

CHAPTER I

INTRODUCTION

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) 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 were 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 and observations on Compliance Audit in Government Departments and Autonomous Bodies. Chapter-III contains audit observations arising out of audit of Revenue Receipts and Chapter-IV 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 2016-17, as well as those which came to notice in earlier years but could not be included in the previous Reports.

Abbreviations used in this Report are listed in the Glossary at Page No. 97.

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 Principal 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 2016-17 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	2014-15	2015-16	2016-17
Revenue receipts	4,758	5,088	5,383
Tax revenue	1,993	2,260	2,401
Non-tax revenue	1,300	1,138	1,245
Grants-in-aid and contributions	1,465	1,690	1,737
Capital receipts	Nil	Nil	Nil
Recovery of loans and advances	2	2	2
Public Debt receipts	704	741	820
Public Account receipts	982	1,015	845
Total receipts	6,446	6,846	7,050

(Source: Finance Accounts of respective years)

Table 1.2 - Comparative position of expenditure

(₹ in crore)

Expenditure	2014-15	2015-16	2016-17
Revenue expenditure			
General services	1,417	1,469	1,639
Social services	1,831	2,199	2,129
Economic services	1,544	1,611	1,684
Grants-in-aid and contributions	8	6	6
Total	4,800	5,285	5,458
Capital expenditure			
Capital expenditure	614	439	447
Loans and advances disbursed	1	1	Nil
Repayment of public debt	183	169	224
Contingency fund	Nil	Nil	Nil
Public account disbursements	845	938	800
Total	1,643	1,547	1,471
Grand total	6,443	6,832	6,929

(Source: Finance Accounts of respective years)

1.3 Authority for audit

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

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.

audit of 70 other Autonomous Bodies, under Section 14⁵ of CAG'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 CAG 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 CAG, 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 CAG 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 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 CAG of India, which is submitted to the Lieutenant Governor of Union Territory of Puducherry under Article 149 of the Constitution of India and Section 49 of the Union Territories Act, 1963.

1.5 Significant audit observations

In the last few years, we pointed out several deficiencies in implementation of various programmes/activities through Performance Audits as well as on

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.

the quality of internal controls in selected Departments, which impacted 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 one Performance Audit. The highlights of audit observations are given in the following paragraphs:

1.5.1.1 Performance Audit of Comprehensive Sewerage Scheme for urban areas of Puducherry under Jawaharlal Nehru National Urban Renewal Mission

A Performance Audit was conducted to assess whether the implementation of Comprehensive Sewerage Scheme for urban areas of Puducherry under Jawaharlal Nehru National Urban Renewal Mission was carried out as per the plan. There were delays and deficiencies in implementing the Sewerage project as detailed below:

- The aim to provide a sewerage system with sewage handling capacity of 94.5 Million Litres per Day by the year 2026 as envisaged in the City Development Plan could not be achieved as there was a shortfall (at planning level) of 26 Million Litres per Day due to non-adoption of Central Public Health Environmental Engineering Organisation norms.
- Administrative delays and slow progress of the work led to curtailment of funds of ₹ 52.88 crore committed by Government of India, which resulted in additional financial burden to that extent on the Union Territory Government.
- Penalty was not levied, despite slow progress of work. Monitoring was inadequate and the necessity of rigorous monitoring required for a Sewerage project associated with social impact was not given due attention.

(Paragraph 2.1)

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 excess payment, idle investment and other irregularities. Some of the important audit observations are as follows:

- Erroneous calculation of enhanced interest for land acquisition resulted in undue payment of ₹ 64 lakh to the land owners.

(Paragraph 2.2.1)

- Perunthalaivar Kamaraj Medical College Society did not adopt correct square feet rate for outsourcing the housekeeping services of a Medical Institute, resulting in excess payment of ₹ 4.90 crore.

(Paragraph 2.2.2)

- Water supply connection was not provided to the toilet and wash room block at Yanam obelisk, which resulted in idle investment of ₹ 74.58 lakh.

(Paragraph 2.3.1)

- Building for Auxiliary Nursing Midwifery School, Mahe was not constructed, which resulted in blocking up Government of India funds of ₹ 2.50 crore, for seven years.

(Paragraph 2.3.2)

- The Pondicherry Building and Other Construction Workers' Welfare Board did not take enough steps to identify the eligible workers and to ensure that all eligible workers were registered as beneficiaries. The Board did not ensure that the cess amount was collected in respect of all activities as envisaged in the Act. There were delays in release of educational assistance to the wards of registered beneficiaries. Pension scheme was not implemented for the beneficiaries who crossed the age of 60 years. Full time employees were not appointed including Labour Officer and Assistant Inspectors of Labour, which had a bearing on the efficient functioning of the Board. Monitoring was inadequate and there was no internal audit mechanism.

