

CHAPTER IV: QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

A sound internal financial reporting system and compliance with relevant rules and procedures significantly contributes to efficient and effective governance. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making.

This Chapter provides an insight of the status of UT Government's compliance with various financial rules, procedures and directives by various departmental officials of the UT Government.

4.1 Funds kept outside Consolidated Fund or Public Account of the UT

Government of Puducherry issued notification¹ for Puducherry Motor Vehicles (Amendment) Rules, 2011. The notification provided for insertion of new Rule 252, which provided for levy of service charges for driving licence, registration certificate, taxation and permits. For this purpose, a Personal Deposit Account (PD) was required to be operated by Transport Commissioner in accordance with the General Financial Rules, 2017 (GFR 2017). Rule 97(1) of the GFR, 2017 contemplated that the PD Account shall form part of the Government Account and be located in the Public Account thereof. The notification further stated that the amount collected towards service charges shall be utilised for settlement of payment of dues to the vendors of smart card and the remaining amount, if any shall be utilised for developmental activities of the Department.

The Transport Department opened a Current Account in State Bank of India (SBI), Puducherry and deposited the service charges in the account and payment from the account was made to the smart card vendors. The balance available in the account as on March 2021 was ₹ 8.70 crore (₹ 2.98 crore in the current account maintained in SBI and ₹ 5.72 crore in deposits in Puduvai Bharathiar Grama Bank, Puducherry). Thus, maintaining of PD Account outside the Government Account was not in order and it carries the risk of lack of accountability for the collection of revenue of the UT.

¹ G.O.Ms No.16/Tr. Sectt/2011 dated 16 November 2011.

Government stated (January 2022) that the comments of Transport Department would be obtained and furnished to audit as to why the service charges received was kept outside the Government Account.

4.2 Non-inclusion of clear cut liabilities in the budget

Non-provision of funds for long pending liabilities to the contractors and other obligations

In the process of preparation of Annual Budget estimates for any year, the concerned department should scrupulously consider the possible receipts and expenditure, along with the committed liabilities due for settlement during the year. Rule 50(3) of the GFR, 2017, clearly states that the estimates should include suitable provision for liabilities of the previous years which are to be discharged during the current year.

On a scrutiny of works executed under Demand No.16-Public Works and Demand No.32-Building Programmes, it was noticed that the Public Works Department had a committed pending liability to the tune of ₹ 48.45 crore as of March 2020. Clearing the committed liability was not prioritised and the Department had further accumulated a liability of ₹ 24.35 crore towards contractors bills and ₹ 29.34 crore towards land acquisition, court cases, arbitration, etc., in 2020-21 leading to a total committed liability of ₹ 102.14 crore as of March 2021. Incidentally, it was seen that there was a saving of ₹ 174.61 crore under Capital Section of Grant No.16 and 32.

Similarly, in respect of Puducherry Electricity Department, the outstanding liability as of March 2021 was ₹ 323.53 crore towards outstanding dues to power generation companies.

4.3 Non-discharge of liability in respect of interest towards interest bearing deposits

Interest bearing Security Deposits (SD) in the UT are accounted for under the Head of Account 8336-101 Security Deposits, for which interest on deposits are to be provided in the UT budget. As per Clause 6.10 (8) of the Joint Electricity Regulatory Commission (JERC) Electricity Supply Code, 2010 read with Section 47 (4) of the Electricity Act, 2003, the distribution licensee shall pay interest, at the bank rate notified by the Reserve Bank of India from time to time on such SD taken from the consumer. Further, as per Clause 5.135 of JERC Electricity Supply Code, 2018, the licensee shall pay interest to the consumer at the State Bank of India Base Rate prevailing on the 1st of April for the year,

payable annually on the consumer's SD with effect from the date of such deposit in case of new connections energized after the date of notification and in other cases, from the date of notification of JERC Supply Code, 2018. The interest accrued during the year shall be adjusted in the consumer's bill in the first billing cycle of the ensuing financial year.

