.06	(+) 29.06	(+) 9.69	867.74	37.92
2010-11	475.00	378.55	(-) 96.45	(-) 20.31	1,074.47	35.23
2011-12	778.00	447.27	(-) 330.73	(-) 42.51	1,329.43	33.64
2012-13	688.49	503.98	(-) 184.51	(-) 26.80	1,917.22	26.29
2013-14	620.00	511.72	(-) 108.28	(-) 17.46	1,904.51	26.87

(Source: Finance Accounts of the UT)

While the actual receipts had steadily increased from 2009-10 to 2013-14, the percentage of revenue from State excise to the total tax receipts of the UT had decreased from 38 *per cent* during 2009-10 to 27 *per cent* during 2013-14. The variations between the budget estimates and the actual receipts during the period from 2009-10 to 2013-14 ranged between 10 and 43 *per cent*, indicating that budget estimates were not formulated in a realistic manner, keeping in view the actual revenue realised in the preceding years. The incorrect methodology adopted for fixing the targets based on the budget estimate of the previous year was pointed out in the Audit Report of the Comptroller and Auditor General of India for the year ended 31 March 2009 on Government of the UT of Puducherry. Though the Government accepted the audit observation, the same methodology was followed for fixing the target during the review period. Further, Audit observed that the rates of duty raised in January 2012 were reduced by the Government in August 2013 and this also contributed to the decrease in actual receipts.

Audit Findings

4.11.8 Licensing

The Department issues licences for distillation of alcoholic drinks. The licence is valid for a period of one year. It is renewed every year on collection of annual licence fee based on the production capacity of distillery. The application for renewal of licence should be made at least one month before the expiry of the licence already granted.

4.11.8.1 Short collection of licence fee

Rule 28 of the PE Rules provides that the fee for grant of licence or for renewal of licence in respect of distilleries having production capacity of

upto five lakh cases⁵ per year shall be ₹ 1.25 lakh per year and for every additional capacity of one lakh cases or part thereof in excess of five lakh cases in a year, the fee shall be ₹ 0.75 lakh.

Audit scrutiny of the records relating to renewal of licence in the office of the Deputy Commissioner of Excise, Puducherry revealed that a distillery while submitting application for renewal of licence, had mentioned therein that the production had been increased from 50,000 litres to 75,000 litres per day. The Deputy Commissioner of Excise, Puducherry, while renewing the licence of the distillery for the years 2011-12 to 2014-15, however, calculated the amount of licence fee by adopting the production capacity of 50,000 litres per day instead of the enhanced production capacity of 75,000 litres per day. This resulted in short collection of licence fee of ₹ 26.25 lakh, as mentioned in **Appendix 4.1**.

On being pointed out (September 2014), the Department stated (November 2015) that demand notice had been issued to the distillery and collection particulars would be furnished in due course. The amount, however, was not collected as of January 2016.

4.11.8.2 Renewal of licences without collecting excise arrears

The circular issued by the Department provides that the application for renewal of licence, *inter alia*, be accompanied by “no due certificate” obtained from the Commercial Taxes Department and a copy of trade licence issued by the local authority, though levy of sales tax on alcoholic liquors was withdrawn with effect from July 2007.

Audit scrutiny of the records relating to renewal of licences in the Office of the Deputy Commissioner of Excise, Puducherry revealed that three distilleries were in arrears of excise revenue of ₹ 32.39 lakh relating to non-payment of establishment charges since 2009-10. The licences of these distilleries for the year 2014-15 were, however, renewed as the circular only provided that the application for renewal be accompanied by “no-due certificate” obtained from the Commercial Taxes Department.

On being pointed out (January 2015), the Department stated (November 2015) that out of ₹ 32.39 lakh, ₹ 19.19 lakh was collected and the remaining amount would be collected as expeditiously as possible. The Department further stated that the suggestion of Audit for verifying and collecting excise arrears before renewal of licence would be strictly adhered to from the licensing year 2015-16. Further, report regarding collection of the balance amount of arrears was awaited (January 2016).

⁵ Case contains liquor bottles. A case could contain (i) 9 bottles of 1,000 ml each, (ii) 12 bottles of 750 ml each, (iii) 24 bottles of 375 ml each, or (iv) 48 bottles of 180 ml each

4.11.9 Storage

Any person holding distillery or manufactory licence, brewery licence can store Indian or foreign liquor / spirit in bond after obtaining warehouse licence. Warehouse licence is granted by the Excise Commissioner on payment of security deposit fixed by the Department.

4.11.9.1 *Non-collection of security deposit on the maximum quantity of goods stored in the bonded warehouse*

According to Rule 273 of PE Rules, any person holding a wholesale liquor licence / distillery or manufactory licence / brewery licence and desiring to store in bond, Indian or foreign liquor / spirit shall make an application for a licence in that behalf to the Excise Commissioner, stating the maximum quantity of each kind of Indian or foreign liquor or spirit required to be stored in bond at any one time. The applicant was also to express his willingness to deposit the amount of security fixed by the Excise Commissioner as a guarantee for the observance of the Act, Rules and Orders made thereunder.

During test check of records in the office of the Deputy Commissioner of Excise, Puducherry, Audit noticed that in respect of four distilleries, the Department determined the amount of security by adopting the maximum quantity required to be stored in bond and the maximum rate of ED prevailing at the time of application for the years 2012-13 to 2014-15. However, in respect of two distilleries and one brewery, the amount of security demanded from the licensees did not conform to the amount of ED applicable in respect of the maximum quantity, which was required to be stored in bond. This resulted in short collection of security deposit of ₹ 1.60 crore.

After Audit pointed this out (October 2014), the Department accepted the audit observation and stated (November 2015) that the distilleries and the brewery were directed to remit the differential amount of security deposit. Further report was awaited (January 2016).

4.11.9.2 *Non-inclusion of the element of Additional Excise Duty while calculating the amount of security deposit*

The term ‘Excise Duty’ defined in Section 2(8) of the PE Act was amended in February 2012 to include ‘Additional Excise Duty’ (AED) with retrospective effect from April 2007. As the collection of security deposit acts as a guarantee for due observance of the Act, Rules and orders made thereunder, all the components of ED should be considered for determining the amount of security deposit.

During test check of records in the office of the Deputy Commissioner of Excise, Puducherry, Audit observed that the element of AED was not

considered by the Department while determining the amount of security deposit, which was required to be paid by six distilleries and one brewery in respect of excisable goods intended to be stored in bonded warehouse. This resulted in short collection of security deposit of ₹ 23.36 crore.

During the Exit Conference, the Government stated that the Excise Commissioner could relax the condition of security deposit with the approval of Government and collection of further amount as security including the component of AED would require the distilleries to deposit huge amount as security and this would cripple their business activity and defeat the efforts of the Department to mobilise revenue to the Government. The Government, however, added that suitable amendment to the PE Rules would be made for fixation of security deposit for issue of bonded warehouse licence.

The reply requires reconsideration as the term 'Excise Duty' includes 'Additional Excise Duty' and the amount of security deposit should be determined taking into consideration the element of AED as well. Further report regarding proposed amendment to the PE Rules was awaited (January 2016).

4.11.9.3 *Non-observance of Rule provisions relating to collection of security deposit*

Rule 274 of the PE Rules provides that the Excise Commissioner may grant a licence permitting the applicant to store in bond, Indian or foreign liquor/spirit at the place specified in the application, subject to the condition that the applicant deposits such amount of security, as may be fixed by the Excise Commissioner. The licence in Form BW-1, authorising storage in bond of Indian or foreign liquor/spirit prescribes that the licensee shall pay the amount of deposit into the Government Treasury or Bank.

During test check of records relating to security deposit in the office of the Deputy Commissioner of Excise, Puducherry, Audit observed that though the Rules provide for deposit of the amount of security into the Government Treasury or Bank by the licensees, the Department accepted bank guarantees and fixed deposit receipts for the amount of security of ₹ 5.33 crore.

During the Exit Conference, the Government agreed with the audit observation that the conditions for issue of licence require payment of security deposit in cash. It further stated that action would be initiated to amend the provision to expressly stipulate payment of security deposit in the form of bank guarantee as it would not be practicable to collect huge amount of security deposit in cash. Further report was awaited (January 2016).

