CHAPTER I

INTRODUCTION

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1.1 About this Report*

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

The primary purpose of the Report is to bring to the notice of the Union Territory Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The audit observations are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved 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 organisation, 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 audit observations arising out of audit of Revenue Receipts and Chapter-V contains audit observations 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 2015-16, as well as those which had come to notice in earlier years but could not be included in

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* Abbreviations used in this Report are listed in the Glossary at Page No. 138

the previous Reports. Matters relating to the period subsequent to 2015-16 have also been included, wherever found necessary.

1.2 Profile of audited entities

There are 30 Departments in the Union Territory at the Secretariat level, headed by Development Commissioners / Secretaries, who are assisted by Directors and subordinate officers. There are 13 Government Companies and 73 Autonomous Bodies.

The entities in Puducherry falling under General and Social Sectors are audited by the Accountant General (General and Social Sector Audit), Tamil Nadu and Puducherry and those falling under Revenue and Economic (both PSUs and non-PSUs) Sectors are audited by the Accountant General (Economic and Revenue Sector Audit), Tamil Nadu.

The comparative position of receipts of the Union Territory Government and expenditure incurred by the Union Territory Government during the year 2015-16 and in the preceding two years is given in **Tables 1.1** and **1.2** below:

Table 1.1 - Comparative position of receipts

(` in crore)

Receipts	**2013-14**	**2014-15**	**2015-16**
Revenue receipts	**4,308**	**4,758**	**5,088**
Tax revenue	1,904	1,993	2,260
Non-tax revenue	1,193	1,300	1,138
Grants-in-aid and contributions	1,211	1,465	1,690
Capital receipts	**Nil**	**Nil**	**Nil**
Recovery of loans and advances	**3**	**2**	**2**
Public Debt receipts	**750**	**704**	**741**
Public Account receipts	**911**	**982**	**1,015**
Total receipts	**5,972**	**6,446**	**6,846**

(Source: Finance Accounts of respective years)

Table 1.2 - Comparative position of expenditure

(₹ in crore)

Expenditure	2013-14			2014-15			2015-16		
	Non-plan	Plan	Total	Non-plan	Plan	Total	Non-plan	Plan	Total
Revenue expenditure									
General services	1,191	44	1,235	1,363	54	1,417	1,415	54	1,469
Social services	653	1,008	1,661	717	1,114	1,831	892	1,307	2,199
Economic services	1,283	299	1,582	1,158	386	1,544	1,303	308	1,611
Grants-in-aid and contributions	5	Nil	5	8	Nil	8	6	Nil	6
Total	**3,132**	**1,351**	**4,483**	**3,246**	**1,554**	**4,800**	**3,616**	**1,669**	**5,285**
Capital expenditure									
Capital expenditure	6	356	362	13	601	614	-5	444	439
Loans and advances disbursed	1	Nil	1	1	Nil	1	1	Nil	1
Repayment of public debt	128	76	204	117	66	183	59	110	169
Contingency fund	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Public account disbursements	*	*	709	*	*	845	*	*	938
Total	**135**	**432**	**1,276**	**131**	**667**	**1,643**	**55**	**554**	**1,547**
Grand total	**3,267**	**1,783**	**5,759**	**3,377**	**2,221**	**6,443**	**3,671**	**2,223**	**6,832**

(Source :Finance Accounts of respective years) ;
* Bifurcation of Non-plan and Plan not available.

1.3 Authority for audit

The authority for audit by the Comptroller and Auditor General of India (C&AG) is derived from Article 149 of the Constitution of India and the C&AG's (Duties, Powers and Conditions of Service) Act, 1971. The C&AG conducts audit of expenditure and receipts of the Departments of UT of Puducherry under Sections 13[1] and 16[2] of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of three Autonomous Bodies, which are audited under Sections 15[3] and 19(2)[4] of the C&AG's (DPC) Act. In

1 Audit of (a) all expenditure from the Consolidated Fund of Union Territory having a Legislative Assembly, (b) all transactions relating to the Contingency Fund and Public Accounts and (c) all trading, manufacturing, profit and 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 Union Territory having a Legislative Assembly

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

4 Audit of the accounts of Corporations (not being companies) established by or under law made by Parliament

addition, the C&AG conducts audit of 70 other Autonomous Bodies, under Section 14[5] 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 are required to submit a copy of the Audit Report to the C&AG, which among other things, include financial statements of the Company as per 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 Company's Act, 2013.