The details of liability towards interest payable on SD, budget allocation for the above liability, interest actually paid and shortfall in allocation of funds during the years from 2018-19 to 2020-21 are detailed in the following **Table 4.1**.

Table 4.1: Details of interest payable on Security Deposits

(₹ in crore)

Year	Amount of Interest to be paid on SD	Budget Allocation made	Extent of shortfall in allocation (<i>per cent</i>)	Interest paid by Department*	Savings	Interest to be paid
2018-19	11.44	5.00	56	4.20	0.80	7.24
2019-20	13.14	5.38	59	5.11	0.27	8.03
2020-21	10.23	6.89	33	6.84	0.05	3.39
Total	34.81	17.27	49	16.15	1.12	18.66

* Under HOA: 2049-60-101-01 in Finance Accounts

The shortfall in allocation ranged between 33 and 59 *per cent* during the period 2018-21 which led to continued non-discharge of liability towards interest amounting to ₹ 18.66 crore on Security Deposits.

4.4 Funds transferred directly to State Implementing Agencies

Government of India transfers funds directly to Government Departments/Implementing Agencies in the UT for implementation of various schemes/programmes. These transfers are exhibited in Appendix VI of Volume II of the Finance Accounts. As these funds are not routed through the State Budget/Treasury system, Finance accounts do not capture the flow of these funds or the related expenditure.

During the year 2020-21, GoI transferred ₹ 189.55 crore directly to UT Government Departments/Implementing agencies for various Central Schemes/programmes. The agencies that have received funds more than ₹ one crore directly from GoI for implementing various schemes during 2020-21 are shown in **Table 4.2**.

Table 4.2: Funds in excess of ₹ one crore transferred by Government of India directly to implementing agencies

(₹ in crore)			
Sl. No.	Name of the Schemes of Government of India	Name of the Implementing Agency	Government of India releases during 2020-21
1	Food Subsidy for Decentralised Procurement of Food grains under NFSA	Department of Civil Supplies and Consumer Affairs, Puducherry	137.28
2	Mahatma Gandhi National Rural Employment Guarantee Programme	SEGF-Ne-FMS Account	24.73
3	Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	Department of Agriculture	6.68
4	National AIDS and STD Control Programme	Puducherry AIDS Control Society	5.42
5	Product/Infrastructure Development for Destination and Circuits	Puducherry Tourism Development Corporation Limited	5.00
6	Research Training and Studies and Other Road Safety Schemes	Transport Department	2.77
7	National Mission on Horticulture	UT of Puducherry Horticulture Development Society	1.40

Government stated (January 2022) that this issue was beyond the control of the UT Government and for some schemes GoI was transferring money directly to the implementing agencies.

4.5 Delay in submission of Utilisation Certificates

The financial rules² stipulate that where Grants-in-aid (GIA) are given for specific purposes, concerned departmental officers should obtain Utilisation Certificates (UCs) from grantees within 12 months of the closure of the financial year, which, after verification, should be forwarded to the Directorate of Accounts and Treasuries (DAT), to ensure that the funds have been utilised for intended purpose.

As of March 2021, UCs amounting to ₹ 462.25 crore in respect of 788 cases were outstanding. The year-wise breakup of outstanding UCs is given in **Table 4.3**.

Table 4.3: Year-wise breakup of outstanding Utilisation Certificates

Sl. No.	Range of delay in number of years	Utilisation Certificate outstanding	
		Number	Amount (₹ in crore)
1	More than 9 years	226	39.88
2	9-5 years	86	36.84
3	5-1 year	476	385.53
Total		788	462.25

(Source: Data furnished by the Directorate of Accounts and Treasuries)

² Rule 238 of the General Financial Rules, 2017.

- Out of 788 UCs, 226 UCs involving ₹ 39.88 crore (8.63 per cent) were pending for more than nine years.
- 86 UCs involving ₹ 36.84 crore (7.97 per cent) were pending for periods ranging from nine to five years.
- 476 UCs involving ₹ 385.53 crore (83.40 per cent) were pending for periods ranging from five to one year.