4.11.10 Clearance

All the finished goods are stored in the bonded warehouse of the manufacturer. The FL1 licensees (the wholesalers) after getting the transport permit from the Department lift the required quantity of IMFL from the bonded warehouse of the manufacturers. At the time of issuing IMFL, the manufacturer pays ED and AED on the quantity issued at prescribed slab rates. The slab rates are fixed based on the ‘declared price’ of the product.

4.11.10.1 *Loss of revenue due to introduction of Additional Excise Duty in lieu of sales tax in respect of high value imported brands*

The Government of Puducherry abolished sales tax on IMFL and beer with effect from April 2007 and to compensate the resultant loss of revenue, introduced the levy of AED. It was envisaged that there would be no advantage to the importers on introduction of AED in lieu of sales tax. Upto 1 January 2012, the maximum rate of AED was ₹ 149 per case in respect of declared price of ₹ 2,000 and above. During the period 2 January 2012 and 20 August 2013, the maximum rate was ₹ 334 per case in respect of declared price of ₹ 6,000 and above. With effect from 21 August 2013, the maximum rate was ₹ 181 per case in respect of declared price of ₹ 2,000 and above. Before introduction of levy of AED, sales tax was being paid at the rate of 35 per cent on the selling price of IMFL.

Audit scrutiny of the records relating to collection of AED revealed that in respect of 101 high value imported brands of IMFL, the amount collected towards AED during the years 2012-13 and 2013-14 was less than the amount that the Government would have realised by levy of sales tax. Such short realisation of revenue worked out to ₹ 1.67 crore. The amount realised by the Government through AED had actually decreased during the period from 2012-13 to 2014-15. As against AED of ₹ 2,615 realised per case of imported liquor during 2012-13, the amount realised during 2014-15 was ₹ 1,600. This was due to fixation of the rate of AED at the maximum slab at specific rate per case, irrespective of the value of imported liquor. It is, therefore, recommended that in respect of maximum slab, AED be fixed at specific rate or at a prescribed percentage of the ‘declared price’ of the imported liquor as is being followed in the State of Karnataka, on the lines of which, the levy of AED was proposed in the UT of Puducherry.

During the Exit Conference, the Government stated that the sales volume increased after introduction of AED, due to higher volume of consumption of high valued brands and there was no loss of revenue to Government.

The reply of the Government requires reconsideration because the fixation of the rate of AED at the maximum slab at specific rate per case, irrespective of the value of imported liquor had only benefited the importers, though the proposal for abolishing sales tax and introduction of AED specifically envisaged that there would be no advantage to the importers on introduction of AED in lieu of sales tax.

4.11.10.2 Non-verification of correctness of 'declared price' furnished by the licensees

Levy of ED and AED is based on the declared price of liquor. The Government notified in January 2012 that the term 'declared price' means ex-factory price declared by the manufacturer or wholesale licensee including his profit margin but excluding ED, AED or countervailing duty or additional countervailing duty. In the case of imported liquor, the Notification prescribed that the term 'declared price' shall also include the import fee, Central Sales Tax, handling charges and profit margin of wholesale licensee. Accordingly, the Department prescribed (January 2012) the format for submission of declared price indicating the profit margin separately in respect of local manufacturer as well as importers and also issued instructions for revising the declared price suitably every year after absorbing the increase in the cost of components involved in the manufacture of liquor.

Scrutiny of records (January 2015) relating to furnishing of cost statements in the office of the Deputy Commissioner (Excise), Puducherry revealed the following:

- Out of six distilleries, two distilleries furnished 'declared price' without break-up and without indicating the profit margin separately, while one distillery stated that furnishing of 'declared price' with break-up would be to the competitor's advantage.
- Out of 456 brands of imported liquor, in respect of 8 imported brands, the cost statements were submitted by the licensees without inclusion of wholesale profit margin, while in respect of 257 brands cost statements were not made available.

As a result, the inclusion of wholesale profit margin in the declared price and consequent levy of ED and AED at correct slab rates could not be ensured.

Audit observed that in all the cases, the Department accepted the price declared by the licensees and did not call for component-wise break-up details, to ensure that the element of wholesale profit margin was included therein.

During test check of records in four offices, Audit noticed from the cost statements furnished by the licensees that the wholesale profit margin was

not included in the ‘declared price’ of eight imported brands of liquor. The omission to include the wholesale profit margin in the ‘declared price’ resulted in short collection of AED of ₹ 3.49 crore in respect of 7.69 lakh bulk litres imported during the years 2012-13 and 2013-14.

Audit further noticed that the Department did not have any mechanism to ensure the correctness of the price declared in respect of each brand for the purpose of levy of ED and AED, but accepted the cost statements furnished by the licensees. In view of the difficulties faced by the Department in obtaining break-up details of the price declared by the licensees, it is recommended that ‘declared price’ be linked to the maximum retail price (MRP) of the product, after allowing certain abatements, as is being followed for the purpose of levy of central excise duty on MRP based articles. This would facilitate the Department in having effective control on levy and collection of duties without leakage of revenue.

During the Exit Conference, the Government stated that while formulating the rate of AED, the profit margin of the wholesale dealer was also taken into account and thus, AED was already being paid by the wholesale dealers on the profit margin. The reply is not acceptable as levy of AED was introduced in the year 2007 and if AED was already being paid by the dealers inclusive of the profit margin, then the notification of ‘declared price’ as specifically being inclusive of wholesale profit margin would not have been issued.

The Government, however, agreed that the suggestion of Audit to implement the levy of duty based on MRP of the product would be examined and suitable decision would be taken or in the alternative, the definition of the term ‘declared price’ would be re-examined and suitable amendment would be considered.

4.11.10.3 *Incorrect reduction of slab rates of Excise Duty and Additional Excise Duty in respect of alcoholic beverages other than wine*

According to Section 21 of the PE Act, Government may levy duty on any excisable articles manufactured or produced in the UT or elsewhere in India and imported to the UT, under any licence or permit granted under this Act at such rates as may be specified in the Notification. The rates of ED and AED in respect of wine, cider, *perrys*⁶ and alcoholic beverages not exceeding 24 *per cent* v/v (volume/volume) alcohol were reduced by a Notification⁷ issued in August 2013.

Audit scrutiny of the files relevant to the reduction in rates of ED and AED in the office of the Deputy Commissioner (Excise), Puducherry, however,

⁶ *Perrys* is an alcoholic beverage, made from fermented pears, similar to the way cider is made from apples

⁷ Notification No 4764/DCE/S1/2013 dated 21 August 2013

revealed that a separate duty structure for wine was approved by Government (August 2013) on the ground that wine is a drink with lower alcoholic content obtained from fermented juice of ripe grapes or other fruits and less levy was desirable in order to encourage consumers to use more of a lower alcoholic product than consuming higher alcoholic products, considering the health of citizens. However, the Notification issued in this regard also mentioned alcoholic beverages not exceeding 24 *per cent* v/v alcohol, which was not included in the proposal sent to the Government. Audit noticed that based on the Notification, duty was levied at reduced rates in respect of 24 alcoholic beverages other than wine during the period from August 2013 to March 2014. This resulted in short realisation of revenue of ₹ 37.39 lakh.

During the Exit Conference, the Government stated that in August 2015, it granted approval for upward revision of rates of duty for a separate category of wine and lower alcoholic beverages not exceeding 24 *per cent* v/v alcohol, which may be construed as *post-facto* approval of the Government for the categorisation of wine and lower alcoholic beverages not exceeding 24 *per cent* v/v alcohol.

The reply is not acceptable as the original proposal for reduction in rates of ED and AED was forwarded in respect of wine alone and thus, extension of reduction in rates of duty to alcoholic beverages other than wine was not in order.

4.11.10.4 Short collection of Excise Duty and Additional Excise Duty

According to Section 21(1) of the PE Act, the Government may levy Excise Duty on any excisable article manufactured or produced in the UT under any licence or permit granted under this Act at such rates as may be specified in the Notification. According to Section 21(2) of the PE Act, the Government may levy countervailing duty on any excisable article manufactured or produced elsewhere in India and imported into the UT under a licence or permit granted under this Act. Government of Puducherry revised⁸ the ED and AED payable on Indian Made Foreign Liquor (IMFL) and beer with effect from 2 January 2012.