1.4 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various Departments, Corporations and 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 observations 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 (IRs) containing audit observations are issued to the Heads of the Departments, Corporations and Companies. The Departments, Corporations and Companies are requested to furnish replies to the audit observations within one month of receipt of the IRs. Whenever replies are received, audit observations are either settled or further action for compliance is advised. Important audit observations arising out of these IRs are processed for inclusion in the Audit Report of the C&AG of India, which is submitted to the Lieutenant Governor of the UT of Puducherry 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 Union Territory having a Legislative Assembly

1.5 Significant audit observations

In the last few years, we have pointed out 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 were also pointed out.

1.5.1 Performance Audit of Programmes/Activities/ Departments

The present Report contains two Performance Audits and a Follow-up Audit. The highlights of audit observations are given in the following paragraphs:

1.5.1.1 Performance Audit on Infrastructure facilities for medical education and health care

A Performance audit was conducted to assess the adequacy of infrastructure facilities for imparting medical education, availability of human resources and health care facilities in Indira Gandhi Medical College and Research Institute and hospital (IGMCRI) attached thereto, managed by Perunthalaivar Kamaraj Medical College Society (Society). The Performance Audit revealed the following:

- Short release of funds by Union Territory Government had resulted in non-creation of envisaged infrastructure, as prescribed by Medical Council of India (MCI) and the execution of various works were delayed. Against 33 infrastructure works to be completed, 23 works were completed while remaining 10 works were yet to be completed.

- The Society in connivance with the General Hospital (GH) had misrepresented facts on actual bed strength to MCI for obtaining annual renewals. The Society had passed a resolution with concurrence of GH to borrow beds along with personnel from the GH to make good the shortfall in bed strength so as to fulfill MCI criteria for annual renewals.

- There was shortfall in bed occupancy, which ranged between 56 and 72 *per cent*, during 2011-16 against the MCI norms of 80 *per cent* due to inadequate infrastructure and health care facilities in IGMCRI, consequent upon which, the patients were referred to the GH for undergoing treatment.

- Against the prescribed number of 348 essential drugs for a tertiary care hospital, only 145 drugs were purchased, of which, on an average 100 drugs were found out of stock.

- The Society had engaged 778 unqualified Multi Purpose Workers without approval of the Union Territory Government and deployed them in core areas of IGMCRI such as operation theatres, wards and laboratories, thereby posing high risk to the lives of the patients.

(Paragraph 2.1)

1.5.1.2 Follow-up Audit on Modernisation of Police Force (MPF)

A Performance Audit on the scheme was conducted in 2009 and the audit observations were included in the Audit Report for the year ended 31 March 2009. The Public Accounts Committee (PAC) had discussed the Report (July 2013) and made certain recommendations. A Follow-up audit was conducted from March to July 2016 covering the implementation of MPF scheme during 2009-16, to assess whether the accepted audit recommendations were implemented and action was taken on PAC recommendations. The results of follow-up audit were as under:

- All the four recommendations made in the earlier Audit Report were accepted by the Department and all the recommendations were implemented partially only.

- Though the scheme period was extended upto March 2013 beyond 2006-07 to 2010-11, the funds released were not utilised and hence, Union Territory Government could not avail the entire allocation made by Government of India (GOI). Thus, the recommendation was partially implemented.

- There was some progress, both under residential and non-residential buildings under construction works. However, some of the works were not taken up due to paucity of funds and non-availability of land. Thus, the recommendation was partially implemented.

- Though the police personnel were given training in weapons, shortfall in annual training practice continued to persist. Thus, the recommendation was partially implemented.

- Monitoring Committee did not hold its meetings regularly as envisaged and no meetings were conducted after December 2015. The recommendation was, therefore, partially implemented.

- Live views were not available from all the 103 CCTV cameras installed and Vehicle Tracking System was not installed in 70 of the 85 vehicles, as envisaged, resulting in non-achievement of objective of monitoring sensitive areas and vehicle movement.