Pendency of 510 UCs for an aggregate amount of ₹ 383.28 crore pertained to departments of Adi-Dravidar Welfare, Local Administration, Rural Development and Town and Country Planning. The details of age-wise arrears in submission of UCs are given in **Table 4.4**.

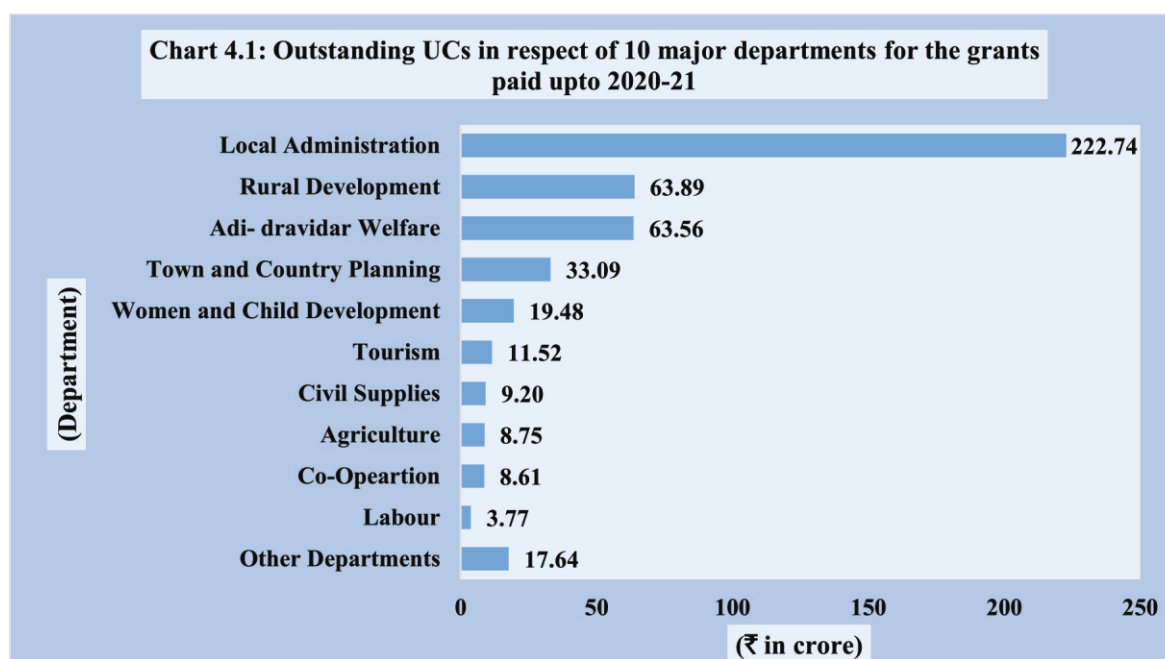
Table 4.4: Age-wise arrears in submission of Utilisation Certificates

(₹ in crore)

Year	Opening Balance	Amount	Closing Balance	Amount
Upto 2016-17	339	92.33	411	125.80
2017-18	411	125.80	491	255.51
2018-19	491	255.51	591	382.93
2019-20	591	382.93	788	462.25
2020-21	788	462.25	792	462.85

* UCs for the GIA disbursed during 2020-21 become due only during 2021-22
(Source: Data furnished by the Directorate of Accounts and Treasuries)

The details of department-wise break-up of UCs pending are depicted in **Chart 4.1**.



(Source: Data furnished by the Directorate of Accounts and Treasuries)

Non- submission of the UCs meant that the authorities have not explained as to how funds were spent over the years. Therefore, there is no assurance that the expenditure against the grants has actually been incurred for the purpose for which it was authorised. Since high pendency of UCs is fraught with the risk of misappropriation of funds, it is imperative that the UT Government should monitor this aspect closely and hold the concerned persons accountable for submission of UCs in a timely manner.

Government stated (January 2022) that a Committee had been formed by the Directorate of Accounts and Treasuries, Puducherry to clear the outstanding UCs.