Audit noticed (October 2014) from the records relating to permit issued for transport of intoxicants in six offices of the Excise Supervisory Officer coming under the jurisdiction of Deputy Commissioner of Excise, Puducherry, that IMFL was despatched through transport passes subsequent to the date of revision of ED and AED under permits issued prior to such revision. Similarly, Audit noticed from the import permit register and connected records of the Deputy Commissioner of Excise, Mahe, that import of IMFL was made subsequent to the date of revision of

⁸ Notification No. 4764/DCE/SI/2011(1) dated 2 January 2012, issued by the Department of Revenue and Disaster Management, Government of Puducherry

ED and AED under permits issued prior to such revision. ED and AED of ₹ 238.45 lakh was collected at pre-revised rates as against ₹ 314.88 lakh. This resulted in short collection of ED and AED of ₹ 76.43 lakh.

After Audit pointed this out (October and November 2014), the Department stated (July 2015) that one distillery had remitted ₹ 36.16 lakh in January 2015 and in respect of Mahe, demand notices were issued. Further report was awaited (January 2016).

4.11.11 System of leasing of Arrack Shops

The right of retail vending of *arrack* is auctioned every year by the Government through internet. The lease period is from 1 July to 30 June of the subsequent year. The bid amount is based on the annual *kist* amount of a particular shop. The person whose bid is accepted shall furnish security deposit equal to five months bid amount within 15 days from the date of communication of order and shall also mortgage by deposit of title deeds for value not less than the annual *kist* to be paid by him, the property offered as security towards lease amount due to Government.

4.11.11.1 Absence of penal provision for non-lifting of minimum guaranteed quantity of arrack

As per Rule 178A (1) of the PE Rules, no licensee shall purchase *arrack* from the Government Distillery less than the minimum guaranteed quantity specified by the Excise Commissioner in the notification issued under Rule 144.

Observation was made in Para 4.9.8 of the Audit Report of the Comptroller and Auditor General of India for the year ended 31 March 2009 on Government of the UT of Puducherry regarding absence of provisions for levy of penalty for non-lifting the minimum guaranteed quantity of *arrack*. The Government accepted (October 2009) the audit observation and stated that a provision for levy of penalty for non-lifting of minimum guaranteed quantity of *arrack* would be incorporated in the PE Rules. However, necessary provisions have not been incorporated in the PE Rules even after six years.

During scrutiny of records relating to lifting of *arrack* for retail sale during the period from 2009-10 to 2013-14, Audit noticed that as against the total contracted quantity of 22.43 crore bulk litres of *arrack*, only 11.45 crore bulk litres were lifted, leaving a balance of 10.98 crore bulk litres. However, in the absence of enabling provisions in the Rules, no action was taken by the Department.

After Audit pointed this out (October 2014), the Department stated (November 2015) that proposal for amendment of PE Rules and for levy of penalty for non-lifting of prescribed minimum guaranteed quantity was submitted to the Government. Further report was awaited (January 2016).

4.11.11.2 Accumulation of kist arrears in respect of arrack shop lease

Rule 156 of the PE Rules provides that the lessee shall remit security deposit equal to five months bid amount besides one month advance *kist*. Rule 201 of the PE Rules provides that the lessee shall pay monthly *kist* in advance on or before the last working day of the preceding month. The security deposit paid in cash shall be adjusted towards the *kist* for the last five months. Rule 201(4) of the PE Rules provides that the arrears of monthly *kist* and loss accrued to the Government shall be recovered under the provisions of the Puducherry Revenue Recovery Act, 1970.

As per the details furnished by the Deputy Commissioner (Excise), Puducherry, ₹ 47.71 crore was pending for collection as on 31 March 2015 towards *kist* arrears from 466 defaulters. The age-wise pendency of arrears, as furnished by the Department, is given below:

Table 4.11.11.2

Period of Pendency	Number of cases	Amount of arrears (₹ in lakh)
Above 25 years	67	94.66
15 to 25 years	120	641.90
10 to 15 years	13	93.68
5 to 10 years	31	207.40
Less than 5 years	235	3,733.26
Total	466	4,770.90

Audit further observed from the records that though cases involving *kist* arrears were forwarded to the revenue authorities for recovery, the amount of *kist* arrears was not recovered by auctioning the mortgaged property even in a single case. Audit, therefore, recommended that besides collection of one month's advance *kist* amount, *kist* amount for the remaining 11 months may be collected from the lessee as security deposit, as against the existing practice of collection of five months' *kist* amount as security.

During the Exit Conference, the Government accepted the suggestion for collecting the entire *kist* amount as security deposit and stated (November 2015) that necessary amendment to the provisions of PE Rules would be made. Further report was awaited (January 2016).

4.11.12 Other Audit observations

4.11.12.1 Non-collection of administrative service fee

As per Rule 58 read with Rule 59, of the PE Rules, permit is granted on an application to any person desiring to possess and use Rectified Spirit (RS) (includes absolute alcohol as per Rule 57(b)) for any *bona fide* medicinal, industrial, scientific, educational or any other similar purpose. As per Rule 65, no permit holder shall use RS for industrial purposes except on the recommendation of the Director of Industry or such other officer as may be authorised by the Government. The licensee shall be liable to pay administrative service fee (ASF) of ₹ one per bulk litre of RS brought to licensed premises for industrial purposes.

Audit observed from the Register of Licence maintained in the office of the Deputy Commissioner (Excise), Puducherry that three firms holding permit for the possession and use of RS, brought 8.40 lakh bulk litres of Extra Neutral Alcohol (ENA) to the licensed premises during the period from 2009-10 to 2013-14 for industrial purposes. However, ASF of ₹ 8.40 lakh was not collected.

During the Exit Conference, the Government stated that the suggestion of Audit would be examined after collecting particulars of other States for adopting a similar stand. Further reply was awaited (January 2016).

4.11.12.2 Non-fixation of fee for examination of samples

Rule 104 of the PE Rules provides that the licensee shall pay such fees, as fixed by the Excise Commissioner for the examination of the sample of liquor sent for chemical examination.

During scrutiny of records relating to chemical examination of samples in the office of the Deputy Commissioner (Excise), Puducherry, Audit observed that the amount of sample fee had not been fixed and the licensees were paying fee of ₹ 50 per sample, which is applicable for analysis of food under the Pondicherry Prevention of Food Adulteration Rules, 1970. In the neighbouring State of Tamil Nadu, fee of ₹ 4,000 per sample was being collected for chemical examination.

During the Exit Conference, the Government stated that suitable amount of fee for chemical analysis of samples sent by the distilleries/brewery would be fixed and necessary orders in this regard would be issued. Further report was awaited (January 2016).

4.11.13 Internal control mechanism

4.11.13.1 Absence of an effective internal audit system

The internal audit wing was established in the Department in the year 2003, consisting of one revenue officer and one lower division clerk. However, the post of revenue officer was lying vacant since October 2012. Further, no manual has been prescribed for conduct of internal audit. Even though, it was informed that 12 objections without money value were raised by the Internal Audit Wing during the years 2009-10 to 2013-14, details regarding number of units audited, objections raised and follow-up action taken to rectify the defects/omissions were not available with the Department.

During Exit Conference, the Government accepted the audit observations and stated that the internal audit system would be effectively implemented hereafter. Further report was awaited (January 2016).

4.11.14 Conclusion

Performance Audit on Functioning of the Excise Department revealed several systemic deficiencies that affected the efficiency and effectiveness of levy and collection of revenue. There was an absence of system for verification of the correctness of declared price furnished by the licensees. Licences of distilleries were renewed without collecting the arrears due from them. There was non/short collection of the amount of security deposit in respect of grant of licences for storage of goods in bonded warehouses. Provisions for levy of penalty for non-lifting of minimum guaranteed quantity of *arrack* were not made in the PE Rules. Reduction of rates of duty was granted without the approval of the Government and the internal control mechanism was inadequate.

4.11.15 Recommendations

The Government/Department may consider

- Fixing of norms/guidelines to govern the determination of the amount of security deposit for grant of licence to store goods in bonded warehouse.
- Introduction of the concept of MRP based levy of ED and AED to rationalise the levy of duties.
- Inclusion of provisions in the PE Rules to provide for levy of penalty for non-lifting of minimum guaranteed quantity of *arrack* and for collection of security deposit equal to twelve months' *kist* amount to avoid huge *kist* arrears.

