

# 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 2017-18, as well as those which came to notice in earlier years but could not be included in the previous Reports.

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Abbreviations used in this Report are listed in the Glossary at Page No. 145.

## 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 2017-18 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                        | 2015-16      | 2016-17      | 2017-18      |
|---------------------------------|--------------|--------------|--------------|
| <b>Revenue receipts</b>         | <b>5,088</b> | <b>5,383</b> | <b>6,003</b> |
| Tax revenue                     | 2,260        | 2,401        | 2,806        |
| Non-tax revenue                 | 1,138        | 1,245        | 1,374        |
| Grants-in-aid and contributions | 1,690        | 1,737        | 1,823        |
| <b>Capital receipts</b>         | <b>Nil</b>   | <b>Nil</b>   | <b>Nil</b>   |
| Recovery of loans and advances  | 2            | 2            | 1            |
| <b>Public Debt receipts</b>     | <b>741</b>   | <b>820</b>   | <b>1,061</b> |
| <b>Public Account receipts</b>  | <b>1,015</b> | <b>845</b>   | <b>717</b>   |
| <b>Total receipts</b>           | <b>6,846</b> | <b>7,050</b> | <b>7,782</b> |

(Source: Finance Accounts of respective years)

**Table 1.2 : Comparative position of expenditure**

(₹ in crore)

| Expenditure                     | 2015-16      | 2016-17      | 2017-18      |
|---------------------------------|--------------|--------------|--------------|
| <b>Revenue expenditure</b>      |              |              |              |
| General services                | 1,469        | 1,639        | 1,874        |
| Social services                 | 2,199        | 2,129        | 2,235        |
| Economic services               | 1,611        | 1,684        | 1,694        |
| Grants-in-aid and contributions | 6            | 6            | 4            |
| <b>Total</b>                    | <b>5,285</b> | <b>5,458</b> | <b>5,807</b> |
| <b>Capital expenditure</b>      |              |              |              |
| Capital expenditure             | 439          | 447          | 394          |
| Loans and Advances disbursed    | 1            | Nil          | Nil          |

| Expenditure                  | 2015-16      | 2016-17      | 2017-18      |
|------------------------------|--------------|--------------|--------------|
| Repayment of Public Debt     | 169          | 224          | 570          |
| Contingency Fund             | Nil          | Nil          | Nil          |
| Public Account disbursements | 938          | 800          | 269          |
| <b>Total</b>                 | <b>1,547</b> | <b>1,471</b> | <b>1,233</b> |
| <b>Grand total</b>           | <b>6,832</b> | <b>6,929</b> | <b>7,040</b> |

(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 13<sup>1</sup> and 16<sup>2</sup> of CAG's (DPC) Act. CAG is the sole auditor in respect of three Autonomous Bodies, which are audited under Sections 15<sup>3</sup> and 19(2)<sup>4</sup> of CAG's (DPC) Act. In addition, CAG conducts audit of 70 other Autonomous Bodies, under Section 14<sup>5</sup> 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.

<sup>1</sup> 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.

<sup>2</sup> Audit of all receipts, which are payable into the Consolidated Fund of Union Territory having a Legislative Assembly.

<sup>3</sup> 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.

<sup>4</sup> Audit of the accounts of Corporations (not being companies) established by or under law made by Parliament.

<sup>5</sup> 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.

## **1.4 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 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 on 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 on 'Adequacy on physical and human infrastructure in rendering fire and emergency services in Union Territory of Puducherry'***

A Performance Audit was conducted to assess the adequacy of physical and human infrastructure in rendering fire and emergency services in Union Territory of Puducherry. There were deficiencies in infrastructure and manpower, outdated vehicles, poor response time to fire calls as detailed below:

- The Union Territory of Puducherry did not have a Fire Act as required by National Disaster Management Authority guidelines. The absence

of a Fire Act prevented the Fire Service Department in enforcing compliance to fire safety norms. Various establishments such as industries, marriage halls and cinema halls continued to operate without fulfilling fire safety norms as laid down in National Building Code.