4.6 Non-adjustment of temporary advances

The Drawing and Disbursing Officers (DDOs) draw temporary advances for the purpose of meeting contingent and miscellaneous expenditure either on the authority of standing orders or specific sanctions of UT Government. As per Rule 323 (1) of the GFR, 2017, adjustment bills along with balances, if any, should be submitted by the Government servants within 15 days of the drawal of advances, failing which, the advances/balances would be recovered from the next salary of the Government servants.

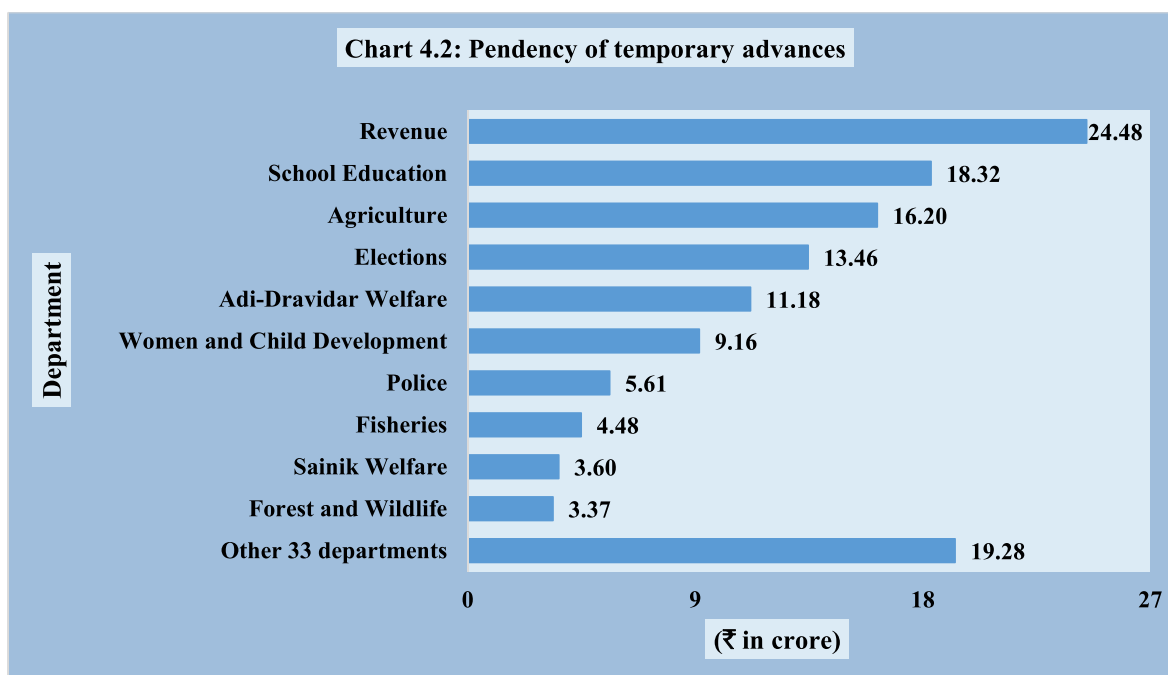
As of 31 March 2021, 1,460 advances aggregating to ₹ 129.14 crore were pending in respect of 268 out of 656 DDOs, as per the records of the Directorate of Accounts and Treasuries, Puducherry. Age-wise analysis of the pending advances is given in **Table 4.5**.

Table 4.5: Age-wise analysis of pending advances

Sl. No.	Pendency	Number of advances	Amount
			(₹ in crore)
1	More than 10 years	285	19.26
2	More than five years but less than 10 years	241	12.50
3	More than one year but less than five years	552	33.48
4	Less than one year	382	63.90
Total		1,460	129.14

(Source: Data furnished by the Directorate of Accounts and Treasuries)

The department-wise details of pending advances are depicted in **Chart 4.2**.