COMMERCIAL TAXES DEPARTMENT

CENTRAL SALES TAX

4.12 Application of incorrect rate of tax

As per Section 14 of the Puducherry Value Added Tax Act, 2007 (PVAT Act), tax shall be paid by a registered dealer on the taxable turnover in each tax period at the rate and at the point as specified in the Schedules.

Goods not specified elsewhere in any of the Schedules are taxable at the rate of 12.5 *per cent* at each point of sale as per Sl.No.1 of Part A of the Fourth Schedule to the PVAT Act. Air Circuit Breakers, not specified elsewhere in any of the Schedules, is therefore taxable at the rate of 12.5 *per cent* at the point of sale.

As per Section 8(2) of the Central Sales Tax Act, 1956 (CST Act), interstate sale of goods not covered by valid declarations in Form ‘C’ is assessable to tax at the local rate applicable to sale of such goods inside the State.

During test check of records in Industrial Assessment Circle, Puducherry, Audit noticed (March 2015) that the assessing authority (AA), while finalising the assessments of a dealer under the CST Act for the years 2007-08 and 2008-09, assessed (March 2014) the interstate sales of Air Circuit Breakers, not covered by declarations in Form ‘C’, amounting to ₹ 2.43 crore at the rate of 4 *per cent* instead of at the applicable rate of 12.5 *per cent*. The application of incorrect rate of tax resulted in short levy of tax of ₹ 20.69 lakh.

After Audit pointed this out (March 2015), the AA revised the assessments in September 2015 and recovered ₹ 20.69 lakh.

REVENUE DEPARTMENT

STAMP DUTY AND REGISTRATION FEE

4.13 Non-realisation of Stamp Duty and Transfer Duty

The Government of Puducherry granted⁹ remission of 50 *per cent* of stamp duty and transfer duty to the women member(s) who acquire property through deed of sale, exchange or gift in their names subject to the

⁹ Notification No.8834/Rev-C3/2004 dated 17 December 2004 of the Revenue Department, Puducherry and G.O. Ms No 59/LAS/2004 dated 28 December 2004 of Local Administration, Secretariat, Puducherry

conditions that they shall not alienate such property in favour of any male member, either individually or jointly by any means including power of attorney for a period of five years from the date of registration. However, woman beneficiary may alienate such property within a period of five years after remittance of the remaining 50 *per cent* of stamp duty. The Chief Controlling Revenue Authority-cum-Inspector General of Registration instructed (December 2004) that the beneficiary who availed concession is barred from creating/executing any instrument except mortgage to Government/nationalised banks/registered co-operative societies, within five years from the date of registration.

During test check of documents in Sub-Registry, Villianur, Audit noticed (January 2015) that land valued at ₹ 1.33 crore originally purchased through three conveyance deeds in October 2009 and in respect of which concession of 50 *per cent* reduction in stamp duty and transfer duty was availed by a woman member, were gifted within a period of five years to an educational trust represented by its chairman, a male, through a gift deed executed and registered in February 2013. The Registering Officer (RO), while registering the gift deed, however, failed to recover the concession amount of ₹ 6.63 lakh already availed by the beneficiary, though the conditions of concession of remission were not fulfilled. This resulted in non-realisation of revenue of ₹ 6.63 lakh.

Audit pointed this out to the Department in February 2015 and to the Government in July 2015. Reply was awaited (January 2016).

4.14 Short collection of Stamp Duty and Registration Fee

As per Article 23 of Schedule I to the Indian Stamp Act, 1899 (IS Act) in the case of conveyance of immovable property, stamp duty shall be charged at the rate of 10 *per cent* including surcharge on the market value of the property conveyed. As per Article 18 in the case of certificate of sale granted to the purchaser of any property sold by public auction by a Civil or Revenue Court or Collector or other Revenue Officer, the stamp duty is leviable at the same rate as applicable to conveyance. As per Table of Fees prepared under Section 78 of the Registration Act, 1908 the registration fee is leviable at the rate of ₹ 145 for first ₹ 10,000 and ₹ five for each ₹ 1,000 of the value of the property conveyed.

Test check of records (January/February 2015) in Sub-Registries, Thirunallar and Oulgaret revealed short collection of stamp duty and registration fees of ₹ 7.93 lakh as detailed below:

- During test check of records in Sub-Registry, Thirunallar, Audit observed (February 2015) that the Court of Additional District Judge of

Puducherry at Karaikal, on a suit filed for specific performance of the sale agreement entered into in October 2008 to convey land measuring 45 Ares (48,437.60 sq.ft.) for a consideration of ₹ 1.20 lakh, passed a decree in March 2010 directing to execute the sale deed in favour of the purchaser. Accordingly, the District Judge executed the sale deed on behalf of the defendants and the same was registered in April 2012. Stamp duty and registration fee, leviable on the guideline value of the property of ₹ 48.42 lakh was ₹ 5.09 lakh against which RO collected ₹ 0.22 lakh. The omission to collect the stamp duty and registration fee on the guideline value resulted in short collection of stamp duty and registration fee of ₹ 4.87 lakh.

- During test check of records in Sub-Registry, Oulgaret, Audit observed (January 2015) from a deed executed and registered as certificate of sale in December 2013 that the authorised officer of a bank sold by public auction, a house site measuring 3,600 square feet valued at ₹ 61.20 lakh, for a consideration of ₹ 55.30 lakh. Accordingly, stamp duty and surcharge of ₹ 6.12 lakh was required to be collected at the rate of 10 *per cent* on the value of the property conveyed as against ₹ 3.06 lakh collected by the Department. This resulted in short collection of stamp duty of ₹ 3.06 lakh.

After Audit pointed this out, the Department replied (July and August 2015) that notices were sent to the parties concerned to pay the differential stamp duty and registration fee. Collection particulars were awaited (January 2016).

Audit reported the matter to the Government in July 2015. Reply was awaited (January 2016).

4.15 Misclassification of instrument

As per Article 33 of Schedule I to the IS Act, in the case of gift deed, stamp duty shall be charged at the rate of 10 *per cent* including transfer duty surcharge on the market value of the property. As per Table of Fees prepared under Section 78 of the Registration Act, 1908 registration fee at the rate of 0.5 *per cent* is also leviable thereon.

During test check of documents in Sub-Registry, Thirunallar, Audit noticed (February 2015) that through a deed of declaration executed and registered in August 2012, land measuring 53.47 Ares (57,554.63 sq.ft.) with building in Nallazhundur village was gifted by creating an irrevocable endowment by a Society in favour of a College. As the document was a gift deed, stamp duty and registration fee of ₹ 6.71 lakh was required to be collected on the guideline value of the land of ₹ 63.93 lakh (excluding the

value of building, which was to be ascertained by the Department). As against this, RO collected stamp duty and registration fee of ₹ 170. This resulted in short collection of stamp duty and registration fee of ₹ 6.71 lakh.

Audit pointed this out to the Department in February 2015 and to the Government in July 2015. Reply was awaited (January 2016).

4.16 Excess allocation of Transfer Duty Surcharge

According to Section 158 and 159 of Puducherry Municipalities Act, 1973 and Section 149 of the Puducherry Village and Commune Panchayat Act, 1973, a transfer duty in the form of surcharge alongwith the duty imposed by the IS Act is collected on the instrument of sale, exchange, gift etc. The surcharge is leviable at the rate of five *per cent* of the market value of the property. The surcharge so collected is required to be allocated to the local bodies.

During test check of documents and statement of transfer duty surcharge in District Registry, Puducherry and Sub-Registry, Thirunallar (February 2015), Audit noticed that though a sum of ₹ 6.02 lakh was actually collected towards transfer duty surcharge, the Department allocated ₹ 12.92 lakh to local bodies in respect of three instruments of sale. This resulted in excess allocation of transfer duty surcharge of ₹ 6.90 lakh to local bodies out of the revenue due to the Government.

After Audit pointed this out in March 2015, the Department, in respect of District Registrar, Puducherry, replied (August 2015) that the excess allocation of transfer duty surcharge of ₹ 5.92 lakh was deducted during the month of July 2015 and the same was credited to the Government account. No reply was received in respect of the remaining case.