- There was no comprehensive data on high risk areas prone to fire accidents and a plan to mitigate fire occurrences. The fire stations in Union Territory urban area were 41 *per cent* lesser than the norms required as per the Standing Fire Advisory Committee recommendations. There was shortage of 52 *per cent* in the number of fire tenders and the available fire tenders had also outlived their useful life.
- Shortage of manpower was also noticed. The post of Divisional Fire Officer was vacant for more than three years. Against 14 posts of Station Officer, only six were manned. In eight fire stations, the Leading Fireman, although not competent to head a fire station, officiated as Station Officer.
- Lack of adequate fire safety measures were noticed in Government hospitals, schools and important Government buildings such as Raj Nivas, Legislative Assembly and Chief Secretariat.

*(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 loss to UT Government, wasteful/avoidable expenditure, idle investment and other irregularities. Some of the important audit observations are as follows:

- Failure of the Puducherry Electricity Department to periodically renew the bank guarantees/fixed deposits provided by a consumer resulted in loss of revenue of ` 54.86 lakh.

*(Paragraph 2.2.1)*

- Failure of the Public Works Department in keeping the contract alive for more than three years after stoppage of work without foreclosure, resulted in avoidable payment of ` 6.52 crore.

*(Paragraph 2.3.1)*

- Failure of the Project Implementation Agency to avail the excise duty exemption resulted in avoidable expenditure of ` 54.47 lakh.

*(Paragraph 2.3.2)*

- The Puducherry Building and Other Construction Workers Welfare Board did not obtain tax exemption as provided in the Income Tax Act resulting in avoidable payment of tax of ₹ 0.43 crore on the interest earned.

*(Paragraph 2.3.3)*

- Failure to provide necessary budget provision to make arbitration award payments without any delay, resulted in avoidable interest payment of ₹ 0.41 crore.

*(Paragraph 2.3.4)*

- Inconclusive decision in finalisation of beneficiaries for allotment of stalls in  
₹ 13.42 crore resulted in an idle investment for more than two years.

*(Paragraph 2.4.1)*

- The 'Welfare and Relief for Fishermen during Ban period, Lean Seasons and Natural Calamities' scheme, meant to provide relief to fishermen, suffered from faulty implementation. Payments were delayed much after ban period and lean season. Non-payment of funeral assistance and non-renewal of Old Age Pension were some of the lapses in the implementation of the scheme. The efficient functioning of the scheme depended on the availability of the Village Level Fishery Officers whose post was significantly vacant which impaired the functioning and execution of the scheme.

*(Paragraph 2.5)*

### **1.5.3 Revenue Receipts**

Audit of Transition to GST in Puducherry indicated that there is an urgent need for verification for correctness of transitional credit claimed by the dealers as any lapse or deficiency or continued inaction on the part of the Department would result in utilisation of incorrect or excess claim of credit by the dealers, thereby having a serious impact on the revenue of the UT. The Department needs to devise a time bound action plan for finalisation of pending assessments relating to the PVAT Act, so that the assessing officers may devote their time exclusively for the successful implementation of the system of GST in the UT of Puducherry.

*(Paragraph 3.10)*

### **1.5.4 Commercial and Trading Activities**

As on 31 March 2018, 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 ` 387.18 crore, as per their latest finalised accounts as of September 2018, which was equal to 1.20 *per cent* of State Gross Domestic Product for 2017-18. The working PSUs incurred loss of ` 39.05 crore, as per their latest finalised accounts as of September 2018. PSUs employed 4,195 employees as at the end of March 2018.

As on March 2018, the total investment in working PSUs consisted of 98.03 *per cent* towards capital and 1.97 *per cent* in long-term loans. The investment grew by 3.10 *per cent* from ` 714.98 crore in 2013-14 to ` 737.16 crore in 2017-18. As per the latest (March 2018) finalised accounts, the ratio of return on capital employed and equity stood at (-) 19.58 and (-) 39.05 respectively.

*(Paragraph 4.1)*

As there were arrears in finalisation of accounts in 12 working PSUs upto 2017-18, 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 ` 15.44 crore and seven PSUs incurred a loss of ` 54.49 crore, leading to overall loss. One company neither earned profit nor incurred any loss.