(Source: Data furnished by the Directorate of Accounts and Treasuries)

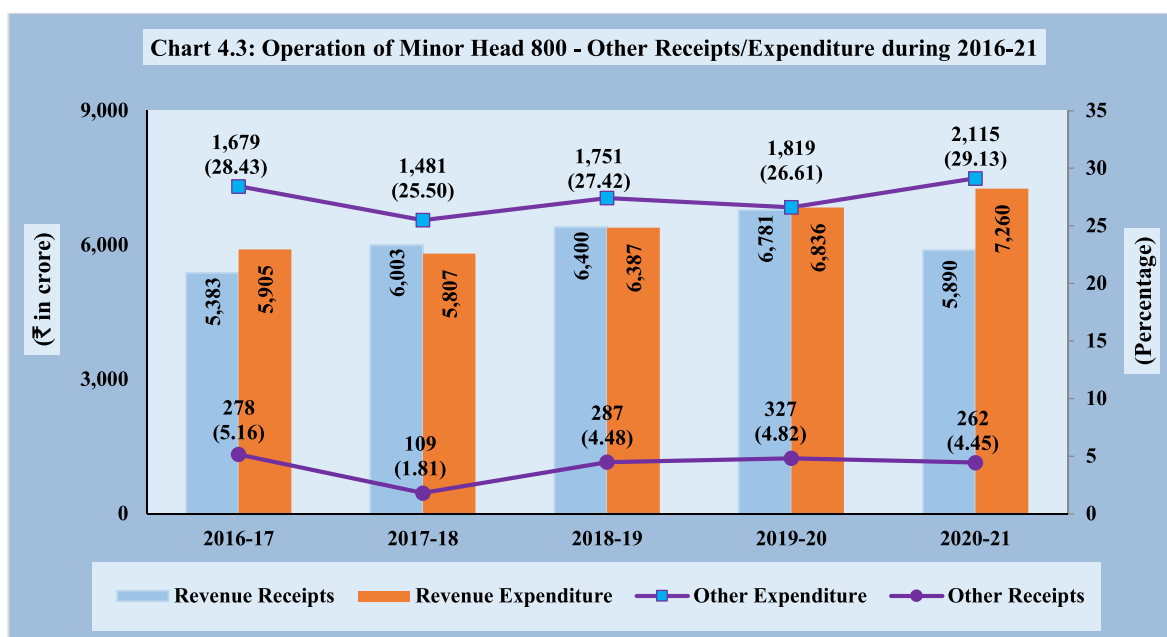
The pendency in respect of 285 advances involving ₹ 19.26 crore for more than 10 years indicated serious laxity on the part of the departments in enforcing the provisions contemplated for adjustment of the advances. Further, there is no assurance that the expenditure of ₹ 129.14 crore has actually been incurred during the financial year for the purpose for which it was authorised by the Legislature. Advances drawn and not accounted for, increased the possibility of wastage/misappropriation/malfeasance, etc.

Government stated (January 2022) that a Committee had been formed by the Directorate of Accounts and Treasuries, Puducherry to clear the outstanding advances.

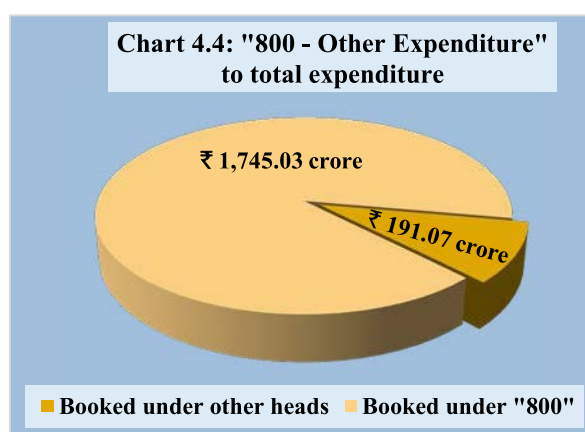
4.7 Indiscriminate use of Minor Head '800'

Minor Head 800 - Other Receipts/Other Expenditure are intended to be operated only when the appropriate minor head has not been provided in the accounts. Routine operation of minor head '800' is to be discouraged since it renders the accounts opaque.