Audit reported the matter to the Government in July 2015. Reply was awaited (January 2016).

CHAPTER V
GOVERNMENT COMMERCIAL
AND
TRADING ACTIVITIES

CHAPTER V

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 Overview of Union Territory of Puducherry Public Sector Undertakings

Introduction

5.1.1 The Union Territory (UT) Public Sector Undertakings (PSUs) consist of only Government companies. The UT PSUs are established to carry out activities of commercial nature, while keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2015, in UT of Puducherry, there were 12 working Government companies and one non-working Government Company. None of the working Government companies were listed on the stock exchange. The details of the PSUs in UT of Puducherry as on 31 March 2015 are given below.

Table 5.1.1: Total number of PSUs as on 31 March 2015

Type of PSUs	Working PSUs	Non-working PSUs ¹	Total
Government Companies ²	12	1	13
Total	12	1	13

(Source: Details collected from the Government)

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.

Since 2011-12, Pondicherry Electronics Limited is the only non-working PSU in UT of Puducherry. The assets and liabilities of this PSU were taken over by its holding Company (Pondicherry Industrial Promotion Development and Investment Corporation Limited) and the PSU is in the process of getting its name struck off from the Register of Companies.

¹ Non-working PSUs are those which have ceased to carry on their operations

² Government PSUs include companies referred to in Section 139 (5) and 139 (7) of the Companies Act, 2013

Accountability framework

5.1.2 The process of audit of Government companies is governed by provisions of Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, “Government Company” means any Company in which not less than 51 *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a Company, which is a subsidiary Company of such a Government Company. Further, as per sub-Section 7 of Section 143 of the Act, the Comptroller and Auditor General of India (C&AG) may, in case of any Company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19 A of the C&AG’s (Duties, Power and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the C&AG. 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.

Statutory Audit

5.1.3 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.

Role of Government and Legislature

5.1.4 The UT Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The Legislature of UT also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors’ Reports and comments of the C&AG, in respect of Government companies are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of C&AG are submitted to the Government under

Section 19 A of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of UT of Puducherry

5.1.5 The UT Government's stake in PSUs is mainly of three types:

- **Share Capital and Loans:** In addition to the share capital contribution, UT Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support:** UT Government provides budgetary support by way of grants and subsidies to the PSUs, as and when required.
- **Guarantees:** UT Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

5.1.6 As on 31 March 2015, the investment (capital and long-term loans) in 12 PSUs was ₹ 735.68 crore, as per details given below:

Table 5.1.2: Total investment in PSUs

(₹ in crore)

Type of PSUs	Government Companies		
	Capital	Long-term loans	Total
Working PSUs	722.85	12.83	735.68
Total	722.85	12.83	735.68

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.

5.1.7 The sector-wise summary of investments in the UT PSUs as on 31 March 2015 is given below:

Table 5.1.3: Sector-wise investment in PSUs

(₹ in crore)

Name of the Sector	Working PSUs	Investment (in <i>per cent</i>)
Manufacturing	410.01	55.73
Finance	148.59	20.20
Power	99.78	13.56
Service	52.37	7.12
Agriculture and allied	24.93	3.39
Total	735.68	100.00

Special support and returns during the year

5.1.8 The UT Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of UT PSUs for three years ended 2014-15 are given below:

Table 5.1.4: Details of budgetary support to PSUs

(₹ in crore)

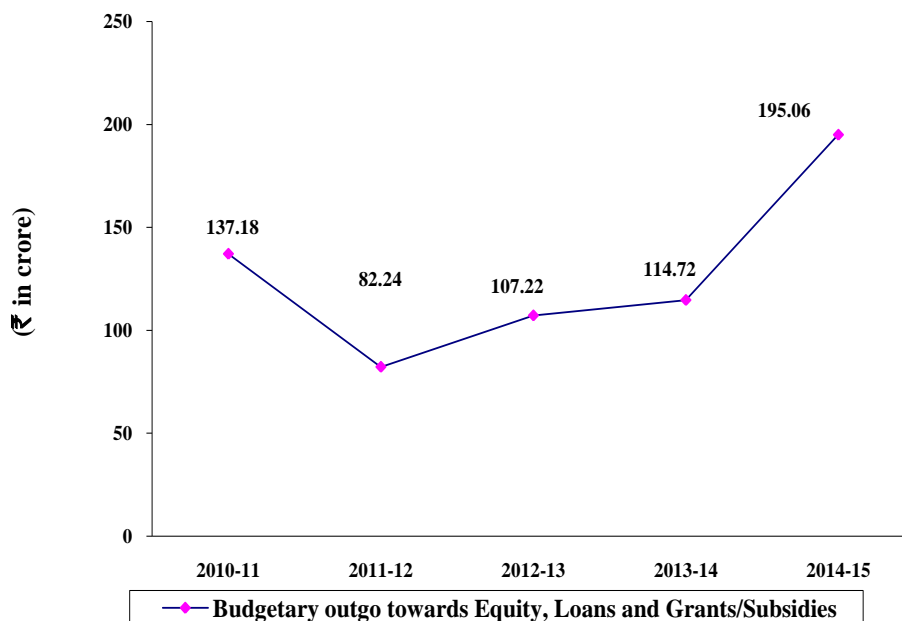
Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	1	0.25	3	3.83	3	7.96
2	Loans given from budget	---	---	---	---	---	---
3	Grants/subsidy from budget	9	106.97	7	110.89	9	187.10
4	Total outgo (1+2+3)	9³	107.22	8³	114.72	9³	195.06
5	Loans converted into equity	---	---	---	---	---	---
6	Loans written off	---	---	---	---	---	---
7	Interest/penal interest written off	---	---	---	---	---	---
8	Total waiver (6+7)	---	---	---	---	---	---
9	Guarantees issued	---	---	---	---	---	---
10	Guarantee commitment	1	3.61	1	3.30	1	3.15

(Source: Details furnished by the Companies)

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in the graph below:

³ These are the actual number of Companies, which have received budgetary support in the form of equity, loans and grants/subsidies from the UT Government during the respective years

Chart 5.1.1: Budgetary support to PSUs



5.1.9 As regards guarantee commitment, only Puducherry Adi-Dravidar Development Corporation Limited availed the guarantee from the Government of India against which ₹ 3.15 crore was outstanding as on 31 March 2015. No guarantee commission was payable to the UT Government by any UT PSU.

Reconciliation with Finance Accounts

5.1.10 The figures in respect of equity, loans and guarantees, outstanding as per records of UT PSUs, should agree with that of the figures appearing in the Finance Accounts of the UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2015 is stated below:

Table 5.1.5 : Equity and loans outstanding as per Finance Accounts vis-a-vis records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	710.61	712.58	1.97
Loans	0.94	---	0.94

(Source: Finance Accounts for 2014-15 and details furnished by the companies)

Audit observed that the differences occurred in respect of equity and loans in two PSUs⁴ and one PSU⁵ respectively. Reconciliation of difference was

⁴ Puducherry Agro Products, Food and Civil Supplies Corporation Limited and Swadeshee-Bharathee Textile Mills Limited

⁵ Puducherry Agro Products, Food and Civil Supplies Corporation Limited

pending from March 2007 in case of one PSU⁶. The Secretary to Government of UT of Puducherry, Finance Department was addressed (January 2016) and his attention was drawn to the need for reconciliation of figures in Finance Accounts and as furnished by the companies in their respective accounts. The UT Government and PSUs should take concrete steps to reconcile the differences in a time bound manner.

Arrears in finalisation of accounts

5.1.11 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e.*, by September end, in accordance with the provisions of Section 96 (1) of the Act. Failure to do so, may attract penal provisions under Section 99 of the Act.

The table below provides the details of progress made by working PSUs in finalisation of accounts as on 30 September 2015.

Table 5.1.6 : Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Number of working PSUs	13	13	13	13	12 ⁷
2	Number of accounts finalised during the year	8	17	10	3	14
3	Number of accounts in arrears	25	21	24	34	29
4	Number of working PSUs with arrears in accounts	13	12	12	13	12
5	Extent of arrears (years)	1 to 3	1 to 3	1 to 4	1 to 5	1 to 5

(Source: Details compiled by audit based on certified accounts of Companies)

It can be observed that the number of accounts in arrears had decreased from 34 in 2013-14 to 29 in 2014-15.

