

# CHAPTER I

## INTRODUCTION



# CHAPTER I

## INTRODUCTION

### 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 Compliance Audit of selected programmes and activities of Government Departments, Government Companies and Autonomous Bodies.

The primary purpose of the Report is to bring important results of audit to the notice of the Union Territory Legislature. 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.

This Chapter presents the profile of audited entities, authority for audit besides the planning and extent of audit and follow-up on the previous Audit Reports. Chapter II of this Report contains findings arising out of 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 Government 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 2018-19, as well as those which came to notice in earlier years but could not be included in the previous Reports.

### 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 (Principal Accountant General (Audit-I), Tamil Nadu with effect from 15 May 2020) and those falling under Economic and Revenue (both PSUs and non-PSUs) Sectors are audited by the Accountant General (Economic and Revenue Sector Audit), Tamil Nadu (Accountant General (Audit-II), Tamil Nadu and Puducherry with effect from 15 May 2020).

The comparative position of receipts of the Union Territory Government and expenditure incurred by the Union Territory Government during the year 2018-19 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	2016-17	2017-18	2018-19
<b>Revenue receipts</b>	<b>5,383</b>	<b>6,003</b>	<b>6,400</b>
Tax revenue	2,401	2,806	3,188
Non-tax revenue	1,245	1,374	1,584
Grants-in-aid and contributions	1,737	1,823	1,628
<b>Capital receipts</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
Recovery of loans and advances	2	1	1
<b>Public Debt receipts</b>	<b>820</b>	<b>1,061</b>	<b>1,007</b>
<b>Public Account receipts</b>	<b>845</b>	<b>717</b>	<b>778</b>
<b>Total receipts</b>	<b>7,050</b>	<b>7,782</b>	<b>8,186</b>

(Source: Finance Accounts of respective years)

**Table 1.2: Comparative position of expenditure**

(₹ in crore)

Expenditure	2016-17	2017-18	2018-19
<b>Revenue expenditure</b>			
General services	1,639	1,874	2,154
Social services	2,129	2,235	2,401
Economic services	1,684	1,694	1,832
Grants-in-aid and contributions	6	4	Nil
<b>Total</b>	<b>5,458</b>	<b>5,807</b>	<b>6,387</b>

Expenditure	2016-17	2017-18	2018-19
<b>Capital expenditure</b>			
Capital expenditure	447	394	313
Loans and Advances disbursed	Nil	*	3
Repayment of Public Debt	224	570	639
Contingency Fund	Nil	Nil	Nil
Public Account disbursements	800	269	1,335
<b>Total</b>	<b>1,471</b>	<b>1,233</b>	<b>2,290</b>
<b>Grand total</b>	<b>6,929</b>	<b>7,040</b>	<b>8,677</b>

\* ₹ 21 lakh for the year 2017-18

(Source: Finance Accounts of respective years)

### 1.3 Authority for audit

The authority for audit by the Comptroller and Auditor General of India 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

<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.

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 Companies 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 151 of the Constitution of India and Section 49 of the Union Territories Act, 1963.

#### **1.5 Response to Audit**

##### **1.5.1 Inspection Reports**

A review of Inspection Reports issued up to 31 March 2019 revealed that 5,751 paragraphs relating to 1,285 IRs remained outstanding at the end of September 2019 (**Appendix 1.1**).

Large pendency of IRs was indicative of the fact that Heads of Offices and Heads of Departments did not initiate appropriate and adequate action to rectify the defects, omissions and irregularities pointed out in the IRs.

##### **1.5.2 Audit Paragraphs**

Eight Audit Paragraphs were forwarded demi-officially to the Secretaries of the Departments concerned between April 2019 and June 2020 to send their responses within six weeks. Government replies were received in respect of three Audit Paragraphs. The replies, wherever received, were suitably incorporated in the Report. Replies of Heads of Department and the views expressed by the representatives of the Government during Exit Conferences/Exit meetings were also considered while finalising the Report.

### 1.5.3 Recommendations

This Report contains specific recommendations on a number of issues involving non-observance of the prescribed internal procedure and systems, compliance with which would help in promoting good governance and better oversight on implementation of departmental programmes and objectives at large. The UT Government is requested to take cognizance of these recommendations and take appropriate action in a time bound manner.

### 1.6 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 March 2020)**

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	Paragraphs discussed by PAC and recommendations yet to be received		
2011-12	29.07.2013	11	4	2			
2012-13	23.09.2014	10	3	1			
2013-14	06.05.2015	9	2	1			
2014-15	08.09.2016	8	6	1	5	5	1
2015-16	15.06.2017	8	2	1	8	1	1
2016-17	18.07.2018	7	1	1	7	1	1
2017-18	30.03.2020	8	3	1	8	3	1
<b>Total</b>		<b>72</b>	<b>24</b>	<b>10</b>	<b>28</b>	<b>10</b>	<b>4</b>
<b>Grand Total</b>		<b>106</b>			<b>42</b>		

From **Table 1.3**, it could be seen that out of 106 paragraphs, explanatory notes to 42 paragraphs were awaited (March 2020).

The status of PAC discussion in respect of Reviews/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 March 2020)**

Period of the Audit Report	Number of paragraphs appeared in Audit Report				Number of paragraphs discussed/yet to be discussed
	G&SSA	Revenue	Commercial	Total	
2010-11	11	3	2	16	59 paragraphs 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	47 paragraphs are yet to be discussed
2015-16	8	2	1	11	
2016-17	7	1	1	9	
2017-18	8	3	1	12	
<b>Total</b>	<b>72</b>	<b>24</b>	<b>10</b>	<b>106</b>	

From **Table 1.4**, it may be seen that 47 paragraphs, appeared in the Audit Reports for the period from 2014-15 to 2017-18, are 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
Action Taken Notes on PAC recommendations not received during 2015-16 to 2018-19							
<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 2019, Government Departments did not furnish ATNs on 497 recommendations made by PAC in respect of Audit Reports pertaining to the period 1988-89 to 2014-15.



---

---

## **1.7 Scope of this Report**

This part of the Report of the CAG relates to matters arising from the Audit of six Government Departments. The findings include two Compliance Audits on “Implementation of Food Safety and Standards Act, 2006” and “Collection of Tax, Fees and Delivery of Citizen’s Services by Transport Department, Puducherry”. Apart from the above, there are also six paragraphs. These are discussed in Chapters II, III and IV. The audit observations discussed in the paragraphs in the subsequent chapters are observed from the test check of records in the selected offices.