The details of total revenue expenditure/receipts incurred and the expenditure/receipts booked under the Minor Head "800 - Other expenditure/receipts" and its percentage to revenue receipts/expenditure for the years 2016-17 to 2020-21 are given in **Chart 4.3**.

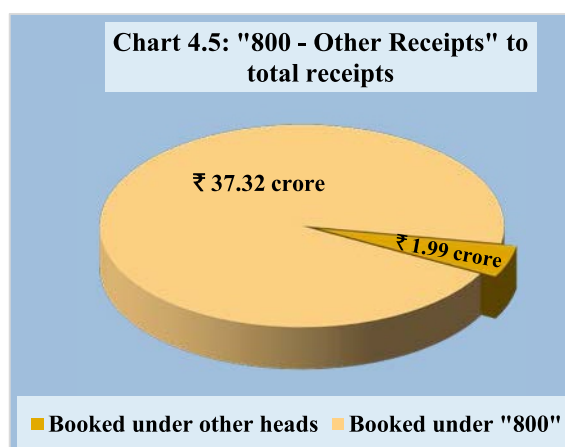


Figures in brackets indicates percentages to Revenue Receipts/Revenue Expenditure
(Source: Finance Accounts of respective years)



During 2020-21, under eight Major Heads, expenditure aggregating to ₹ 1,745.03 crore (90.13 per cent of the total expenditure of ₹ 1,936.10 crore under these heads) were classified under the minor head '800 - Other Expenditure'. A major portion of the expenditure under "2216 - Housing", "2217 - Urban Development", and "2801 - Power Projects" were classified under the omnibus minor head '800 - Other

Expenditure', instead of depicting the same under relevant minor heads below the functional major heads. The details are given in **Appendix 4.1**.



Similarly, under nine major heads, Revenue receipts aggregating to ₹ 37.32 crore (94.94 per cent of the total receipt of ₹ 39.31 crore under these heads), were classified under the minor head '800 - Other Receipts'. The entire receipts under "Public Works", "Social Security and Welfare", "Ports and Light Houses", "Minor Irrigation" and "Roads and Bridges" were classified under the omnibus minor head '800 - Other Receipts'. The

details are given in **Appendix 4.2**.

Classification of an amount of ₹ 1,782.35 crore under the omnibus minor head “800 - Other Expenditure/Receipts” reflected lack of transparency in financial reporting.

4.8 Submission of Accounts/Separate Audit Reports of Autonomous Bodies

In order to identify the institutions, which attract audit under Sections 14 and 15 of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act), the Government/Heads of the Department are required to furnish to the Accountant General every year, detailed information about the financial assistance given to various institutions, the purposes for which the assistance was given and the total expenditure of these institutions. These details were not furnished by the departments to audit as prescribed. However, based on the details collected from Directorate of Accounts and Treasuries, the institutions are identified for the purpose of conducting audit.

The audit of accounts of 70 autonomous bodies is conducted under Section 14 and 15 of the CAG’s DPC Act, 1971. The audit of accounts of two autonomous bodies /authorities in the UT of Puducherry is conducted under Section 19(2) of the CAG’s DPC Act, 1971.

The details of the accounts which were due and not received are given in **Appendix 4.3** and their age-wise pendency is presented in **Table 4.6**.

Table 4.6: Age-wise arrears of annual accounts due from Autonomous Bodies/Authorities

Sl. No.	Pendency in number of years	Number of Bodies/Authorities
1	More than 5 years	17
2	5 - 3 years	18
3	2 - 1 year	33
	Total	68

(Source: Compiled from the information furnished by the Heads of Department)

Due to non-furnishing of details by the Departments and non-submission of annual accounts by Autonomous Bodies/Authorities, the utilisation of Government grants for the intended purposes could not be ensured. Non-submission of accounts violates Rule 236 of the GFR, 2017. The delay in finalisation and submission of accounts would hamper audit in assuring the legislature that the grants were being utilised for the intended objective.

