

**Report of the
Comptroller and Auditor General of India**

for the year ended March 2013

**Government of the Union Territory of Puducherry
Report No. 1 of 2014**

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PREFACE

1. This Report has been prepared for submission to the Lieutenant Governor under Section 49 of the Government of Union Territories Act, 1963. Audit observations on the Annual Accounts of the Union Territory Government would form part of a Report on Union Territory Finances which is being presented separately.
2. The Report starts with an introductory chapter outlining the Audit scope, mandate and the important Audit findings which emerged during the year long audit exercise. Chapter-II deals with the findings of Performance Audit, while Chapter-III discusses material findings emerging from Compliance Audit.
3. The observations arising out of audit of revenue receipts of the Union Territory are included in Chapter-IV of this Report.
4. The observations arising out of audit of commercial and trading activities of the Union Territory are included in Chapter-V of this Report.
5. The cases mentioned in this Report are among those which came to notice in the course of test audit of accounts during the year 2012-13 as well as those which had come to notice in earlier years but could not be included in the previous Reports. Matters relating to the period subsequent to 2012-13 have also been included, wherever possible.

CHAPTER I

INTRODUCTION

CHAPTER I

INTRODUCTION

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 findings are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial 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 organization, 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 findings arising out of audit of revenue receipts of the Union Territory and Chapter-V contains findings arising out of audit of commercial and trading activities of the Union Territory (UT).

The cases mentioned in this Report are among those which came to notice in the course of test audit of accounts during the year 2012-13 as well as those which had come to notice in earlier years but could not be included in

* Abbreviations used in this report are listed in the Glossary at Page 99

the previous Reports. Matters relating to the period subsequent to 2012-13 have also been included, wherever possible.

1.2 Profile of audited entity

There are 30 departments in the UT at the Secretariat level, headed by Development Commissioners/Secretaries, who are assisted by Directors and subordinate officers under them. There are 13 Government companies and 81 autonomous bodies. These entities are audited by the Principal Accountant General (General and Social Sector Audit), Tamil Nadu and Puducherry and the Principal Accountant General (Economic and Revenue Sector Audit), Tamil Nadu.

The comparative position of receipts of the UT Government and expenditure incurred by the Government during the year 2012-13 and in the preceding two years is given in **Tables 1 and 2** below:

Table 1: Comparative position of receipts

(₹ in crore)

Receipts	2010-11	2011-12	2012-13
Revenue receipts	3,200	2,771	3,146
Tax revenue	1,074	1,329	1,917
Non-tax revenue	743	153	118
Grants-in-aid and contributions	1,383	1,289	1,111
Capital receipts	--	--	--
Recovery of loans and advances	4	4	3
Public Debt receipts	854	788	529
Public Account receipts	393	1,059	715
Total receipts	1251	4,622	4393

(Source: Finance Accounts of UT of Puducherry)

Table 2: Comparative position of expenditure**(₹ in crore)**

Expenditure	2010-11			2011-12			2012-13		
	Non-plan	Plan	Total	Non-plan	Plan	Total	Non-plan	Plan	Total
Revenue expenditure									
General services	833	32	865	933	35	968	1,100	39	1139
Social services	578	801	1379	649	849	1,498	571	681	1252
Economic services	904	388	1292	369	383	752	391	264	655
Grants-in-aid and contributions	4	--	4	4	--	4	5	--	5
Total	2,319	1,221	3,540	1,955	1,267	3,222	2067	984	3051
Capital Expenditure									
Capital expenditure	2	369	371	(-)6	381	375	6	309	315
Loans and advances disbursed	2	--	2	2	--	2	1	--	1
Repayment of public debt	*	*	148	106	51	157	126	62	188
Contingency fund	--	--	--	--	--	--	--	--	--
Public account disbursements	*	*	772	*	*	795	*	*	717
Total	4	369	1,293	102	432	1,329	133	62	1221
Grand Total	2,323	1,590	4,833	2,057	1,699	4,551	2200	1355	4272

(Source: Finance Accounts of UT of Puducherry)

* Bifurcation of Non-Plan and Plan not available.