*(Paragraphs 4.2 and 4.3)*

Audit on Recruitment, Engagement and Deployment of personnel in Puducherry PSUs during 2013-14 to 2017-18 revealed that the PSUs had not revised Recruitment Rules in line with the directives of UT Government. The recruitments, up-gradation, modification of posts and scale of pay were made without prior approval of UT Government and prescribed procedures. Further, PSUs had not weeded out/redeployed surplus manpower, which resulted in unproductive wages. Besides, PSUs incurred irregular expenditure on account of cash gifts/allowances, overtime and project allowances. PSUs had not remitted the statutory dues of EPF and ESI within due date warranting avoidable payment of interest and penal charges. On account of shortage of working capital and paucity of funds, six PSUs did not pay salaries and terminal benefits to their employees for a period upto 68 months.

*(Paragraph 4.4)*

## **1.6 Response to Audit**

One Performance Audit and 11 Audit Paragraphs were forwarded demi-officially to the Development Commissioners/Secretaries of the Departments concerned between April and November 2018 to send their responses within six weeks. Government replies were received in respect of four Audit Paragraphs. The replies, wherever received, were suitably incorporated in the Report.

A review of IRs issued upto 31 March 2018 revealed that 5,552 paragraphs relating to 1,262 IRs remained outstanding at the end of September 2018 (**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 31 December 2018)**

| 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 |           |            |
|--------------------------|---|--------------------------------------|-----------|------------|--|-----------|------------|
|                          |   | G&SSA                                | Revenue   | Commercial | G&SSA  | Revenue   | Commercial |
| 2010-11                  | 30.07.2012  | 11                                   | 3         | 2          | 2  | Nil       | 1          |
| 2011-12                  | 29.07.2013  | 11                                   | 4         | 2          | 1  | Nil       | Nil        |
| 2012-13                  | 23.09.2014  | 10                                   | 3         | 1          | 4  | 2         | 1          |
| 2013-14                  | 06.05.2015  | 9                                    | 2         | 1          | 4  | 2         | 1          |
| 2014-15                  | 08.09.2016  | 8                                    | 6         | 1          | 5  | 5         | 1          |
| 2015-16                  | 15.06.2017  | 8                                    | 2         | 1          | 8  | 2         | 1          |
| 2016-17                  | 18.07.2018  | 7                                    | 1         | 1          | 7  | 1         | 1          |
| <b>Total</b>             |   | <b>64</b>                            | <b>21</b> | <b>9</b>   | <b>31</b>  | <b>12</b> | <b>6</b>   |
| <b>Grand total</b>       |   | <b>94</b>                            |           |            | <b>49</b>  |           |            |

From **Table 1.3**, it could be seen that out of 94 paragraphs, explanatory notes to 49 paragraphs were awaited (December 2018).

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-à-vis discussed  
(as on 31 December 2018)**

| Period of the Audit Report | Number of paragraphs appeared in Audit Report |           |            |           | Number of paragraphs discussed |
|----------------------------|---|-----------|------------|-----------|--------------------------------|
|                            | G&SSA   | Revenue   | Commercial | Total     |                                |
| 2010-11                    | 11  | 3         | 2          | 16        | 6                              |
| 2011-12                    | 11  | 4         | 2          | 17        | 8                              |
| 2012-13                    | 10  | 3         | 1          | 14        | Not yet discussed              |
| 2013-14                    | 9   | 2         | 1          | 12        |                                |
| 2014-15                    | 8   | 6         | 1          | 15        |                                |
| 2015-16                    | 8   | 2         | 1          | 11        |                                |
| 2016-17                    | 7   | 1         | 1          | 9         |                                |
| <b>Total</b>               | <b>64</b>                                     | <b>21</b> | <b>9</b>   | <b>94</b> | <b>14</b>                      |

From **Table 1.4**, it may be seen that 80 paragraphs, appeared in the Audit Reports for the period from 2010-11 to 2016-17, were yet to be 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 |            |            |
|------------------------|-----------------------------|---|--------------|------------|---|------------|------------|
|                        |                             | G&SSA   | Revenue      | Commercial | G&SSA   | 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        |
| 2016-17                | Nil                         | Nil   | Nil          | Nil        | Nil   | Nil        | Nil        |
| <b>Total</b>           | <b>20</b>                   | <b>1,263</b>                                  | <b>113</b>   | <b>183</b> | <b>362</b>  | <b>50</b>  | <b>85</b>  |
| <b>Grand total</b>     |                             |   | <b>1,559</b> |            |   | <b>497</b> |            |

As of December 2018, 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.