(Paragraph 2.4)

- The Women and Child Development Department did not plan and assess the requirements of own and dedicated buildings for Anganwadi centres and there were delays in construction of own buildings for Anganwadi centres. Infrastructure and basic amenities as stipulated in the norms were inadequate in the test-checked Anganwadi centres. The Department procured food grains at a much higher rate from open market instead of lifting from Food Corporation of India, at concessional rates, leading to an excess expenditure of ₹ 9.06 crore. Non-supply of medicine kits every year defeated the purpose of extending basic medical care to children at Anganwadi centres. Non-supply of preschool kits affected the aim of holistic

development of children by use of play and learning material. Monitoring as well as inspections by Child Development Project Officers and Supervisors were inadequate, which led to the deficiencies in implementation of the scheme.

(Paragraph 2.5)

1.5.3 Revenue Receipts

An audit of e-Pathiram system of registration revealed the following:

- Conditions governing remission of stamp duty was not adhered to, resulting in incorrect allowance of remission of stamp duty of ₹ 1.46 crore.
- Incorrect classification of land and consequent adoption of lower guideline value resulted in short collection of stamp duty and registration fee of ₹ 25.65 lakh.
- The envisaged objectives of e-Pathiram system, viz., issue of computerised encumbrance certificate and issue of certificated copy on the same day of registration of instrument could not be achieved even after a lapse of nine years since the implementation of e-Pathiram system of registration.

(Paragraph 3.10)

1.5.4 Commercial and Trading Activities

As on 31 March 2017, 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 registered a turnover of ₹ 366.63 crore, as per their latest finalised accounts as of March 2017, which was equal to 1.33 *per cent* of State Gross Domestic Product for 2016-17. The working PSUs incurred losses of ₹ 24.79 crore, as per their latest finalised accounts, as of March 2017. PSUs employed 4,778 employees as at the end of March 2017.

As on 31 March 2017, the total investment in working PSUs consisted of 98.58 *per cent* towards capital and 1.42 *per cent* in long-term loans. The investment grew by 3.08 *per cent* from ₹ 711.15 crore in 2012-13 to ₹ 733.05 crore in 2016-17. As per the latest finalised accounts (March 2017), the ratio of return on capital employed and equity stood at (-) 7.67 and (-) 24.79 respectively.

As there were arrears in accounts in 12 working PSUs upto 2016-17, their net worth could not be assessed in Audit. As per the latest finalised accounts, out of 12 working PSUs, four PSUs earned a profit of ₹ 13.20 crore and seven

PSUs incurred a loss of ₹ 37.99 crore, leading to overall loss. One company neither earned profit nor incurred any loss.

(Paragraph 4.1)

Two PSUs did not secure their financial interest on account of injudicious sanction of loans, which led to blocking of ₹ 92.69 crore.

(Paragraph 4.2)

1.6 Response to Audit

One Performance Audit and eight Audit Paragraphs were forwarded demi-officially to the Development Commissioners and Secretaries of the Departments concerned between July and December 2017 to send their responses within six weeks. Government replies were received in respect of Performance Audit and two Audit Paragraphs. The replies, wherever received, were suitably incorporated in the Report.

A review of IRs issued upto 31 March 2017 revealed that 5,099 paragraphs relating to 1,177 IRs remained outstanding at the end of September 2017 (**Appendix 1.1**).

1.7 Follow-up on the Audit Reports

The Public Accounts Committee (PAC) of the Union Territory Legislature of Puducherry, 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 PAC by the Departments.

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

Table 1.3 - Explanatory notes not received (as of December 2017)

Year of the Audit Report	Date of placement of Audit Report in the UT Legislature	Number of paragraphs in Audit Report			Number of paragraphs for which explanatory notes were not received		
		GSSA	Revenue	Commercial	GSSA	Revenue	Commercial
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	2	1	6	2	1
2014-15	08.09.2016	8	6	1	6	5	1
2015-16	15.06.2017	8	2	1	8	2	1
Total		57	20	8	27	11	7
Grand Total		85			45		

From the above, it could be seen that out of 85 paragraphs, explanatory notes to 45 paragraphs in respect of 20 Departments were awaited (December 2017).

The status of PAC discussion in respect of Review/Paragraphs appeared in Audit Reports is shown in Table 1.4.

Table 1.4 - Reviews/Paragraphs appeared in Audit Reports *vis-a-vis* discussed (as on 31 December 2017)

Period of the Audit Report	Number of paragraphs appeared in Audit Report				Number of paragraphs discussed
	GSSA	Revenue	Commercial	Total	
2010-11	11	3	2	16	Not yet discussed
2011-12	11	4	2	17	
2012-13	10	3	1	14	
2013-14	9	2	1	12	
2014-15	8	6	1	15	
2015-16	8	2	1	11	
Total	57	20	8	85	

From the above, it may be seen that none of the paragraphs, which appeared in the Audit Reports for the period from 2010-11 to 2015-16 were discussed by PAC.

The compliance position of various Departments to PAC recommendations is shown in **Table 1.5**.

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 2010-11	15	984	50	101	210	12	30
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
2015-16	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total	20	1,263	113	183	362	50	85
Grand Total		1,559			497		

As of December 2017, Government Departments did not furnish ATNs on 497 recommendations made by PAC in respect of Audit Reports pertaining to the period 1988-89 to 2008-09.