The administrative departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The Accountant General (AG), Economic & Revenue Sector Audit, Tamil Nadu has brought out the position of the arrears of accounts to the notice of the Secretary, Finance Department every quarter. As there were arrears in accounts in 12 working PSUs upto 2014-15, their net worth could not be assessed in Audit.

5.1.12 The UT Government had invested ₹ 168.00 crore in nine PSUs ((equity: ₹ 14.04 crore (five PSUs) and grants: ₹ 153.96 crore (nine PSUs)),

⁶ Puducherry Agro Products, Food and Civil Supplies Corporation Limited

⁷ One PSU, *viz.*, Pondicherry Electronics Limited had become a non-working Company and is under the process of winding up

during the years for which accounts have not been finalised, as detailed in **Appendix 5.1**. Due to non-finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus UT Government's investment in such PSUs remained outside the control of Legislature.

Impact of non-finalisation of accounts

5.1.13 As pointed out above (Para 5.1.10 to 5.1.12), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to GSDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the Legislature.

It is, therefore, recommended that:

- The UT Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies, which would be monitored by the cell.
- The UT Government may consider outsourcing the work relating to preparation of accounts, wherever the staff is inadequate or lacks expertise.

Performance of PSUs as per their latest finalised accounts

5.1.14 The financial position and working results of working Government companies are detailed in **Appendix 5.2**. A ratio of PSU turnover to GSDP shows the extent of PSU activities in the UT economy. Table below provides the details of working PSUs turnover and GSDP for a period of five years ending 2014-15.

Table 5.1.7 : Details of working PSUs turnover vis-a-vis GSDP

(₹ in crore)

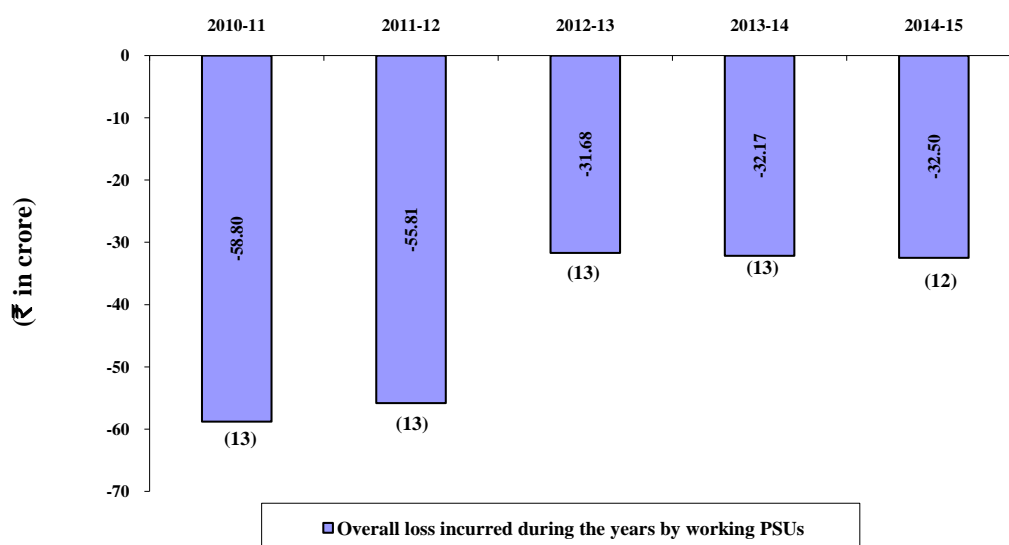
Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover	338.35	336.68	373.92	378.86	401.26
GSDP	13,092	14,661	16,768	21,061	25,819
Percentage of turnover to GSDP	2.58	2.30	2.23	1.80	1.55

(Source: Details furnished by the companies and the data on GSDP furnished by the UT Government)

Turnover of PSUs has increased continuously from 2011-12 to 2014-15 and increased by 19.18 *per cent* in 2014-15 as compared to 2011-12. Percentage of turnover of PSUs to GSDP decreased from 2010-11 to 2014-15.

5.1.15 Overall losses incurred by working PSUs of UT of Puducherry, during 2010-11 to 2014-15, as per the latest finalised accounts are given below in bar chart.

Chart 5.1.2 : Profit/Loss of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

Working PSUs of the UT collectively incurred continuous losses in all the five years ending 2014-15.

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. Two⁸ companies neither earned profit nor incurred any loss.

⁸ Puducherry Backward Classes and Minorities Development Corporation Limited and Puducherry Corporation for the Development of Women and Differently Abled Persons Limited

5.1.16 Some other key parameters of PSUs are given below:

Table 5.1.8 : Key parameters of State PSUs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on capital Employed (<i>per cent</i>)	NIL ⁹	NIL	NIL	NIL	NIL
Debt	19.59	15.35	NIL	NIL	12.83
Turnover	338.35	336.68	373.92	378.86	401.26
Debt/turnover ratio	0.06:1	0.05:1	NIL	NIL	0.03:1
Interest payments	10.56	15.15	12.88	12.98	17.12
Accumulated losses	378.51	449.45	496.38	490.12	520.39

(Source: Details furnished by the Companies and latest finalised accounts of Companies)

5.1.17 The Government of UT of Puducherry had not formulated any policy for payment of minimum dividend on the share capital contributed by it. However, two PSUs¹⁰ which earned an aggregate profit of ₹ 13.54 crore, declared a dividend of ₹ 4.52 crore.

Winding up of non-working PSUs

5.1.18 There is one non-working PSU as on 31 March 2015, which is in the process of getting its name struck off from the Register of Companies.

Accounts Comments

5.1.19 Eleven working companies forwarded their 14 audited accounts to Accountant General during the year 2014-15. Of these, six accounts of six companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by C&AG and the supplementary audit of C&AG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and C&AG are given below:

Table 5.1.9 : Impact of audit comments on working companies

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Increase in loss	3	33.22	NIL	NIL	2	8.58
2	Decrease in loss	1	17.78	NIL	NIL	1	0.15
3	Increase in profit	NIL	NIL	NIL	NIL	1	0.42
4	Errors of classification	NIL	NIL	NIL	NIL	1	2.06
	Total	4	51.00	NIL	NIL	4	11.21

(Source: Latest finalised annual accounts of companies)

⁹ NIL indicates that Return on Capital Employed was negative during those years
¹⁰ Puducherry Power Corporation Limited and Puducherry Distilleries Limited

During the year, the Statutory Auditors had given unqualified certificates for nine Accounts and qualified certificates for five accounts. The compliance of companies with the Accounting Standards remained poor, as there were eight instances of non-compliance in five accounts during the year.

Response of the Government to Audit

Performance Audit and Paragraphs

5.1.20 For the Report of the C&AG for the year ended 31 March 2015, one audit paragraph was issued to the Secretary, Industries Department in September 2015, with a request to furnish replies within six weeks. However, the reply in respect of the above para was not received as of January 2016.

Follow-up action on Audit Reports

Replies outstanding

5.1.21 The Report of the C&AG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. In view of this, the Administrative Departments have to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the C&AG within a period of two months of their presentation to the Legislature in the prescribed format, without waiting for any questionnaires from the Public Accounts Committee (PAC).

Table 5.1.10 : Explanatory notes not received (as on December 2015)

Year of the Audit Report	Date of placement of Audit Report in the UT Legislature	Number of Paragraphs in the Audit Report	Number of Paragraphs for which explanatory notes were not received
2010-11	30.07.2012	2	1
2011-12	29.07.2013	2	2
2012-13	23.09.2014	1	1
2013-14	06.05.2015	1	1
Total		6	5

From the above, it could be seen that out of six paragraphs, explanatory notes to five paragraphs in respect of three departments, which were commented upon, were awaited (December 2015).