(Paragraph 2.2)

1.5.1.3 Performance Audit of System of Assessment under Value Added Tax in the Union Territory of Puducherry

The Performance Audit of System of Assessment under Value Added Tax in the UT of Puducherry revealed deficiencies in system of assessment itself, which led to large number of detailed assessment cases awaiting finalisation. The non-adherence to instructions, absence of Manual, weak internal control, incorrect application of rate of tax etc had led to non-levy and under-assessment of tax as detailed below:

- Non-adherence to the instructions regarding random scrutiny of returns and utilisation of details contained in MIS reports resulted in non-levy of purchase tax of ` 1.34 crore and irregularities in claim of input tax credit of ` 1.52 crore.

- The failure of the assessing authorities to apply correct rate of tax and effect reversal of input tax credit, while finalising the detailed assessments, resulted in under-assessment of tax of ` 1.65 crore.

(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 overpayment, avoidable expenditure, idle investment and other irregularities. Some of the important audit observations are given below:

- Failure to verify the genuineness of the claims submitted by a firm for providing hospital management services, resulted in overpayment of ` 1.14 crore.

(Paragraph 3.1.1)

- Delay in depositing the enhanced compensation amount for land acquisition in the Court, resulted in an avoidable interest payment of ` 0.93 crore.

(Paragraph 3.2.1)

- Failure of Project Implementation Agency to avail of the customs duty exemption resulted in an avoidable expenditure of ` 56.16 lakh.

(Paragraph 3.2.2)

- Sixty three tenements were constructed without proper planning and without identifying beneficiaries of the scheme. There were also delays in allotment of tenements to eligible beneficiaries despite spending ` 3.72 crore.

(Paragraph 3.3.1)

- Audit of Implementation of housing scheme for poor Scheduled Caste and Other Economically Backward Classes people in Union Territory of Puducherry revealed that Adi-Dravidar Welfare Department failed to finalise the beneficiaries' list in time and the selection of beneficiaries was not handled in a professional manner, leading to non-allotment of houses to eligible poor beneficiaries. Failure to ensure availability of land and non-implementation of scheme at the identified sites in urban areas resulted in denial of intended benefits to the eligible poor beneficiaries. Consequent to delay in identification of beneficiaries and provision in infrastructure facilities, the houses were handed over to the beneficiaries in damaged condition.

  Accountability was not fixed for various lapses, which needs to be critically reviewed by the Union Territory Government and the system of beneficiary selection, ensuring site availability, timely construction and handing over of houses streamlined, to achieve the objective of the scheme for welfare of the poor Scheduled Caste and Other Economically Backward Classes people.

(Paragraph 3.4)

- A Performance Audit on 'Implementation of Drugs and Cosmetics Act, 1940' had appeared in the Audit Report for the year 2002-03. The Department had informed (February 2009) PAC that the system of maintaining database was fully computerised and prescribed time schedule was being strictly adhered to.

  During the present Audit of Implementation of the Drugs and Cosmetics Act / Rules (covering the period 2013-16), it was observed that the Department of Drug Control had not maintained any database for renewal of licences and was not aware of number of units existing at any given point of time.

  There were delays both in issue of new licences and renewal of licences. Blood Banks were allowed to function without valid licences for more than eight years. Periodical inspection of drug manufacturing and sale units was not conducted, as stipulated. Inspection was conducted only at the time of issue of new licences and renewal of licences instead of annual inspections to take care of the implementation of the provisions of the Act.

  Samples were not drawn from Indian System of Medicine manufacturing firms for testing. Action was not taken against firms charging higher prices in violation of Act, manufacturing drugs without approval and sub-standard drugs, which might endanger the safety of the drug users.

Thus, there was a critical need for Union Territory Government to review and streamline its functioning to ensure strict compliance to the provisions of Drugs and Cosmetics Act, 1940.

(Paragraph 3.5)

1.5.3 Commercial and Trading Activities

As of 31 March 2016, there were 12 working Government Companies (Public Sector Undertakings-PSUs) and one non-working Government Company in the Union Territory of Puducherry.

The working PSUs had registered a turnover of ` 362.61 crore, as per their latest finalised accounts as of September 2016. This turnover was equal to 1.37 *per cent* of State Gross Domestic Product (GSDP) for 2015-16. The working PSUs had incurred losses of ` 70.62 crore, as per their latest finalised accounts, as of September 2016. The PSUs had employed 4,899 employees as at the end of March 2016.

As on 31 March 2016, the total investment in working PSUs consisted of 98.39 *per cent* towards capital and 1.61 *per cent* in long-term loans. The investment had grown by 1.14 *per cent* from ` 726.25 crore in 2011-12 to ` 734.52 crore in 2015-16.