1.3 Authority for audit

The authority for audit by the C&AG is derived from Article 149 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The C&AG conducts audit of expenditure and receipts of the departments of Government of Union Territory of Puducherry under Sections 13¹ and 16² of the C&AG's (DPC) Act. He is the sole auditor in respect of 17 autonomous bodies which are audited under sections 19(2)³ and 20(1)⁴ of the C&AG's (DPC) Act. In

¹ Audit of (a) all expenditure from the Consolidated Fund of UT having a legislative assembly, (b) all transactions relating to the Contingency Fund and Public Accounts and (c) all trading, manufacturing, profit & 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 UT having legislative assembly

³ Audit of accounts of corporations established by or under law made by Parliament

⁴ Audit of accounts of a body or authority at the request of the President or the Administrator of UT having a legislative assembly

addition, the C&AG conducts audit of 64 other autonomous bodies, under Section 14⁵ of the C&AG's (DPC) Act, which are substantially funded by the Government. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the C&AG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the C&AG as per provisions of Section 619 of the Companies Act, 1956. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

1.4 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments and corporations/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 findings 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 containing audit findings are issued to the heads of the departments/corporations/companies. The departments/corporations/companies are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Report, which is submitted to the Lieutenant Governor of the Union Territory under Article 149 of the Constitution of India and Section 49 of the Union Territories Act, 1963.

During 2012-13, 168 units of various departments/organisations/companies/corporations were audited for Compliance Audits and Performance Audits.

⁵ Audit of all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of UT having legislative assembly

1.5 Significant audit observations

In the last few years, Audit has reported on 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/organizations are also reported upon.

1.5.1 Performance Audit of programmes/activities

The present Report contains two Performance Audits. The highlights of audit findings are given in the following paragraphs:

1.5.1.1 Performance Audit on ‘Rural Water Supply Schemes’

The Union Territory Government of Puducherry implemented Rural Water Supply (RWS) schemes to provide safe and clean drinking water to rural population. Performance Audit of RWS schemes was taken to assess whether utilization of ground water, creation of required infrastructure for supply, operation and maintenance of RWS schemes was economical, effective and that the water supplied met with quality requirements. Performance Audit revealed following significant audit observations:

Implementation of RWS schemes suffered due to unregulated extraction of ground water and non-adoption of supply norms, which would adversely affect sustainability of limited ground water source.

Designing of schemes deviating from the norms prescribed by Central Public Health and Environmental Engineering Organisation resulted in avoidable extra expenditure.

Water charges levied were not sufficient to meet the Operation and Maintenance expenses as envisaged in the National Water Policy and there was also huge arrear in collection of water charges.

The quality of water supplied was not as per the prescribed standards.

(Paragraph 2.1)

1.5.1.2 Performance audit on Implementation of Value Added Tax in Union Territory of Puducherry

The returns prescribed under the Puducherry Value Added Tax did not facilitate cross verification of the claim of input tax credit by dealers.

The Department did not ensure adherence by the dealers to the provisions of the Act/Rules regarding filing of certificate in Form ‘CC’.

There was delay in finalisation of assessments which were selected for detailed scrutiny of accounts.

Absence of validation checks in the software rendered the information captured in the system unreliable.

(Paragraph 4.9)

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 of revenue, wasteful/avoidable expenditure, blocking of funds and other irregularities. Some of the important audit findings are given below:

Failure of Revenue department to verify title deeds and action of the Project Implementation Agency in releasing cash assistance to beneficiaries without any binding conditions for recovery in case of default resulted in wasteful expenditure of ₹ 52.92 lakh.

(Paragraph 3.1.1)

Calling for tenders for procurement and supply of Colour Television to households free of cost, without finalizing scheme guidelines resulted in non-implementation of scheme leading to wasteful expenditure of ₹ 40.13 lakh towards advertisement of tenders.

(Paragraph 3.1.2)

Adoption of wrong price indices while calculating the price variation for steel and cement led to overpayment of ₹ 27.36 lakh and undue benefit to contractors.

(Paragraph 3.1.3)

Delay in granting expenditure sanction for a road work under Revamped Central Road Fund resulted in avoidable extra expenditure of ₹ 1.76 crore.

(Paragraph 3.2.1)

Failure of the Public Works Department to ensure availability of clear site before inviting tenders and failure of Hindu Religious Institutions to evict encroachments resulted in foreclosure of contract and award of work to the same contractor in second call with an additional liability of ₹ 0.59 crore

(Paragraph 3.2.2)

Imprudent action of the Public Works Department in commencing the work of laying distribution grid without ensuring availability of land for construction of OHT resulted in idle expenditure of ₹ 7.82 crore spent on distribution grid.