Discussion of Audit Reports by PAC

5.1.22 The status as on 31 December 2015 of Performance Audits/paragraphs that appeared in Audit Reports of UT of Puducherry and discussed by PAC, was as under:

Table 5.1.11: Reviews/Paras appeared in Audit Reports vis-a-vis discussed as on 31 December 2015

Period of the Audit Report	Number of paragraphs	
	Appeared in Audit Report	Discussed
2009-10	1	Not yet discussed
2010-11	2	
2011-12	2	
2012-13	1	
2013-14	1	
Total	7	

Compliance to Reports of PAC

5.1.23 Action Taken Notes (ATNs) to 41 recommendations pertaining to three Reports of the PAC presented to the Legislature of UT of Puducherry between February 2011 and March 2015, had not been received (December 2015) as indicated below:

Table 5.1.12: Compliance to PAC Reports

Year of the PAC Report	Total number of PAC Reports	Total number of recommendations in PAC Report	Number of recommendations where ATNs not received
2010-11	2	20	8
2012-13	1	21	15
Total	3	41	23

These Reports of PAC contained recommendations in respect of paragraphs pertaining to seven Departments, which appeared in the Reports of C&AG for the years from 2002-03 to 2008-09.

It is recommended that the Government may ensure (a) sending of replies to Inspection Reports/Explanatory Notes/Draft Paragraphs/Performance Audits and ATNs on the recommendations of PAC as per the prescribed time schedule; (b) recovery of loss/outstanding advances/overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

Coverage of this Report

5.1.24 This Chapter contains a paragraph on Pondicherry Industrial Promotion Development and Investment Corporation Limited involving financial effect of ₹ 1.95 crore.

**PONDICHERY INDUSTRIAL PROMOTION DEVELOPMENT
AND INVESTMENT CORPORATION LIMITED**

5.2 Idle investment

Construction of “Export Facilitation Centre” at a cost of ₹ 1.95 crore by utilising the ASIDE grant, without ascertaining the demand, led to idleness of the centre.

Pondicherry Industrial Promotion Development and Investment Corporation Limited (Company) decided (September 2001) to construct a commercial complex on its own land (measuring 190 square metres) at an estimated cost of ₹ 50 lakh.

In the meanwhile, Government of India (GoI) sanctioned (July / December 2002) ASIDE¹¹ grant of ₹ three crore to the Company for utilisation on export oriented activities. Following the receipt (July 2002 and March 2003) of ASIDE grant, the Company decided (June 2003) to construct an “Export Facilitation Centre” (EFC) at an estimated cost of ₹ 2.09 crore in place of the originally envisaged commercial complex.

As there was no response to six tenders floated between November 2003 and June 2008, the Company finally awarded (July 2010) construction of 6,613 square feet (sq.ft.) of four storeyed EFC and completed the work in April 2013 at a cost of ₹ 1.95 crore¹². The EFC, which became ready for occupation in July 2014, after completion of internal electrification works, was lying vacant since then due to lack of demand from entrepreneurs engaged in export business.

In this connection, Audit observed that:

- The Company originally proposed (September 2001) to construct a commercial complex in its land, but changed the proposal to construct EFC only after receipt of the ASIDE grant. Before taking up EFC, the Company did not conduct any feasibility study to ensure the demand for usage of the complex by the exporters.
- Further, even after the delayed start of construction of EFC by seven years from 2003 to 2010, the Company did not review its decision to construct the EFC considering the latest requirements of the export oriented units within Puducherry. However, after constructing the EFC, the Company recorded (March 2015) that there were very few export oriented units within Puducherry, resulting in the EFC not being utilised. Even after drastic reduction (March 2015) of the lease rent at ₹ 30 per sq.ft. per month, against the prevailing market rate of ₹ 80 per sq.ft. per month, the Company could not find a single occupant for EFC

¹¹ Government of India’s Assistance to States for Developing Export Infrastructure

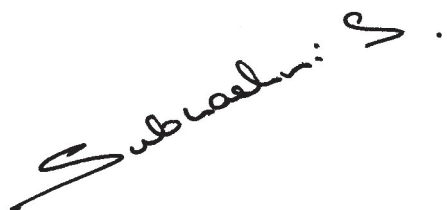
¹² The cost was met from ASIDE grant of ₹ one crore and the Company’s fund of ₹ 0.95 crore

indicating that the Company embarked on this venture without ascertaining its beneficial utilisation by the export oriented units, resulting in the EFC constructed at a cost of ₹ 1.95 crore not being utilised.

The Company replied (September 2015) that it had been taking action to lease out EFC by giving wide publicity. However, verification by Audit revealed that neither had the Company carried out any publicity after July 2014, nor leased out any portion of the EFC as of January 2016.

The matter was reported to the Government in November 2015; their reply was awaited (January 2016).

Chennai
The 04 April 2016



(SUBHASHINI SRINIVASAN)
Principal Accountant General
(General and Social Sector Audit)
Tamil Nadu and Puducherry

Countersigned

New Delhi
The 05 April 2016



(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

Appendices

Appendix 1.1
(Reference: Paragraph 1.6; Page 8)

Details of IRs issued upto March 2015 and paragraphs pending as on June 2015

Sl.No	Name of the Department/ Directorate/Societies	Inspection Reports	Paragraphs
(1)	(2)	(3)	(4)
1	Accounts and Treasuries	16	61
2	Adi-Dravidar Welfare	8	47
3	Agriculture	47	215
4	Animal Husbandry and Animal Welfare	10	60
5	Art and Culture	9	45
6	Civil Supplies and Consumer Affairs	15	56
7	Collegiate and Technical Education	68	250
8	Commercial Taxes	60	317
9	Co-operation	14	58
10	Economics and Statistics	3	5
11	Election	4	4
12	Electricity	34	123
13	Fire Service	1	3
14	Fisheries and Fishermen Welfare	28	124
15	Forest and Wild Life	5	15
16	Heads of State	12	23
17	Health and Family Welfare	64	208
18	Hindu Religious Institutions	4	27
19	Industries and Commerce	35	140
20	Information and Publicity	5	16
21	Information Technology	4	12
22	Jails	6	13
23	Labour and Employment	23	78
24	Law/Judicial	11	41
25	Local Administration	85	426
26	Planning and Research	2	5
27	Police	10	48

(1)	(2)	(3)	(4)
28	Port	11	41
29	Public Works	74	335
30	Revenue and Disaster Management	136	375
31	Rural Development	22	84
32	Sainik Welfare	2	5
33	School Education	10	34
34	Science, Technology and Environment	33	97
35	Social Welfare	3	3
36	Stationery and Printing	50	206
37	Tourism	11	41
38	Town and Country Planning	74	335
39	Transport	136	375
40	Women and Child Development	22	84
	Total	1,058	4,110

Appendix 4.1
(Reference: Paragraph 4.11.8.1; Page 58)

Short collection of Licence fee

(₹ in lakh)

Year	Production capacity per day (in bulk litres)	Actual number of working days	Total quantity produced (in bulk litres)	Number of cases (Quantity in bulk litres /9)	Licence fee to be collected	Amount of Licence fee collected	Short collection of Licence fee
2011-12	75,000	302	2,26,50,000	25,16,667	17.00	10.25	6.75
2012-13	75,000	301	2,25,75,000	25,08,333	17.00	10.25	6.75
2013-14	75,000	301	2,25,75,000	25,08,333	17.00	10.25	6.75
2014-15	75,000	298	2,23,50,000	24,83,333	16.25	10.25	6.00
Total					67.25	41.00	26.25

Appendix 5.1
(Reference: Paragraph 5.1.12; Page 79)

Statement showing investments made by UT Government in PSUs whose accounts are in arrears

(Figures in columns 4 & 6 to 8 are ₹ in crore)