As there were arrears in accounts in 12 working PSUs upto 2015-16, their net worth could not be assessed in Audit. As per the latest finalised accounts, out of 12 working PSUs, two PSUs had earned a profit of ` 6.21 crore and nine PSUs incurred a loss of ` 76.83 crore, leading to overall loss. One company had neither earned profit nor incurred any loss.

(Paragraph 5.1)

The Pondicherry Industrial Promotion Development and Investment Corporation Limited, a company with mandate to provide financial assistance to foster industrial development had not effectively pursued its mandate as it had failed to fix the achievable targets for sanction of loans. The sanction of loans was not based on merits of the cases of loanees, which ultimately affected the realisability of the loans and interest thereon. The company had not effectively enforced recovery and failed to monitor the working of units by periodical visits. The Non-performing assets had gone up to 84 *per cent*, threatening the very existence of the company and thus, there was an urgent requirement for the company to take remedial steps for its survival.

(Paragraph 5.2)

1.6 Response to Audit

Two Performance Audits (PA), eight Draft Paragraphs (DPs) and one Follow-up Audit were forwarded demi-officially to the Development Commissioners and Secretaries of the Departments concerned between March and September 2016 to send their responses within six weeks. Government replies have been received in respect of two PAs, one Follow-up Audit and seven DPs. The replies, wherever received, have been suitably incorporated in the Report.

A review of the IRs issued upto 31 March 2016 revealed that 4,865 paragraphs relating to 1,118 IRs remained outstanding at the end of September 2016 **(Appendix 1.1)**.

1.7 Follow-up on the Audit Reports

The PAC of the Union Territory Legislature of Puducherry, had prescribed a time limit of three months, from the date of placement of the Audit Reports in Legislature, to the Departments for furnishing replies on the audit observations included in the Audit Reports indicating the corrective action taken or proposed to be taken by them and for submission of Action Taken Notes (ATNs) on the recommendations of the PAC by the Departments.

The position of pendency of paragraphs / recommendations for which replies and ATNs had not been received is shown in **Table 1.3.**

Table 1.3 - Explanatory notes not received (as on December 2016)

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		
		GSSA	Revenue	Commercial	GSSA	Revenue	Commercial
2009-10	14.09.2011	12	3	1	1	Nil	Nil
2010-11	30.07.2012	11	3	2	2	Nil	1
2011-12	29.07.2013	11	4	2	1	Nil	2
2012-13	23.09.2014	10	3	1	4	2	1
2013-14	06.05.2015	9	3	1	8	2	1
2014-15	08.09.2015	8	6	1	8	6	1
Total		**61**	**22**	**8**	**24**	**10**	**6**
Grand Total		**91**			**40**		

From the above, it could be seen that out of 91 paragraphs, explanatory notes to 40 paragraphs in respect of 21 departments, which were commented upon, were awaited (November 2016).

Table 1.4 - Reviews/Paragraphs appeared in Audit Reports *vis-a-vis* discussed (as on 31 December 2016)

Period of the Audit Report	Number of paragraphs appeared in Audit Report				Number of paragraphs discussed
	GSSA	Revenue	Commercial	Total	
2009-10	12	3	1	16	Not yet discussed
2010-11	11	3	2	16	
2011-12	11	4	2	17	
2012-13	10	3	1	14	
2013-14	9	3	1	13	
2014-15	8	6	1	15	
Total	**61**	**22**	**8**	**91**	

From the above, it may be seen that none of the paragraphs appeared in the Audit Reports for the period from 2009-10 to 2014-15 were discussed by the PAC.

Table 1.5 - 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		
		GSSA	Revenue	Commercial	GSSA	Revenue	Commercial
Up to 2009-10	13	783	40	81	107	5	22
2010-11	2	187	10	20	92	7	8
2011-12	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2012-13	1	119	14	21	48	11	15
2013-14	2	84	18	25	65	10	22
2014-15	2	76	31	36	39	17	18
Total	**20**	**1,249**	**113**	**183**	**351**	**50**	**85**
Grand Total		**1,545**			**486**		

Government Departments had not furnished ATNs as of November 2016 on 486 recommendations made by the PAC in respect of Audit Reports pertaining to the period 1988-89 to 2008-09.