4.9 Misappropriations, losses, thefts, etc.

Rule 33 and 34 of GFR, 2017 stipulate that Heads of Offices should report any loss or shortage in public moneys and property, due to misappropriation, loss,

theft and defalcation to the next higher authority as well as to the Statutory Audit Officer.

The departments of UT Government reported 321 cases of misappropriation, loss and defalcation upto March 2021, involving Government money amounting to ₹ 28.05 crore on which final action was pending. The department-wise breakup of the pending cases and the nature of cases is given in **Appendix 4.4**. The Electricity Department accounted for 255 cases involving an amount of ₹ 26.55 crore.

The age-profile of the pending cases of theft and misappropriation/loss are summarised in **Table 4.7**.

Table 4.7: Age-wise profile of misappropriation/losses and defalcation

Range in years	Number of cases	Amount involved (₹ in lakh)
More than 25	63	5.86
20-25	108	7.76
15-20	73	108.44
10-15	21	174.51
5 - 10	38	2,485.53
0 - 5	18	22.93
Total	321	2,805.03

(Source: Compiled from the information furnished by the Heads of Department)

The reasons for pendency in outstanding cases of theft and misappropriation/losses are given in **Table 4.8**.

Table 4.8 : Reasons for outstanding cases of theft and misappropriation/loss and defalcation

Reasons for the pendency		Number of cases	Amount (₹ in lakh)
(i)	Awaiting departmental and criminal investigation	29	25.07
(ii)	Departmental actions initiated but not finalised/ Pending in Courts of Law	20	2,705.82
(iii)	Awaiting orders for recovery or write-off	272	74.14
Total		321	2,805.03

(Source: Compiled from the information furnished by the Heads of Department)

In respect of 49 cases of misappropriation, theft/loss of materials, amounting to ₹ 27.31 crore, FIRs were lodged, but results of the investigations are awaited.

4.10 Follow-up action on Union Territory Finances Audit Report

Separate Report on UT Finances is being prepared from the year 2008-09 onwards and presented to UT Legislature. The UT Finances Audit Reports for

the year upto 2019-20 have been tabled in the UT Legislature. The Public Accounts Committee (PAC) had discussed the reports till the year 2013-14. From the year 2014-15 upto the year 2018-19, 60 paragraphs are pending discussion by PAC.

4.11 Conclusion

Undischarged liability: Provision for discharge of clear-cut liabilities to the tune of ₹ 425.67 crore was not made in the Budget Estimates. There was an undischarged liability of ₹ 18.66 crore on interest bearing deposits.

Direct transfer of funds: Funds transferred directly to various Government departments/implementing agencies by Government of India to the tune of ₹ 189.55 crore was not reflected in the accounts of the UT Government.

Utilisation Certificates: There was huge pendency in furnishing of UCs by various grantee institutions in respect of Grant-in-aid of ₹ 462.25 crore and it ranged from one year to more than nine years.

Temporary Advances: Temporary Advances aggregating to ₹ 129.14 crore were pending adjustment by Drawing and Disbursing Officers.

Classification under Minor Head 800-other expenditure: In respect of eight major heads, an amount of ₹ 1,745.03 crore (90.13 *per cent*) of the Revenue expenditure was classified under the omnibus Minor Head 800-Other Expenditure reflecting lack of transparency in financial reporting.

Misappropriation and losses: The Departments of UT Government reported 321 cases of misappropriation, loss, theft upto March 2021 involving Government money of ₹ 28.05 crore.

4.12 Recommendations

- The Departments should ensure submission of UCs by the grantee before releasing subsequent grant to the grantee institutions.
- Action needs to be taken to clear the outstanding Temporary Advances to avoid any misappropriation.
- Government/departments should furnish detailed information about financial assistance given to Autonomous Bodies/Authorities.
- Government should expedite completion of departmental action as required and exercise more checks to prevent, reduce recurrence of misappropriation, loss and theft cases.