(Paragraph 3.3.1)

Failure of the Department to ensure availability of land before release of funds resulted in blocking of funds of ₹ 1.86 crore outside Government account for more than two years.

(Paragraph 3.3.2)

Non-provision of separate entrance for staff quarters constructed within the Jail complex resulted in idle expenditure of ₹ 84.15 lakh.

(Paragraph 3.3.3)

Public Private Partnership of development of Karaikal port

The UT Government issued EOI for port development without specifying pre-qualification criteria for selection of concessionaire. Selection procedure was not proper as it was done on the basis of unstructured presentation without specifying criteria for evaluation or adopting pre-determined quantitative and qualitative parameters. The revenue share of 2.60 *per cent* was fixed after award of the contract, defeating the very purpose of competitive bidding.

The CA contained various deficiencies such as failure to safeguard the financial interest of UT Government in the event of termination of CA, irregular provision for engagement of the Concessionaire's own staff as Expert, etc. Financial and operational Audits were not conducted and the concessionaire was allowed to develop subsequent phases of the Port without submission of revised DPR.

The monitoring system was weak due to failures of UT Government in appointing a director to the Board of Directors of the Port, non-engagement of an independent engineer, non-constitution of separate bodies for monitoring of the Project, irregularity in operation of escrow account, non-conducting of annual physical verification of assets of the Project etc.

(Paragraph 3.4)

1.5.3 Commercial and trading activities

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of the Government companies are audited by Statutory Auditors appointed by C&AG. These accounts are also subject to supplementary audit conducted by C&AG. As on 31 March 2013, the Union Territory of Puducherry had 13 working PSUs, which employed 5,829 employees. These PSUs registered a turnover of ₹ 373.92 crore as per the latest finalised accounts. This turnover was equal to 2.18 *per cent* of State GDP for the year 2012-13. The PSUs incurred an overall loss of ₹ 31.68 crore and had accumulated losses of ₹ 496.38 crore as per their latest finalised accounts.

As on 31 March 2013, the investment (capital and long term loans) in all 13 PSUs was ₹ 711.15 crore. It grew by 8.06 *per cent* from ₹ 658.10 crore

in 2008-09 to ₹ 711.15 crore in 2012-13. Financing and Manufacturing sectors accounted for 19 *per cent* and 56.26 *per cent* respectively of total investment in 2012-13. The Government contributed ₹ 107.22 crore towards equity, loans and grants during 2012-13.

As per the latest finalised accounts, three PSUs earned a profit of ₹ 14.79 crore and nine PSUs incurred loss of ₹ 46.47 crore. The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. The PSUs can discharge their role efficiently if they are financially prudent. There is a need for professionalism and accountability in functioning of PSUs.

Twelve PSUs had arrears of 24 accounts as of September 2013. Arrears need to be cleared by setting targets for PSUs and expediting the work relating to preparation of accounts.

(Paragraph 5.1)

Buses and additional fitments worth ₹ 3.48 crore procured out of Central assistance were kept idle for more than two years.

(Paragraph 5.2)

1.6 Response to Audit

Twelve Draft Paragraphs (DPs) and two draft Performance Audits (PAs) were forwarded demi-officially to the Development Commissioners/Secretaries of the departments concerned between June 2013 and January 2014 with the request to send their responses within six weeks. Government replies have been received in respect of only three DPs and two PAs. The replies, wherever received, have been suitably incorporated in the Report.

A review of the Inspection Reports (IRs) issued upto 31 December 2012 revealed that 3,158 paras relating to 837 IRs remained outstanding at the end of June 2013 (**Appendix 1.1**).

1.7 Follow up on the Audit Reports

The Committee on Public Accounts (PAC) prescribed a time limit of three months for the departments for furnishing replies to the audit observations included in the Audit Reports indicating the corrective/remedial action taken or proposed to be taken by them and for submission of Action Taken

Notes on the recommendations of the PAC by the departments. The pendency of paragraphs/recommendations for which replies/Action Taken Notes had not been received is as follows:

- (a) Out of 49 paragraphs included in the Audit Reports relating to the years from 2009-10 to 2011-2012, departmental replies were not received for 41 paragraphs as of February 2014.
- (b) Government departments had not furnished Action Taken Notes as of February 2014 on 318 recommendations made by the PAC in respect of Audit Reports pertaining to the period 1988-89 to 2008-09.