Sl. No.	Name of the Public Sector Undertaking	Year upto which accounts finalised	Paid-up capital	Period of accounts pending finalisation	Investment made by Union Territory Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Puducherry Agro Service and Industries Corporation Limited (PASIC)	2009-10	13.83	2010-11 to 2014-15	1.17	---	12.00
2.	Puducherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO)	2011-12	9.93	2012-13 to 2014-15	---	---	8.74
3.	Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC)	2013-14	112.58	2014-15	---	---	---
4.	Puducherry Adi-Dravidar Development Corporation Limited (PADCO)	2012-13	14.86	2013-14 and 2014-15	---	---	6.00
5.	Puducherry Corporation for the Development of Women and Differently Abled Persons Limited (PCDWDAP)	2013-14	3.82	2014-15	---	---	37.84
6.	Puducherry Backward Classes and Minorities Development Corporation Limited (PBCMDCL)	2012-13	3.88	2013-14 and 2014-15	0.62	---	5.12
7.	Puducherry Distilleries Limited (PDL)	2012-13	8.45	2013-14 and 2014-15	---	---	---
8.	Pondicherry Textile Corporation Limited (PONTEX)	2012-13	361.35	2013-14 and 2014-15	6.00	---	36.41
9.	Swadeshee-Bharathee Textile Mills Limited (SBTML)	2009-10	28.21	2010-11 to 2014-15	6.00	---	29.00
10.	Puducherry Power Corporation Limited (PPCL)	2013-14	99.78	2014-15	---	---	---
11.	Puducherry Tourism Development Corporation Limited (PTDC)	2012-13	17.34	2013-14 and 2014-15	0.25	---	5.00
12.	Puducherry Road Transport Corporation Limited (PRTC)	2011-12	34.78	2012-13 to 2014-15	---	---	13.85
	Total				14.04	---	153.96

Appendix 5.2

(Reference: Paragraph 5.1.14; Page 79)

Summarised financial position and working results of Government companies
as per their latest finalised financial statements/accounts

(Figures in Column (5) to (12) are ₹ in crore)

SL.No	Sector/Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit(+)/ Loss(-)	Turnover	Net profit(+)/ Loss(-)	Net impact of audit comments	Capital employed ¹	Return on capital employed	Percentage of return on capital employed	Man-power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	AGRICULTURE & ALLIED												
1	Puducherry Agro Service and Industries Corporation Limited (PASIC)	2009-10	2015-16	13.83	---	(-) 14.03	33.92	(-) 8.86	---	1.01	(-) 8.74	---	344
2.	Puducherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO)	2011-12	2015-16	9.93	---	(-) 18.45	133.23	(-) 7.53	---	(-) 8.40	(-) 7.27	---	302
	Sector-wise total			23.76	---	(-) 32.48	167.15	(-)16.39	---	(-) 7.39	(-) 16.01	---	646
	FINANCE												
3.	Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC)	2013-14	2014-15	112.58	---	25.23	9.27	(-) 3.23	---	162.54	(-) 3.23	---	111
4.	Puducherry Adi-Dravidar Development Corporation Limited (PADCO)	2012-13	2014-15	14.86	---	(-) 11.91	4.66	(-) 1.28	---	7.38	(-) 1.08	---	60
5.	Puducherry Corporation for the Development of Women and Differently Abled Persons Limited (PCDWDAP)	2013-14	2015-16	3.82	12.83	---	31.51	---	---	11.75	0.22	1.87	1,155
6.	Puducherry Backward Classes and Minorities Development Corporation Limited (PBCMDCL)	2012-13	2015-16	3.88	---	---	1.43	---	---	36.13	0.22	0.61	40
	Sector-wise total			135.14	12.83	13.32	46.87	(-) 4.51	---	217.80	(-) 3.87	---	1,366

Note: Loans outstanding at the close of 2014-15 represent long-term loans only

Sl.No	Sector/Name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of the year	Accumulated profit(+)/ Loss(-)	Turnover	Net profit(+)/ Loss(-)	Net impact of audit comments	Capital employed ¹	Return on capital employed	Percentage of return on capital employed	Man-power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	MANUFACTURING												
7.	Puducherry Distilleries Limited (PDL)	2012-13	2015-16	8.45	---	39.13	35.43	4.76	---	47.96	4.79	9.99	102
8.	Pondicherry Textile Corporation Limited (PONTEX)	2012-13	2014-15	361.35	---	(-) 486.50	13.87	(-) 11.09	---	163.28	3.21	1.97	1,161
9.	Swadeshee-Bharathee Textile Mills Limited (SBTML)	2009-10	2012-13	28.21	---	(-) 42.79	10.52	(-) 11.36	---	16.49	(-) 9.59	---	409
	Sector-wise total			398.01	---	(-)490.16	59.82	(-)17.69	---	227.73	(-)1.59	---	1,672
	POWER												
10.	Puducherry Power Corporation Limited (PPCL)	2013-14	2014-15	99.78	---	45.75	96.42	8.78	---	191.33	8.78	4.59	122
	Sector-wise total			99.78	---	45.75	96.42	8.78	---	191.33	8.78	4.59	122
	SERVICE												
11.	Puducherry Tourism Development Corporation Limited (PTDC)	2012-13	2014-15	17.34	---	(-) 19.93	10.33	(-) 2.54	---	(-)2.59	(-) 2.54	---	263
12.	Puducherry Road Transport Corporation Limited (PRTC)	2011-12	2015-16	34.78	---	(-) 36.89	20.67	(-) 0.15	---	1.07	(-) 0.15	---	531
	Sector-wise total			52.12	---	(-) 56.82	31.00	(-) 2.69	---	(-) 1.52	(-) 2.69	---	794
	Grand total			708.81	12.83	(-) 520.39	401.26	(-) 32.50	---	627.95	(-) 15.38	---	4,600
	Non-working company												
	MANUFACTURING												
1.	Pondicherry Electronics Limited (PELECON) ²	---	---	---	---	---	---	---	---	---	---	---	---

¹ Capital employed represents shareholders funds *plus* long-term borrowings. In respect of Sl.No.9, capital employed represents net fixed assets (including capital work-in-progress) PLUS working capital

² The assets and liabilities of the Company had been taken over by its holding Company *viz.*, PIPDIC. The Company is in the process of getting its name struck off from the Register of companies

Glossary of abbreviations

AA	:	Assessing Authority
AC	:	Air Conditioners
AED	:	Additional Excise Duty
AESP	:	Annual Energy Savings Plan
ASIDE	:	Assistance to States for Developing Export Infrastructure
ATNs	:	Action Taken Notes
BM Rules	:	Batteries (Management and Handling) Rules
BOD	:	Bio chemical Oxygen Demand
C&AG	:	Comptroller and Auditor General of India
CAAQMS	:	Continuous Ambient Air Quality Monitoring Stations
CFL	:	Compact Fluorescent Lamp
CPCB	:	Central Pollution Control Board
CST Act	:	Central Sales Tax Act, 1956
CTD	:	Commercial Taxes Department
DP	:	Draft Paragraph
DPR	:	Detailed Project Report
DSTE	:	Department of Science, Technology and Environment
EA	:	Energy Audit
EC Act	:	Energy Conservation Act, 2001
ECBC	:	Energy Conservation Building Code
ED	:	Excise Duty
FSL	:	Forensic Science Laboratory
GoI	:	Government of India
HUDCO	:	Housing and Urban Development Corporation
IMFL	:	Indian Made Foreign Liquor
IRs	:	Inspection Reports
IS Act	:	Indian Stamp Act, 1899
LIG	:	Lower Income Group
MIG	:	Middle Income Group
MNRE	:	Ministry of New and Renewable Energy

NABL	:	National Accreditation Board for Testing and Calibration Laboratories
OEBC	:	Other Economically Backward Classes
PA	:	Performance Audit
PAC	:	Public Accounts Committee
PADCO	:	Puducherry Adi- Dravidar Development Corporation Limited
PASIC	:	Puducherry Agro Services and Industrial Corporation Limited
PE Act	:	Puducherry Excise Act, 1970
PE Rules	:	Puducherry Excise Rules, 1970
PECF	:	Puducherry Energy Conservation Fund
PHB	:	Puducherry Housing Board
PPA	:	Puducherry Planning Authority
PPCC	:	Puducherry Pollution Control Committee
PSR	:	Puducherry Schedule of Rates
PSUs	:	Public Sector Undertakings
PVAT Act	:	Puducherry Value Added Tax Act, 2007
PWD	:	Public Works Department
REAP	:	Renewable Energy Agency, Puducherry
RGGWCH	:	Rajiv Gandhi Government Women and Children Hospital
SC	:	Scheduled Caste
SLEEP	:	State Level Energy Education Park
SLSC	:	State Level Steering Committee
STP	:	Sewage Treatment Plant
TNPCB	:	Tamil Nadu Pollution Control Board
UC	:	Utilisation Certificate
UT	:	Union Territory
WQRC	:	Water Quality Review Committee