CHAPTER II

PERFORMANCE AUDIT

CHAPTER II

This chapter contains Performance Audit on 'Rural Water Supply Schemes'.

LOCAL ADMINISTRATION AND PUBLIC WORKS DEPARTMENTS

2.1 Performance Audit on 'Rural Water Supply Schemes'

Executive Summary

The Union Territory Government of Puducherry implemented Rural Water Supply (RWS) schemes to provide safe and clean drinking water to rural population. Performance Audit of RWS schemes was conducted to assess whether utilization of ground water, creation of required infrastructure for supply, operation and maintenance of RWS schemes was economical, effective and that the water supplied met with quality requirements. Performance Audit revealed following significant audit findings:

Implementation of RWS schemes suffered due to unregulated extraction of ground water and non-adoption of supply norms, which would adversely affect sustainability of limited ground water source.

Designing of schemes deviating from the norms prescribed by Central Public Health and Environmental Engineering Organisation resulted in avoidable extra expenditure.

Water charges levied were not sufficient to meet the Operation and Maintenance expenses as envisaged in the National Water Policy and there was also huge arrear in collection of water charges.

The quality of water supplied was not as per the prescribed standards.

2.1.1 Introduction

The Union Territory of Puducherry comprises four geographically isolated regions viz., Puducherry, Karaikal, Mahe and Yanam. Mahe and Yanam are urban areas and only Puducherry and Karaikal have rural population

of 4.86 lakh¹ spread over 10 Commune Panchayats² (CP). The Union Territory Government of Puducherry (UT Government) is implementing Rural Water Supply (RWS) schemes as part of its policy to provide potable, protected and permanent drinking water supply facilities to rural population. The Eleventh Five Year Plan document (2007-12) of UT Government proposed to give thrust for qualitative improvement of water, augmentation/rehabilitation of supply systems and sustained availability of water on long-term basis by improving performance and cost effectiveness. Drinking water supply in Puducherry region relies totally on ground water resources while Karaikal region depends both on surface and ground water. The Public Works Department (PWD) is responsible for creation of infrastructure facilities such as sinking of borewells, erection of pump sets, construction of overhead tanks/underground sumps, laying of distribution lines and commissioning of the Water Supply System. During 2008-13 an amount of ₹ 110.69 crore has been spent towards implementation of various RWS schemes.

2.1.2 Organisational set up

The Secretaries to the Government of Puducherry, Public Works and Local Administration (LAD) are administrative heads for planning RWS schemes. The Chief Engineer, PWD, is responsible for formulation and execution of RWS schemes. The Director, LAD is responsible for Operation and Maintenance of RWS Systems handed over by the PWD with the assistance of Commissioners of CPs.

2.1.3 Audit objectives

The audit objectives were to assess whether

- Proper policies/plans in line with National Water Policy were formulated, based on assessment of requirement and availability of water to provide safe and adequate quantity of drinking water to rural population as per norms
- Adequate attention was accorded to ensure sustainability of water sources and environmental issues were suitably addressed
- Financial Management was effective and funds were provided in a timely fashion and schemes were executed and implemented within the stipulated time and cost
- Repairs and maintenance of the existing water supply assets were effective for ensuring uninterrupted water supply

¹ Includes population of Ariyankuppam, Manaveli, T.R pattinam and Villianur census towns as they fall under their respective CPs.

² Ariyankuppam, Bahour, Manadipet, Nettapakkam and Villianur in Puducherry region; Kottucherry, Nedungadu, Neravy, T.R. Pattinam and Thirunallar in Karaikal region.

- Mechanism for monitoring of quality of water supply and surveillance was adequate and effective.

2.1.4 Audit Criteria

The performance audit was benchmarked against criteria derived from the following sources:

- National Water Policy 2002
- Central Public Health and Environmental Engineering Organisation manual on water supply (CPHEEO)
- Guidelines, instructions issued by GOI and the UT Government from time to time
- Plan Documents of UT Government
- Vision 2020 document of UT Government.

2.1.5 Audit Scope and Methodology

Performance Audit was conducted during April-August 2013 and records relating to the period 2008-13 were test-checked at Government Secretariat, Directorate of Local Administration, the Chief Engineer office, PWD, Public Health Division - PWD (Puducherry and Karaikal) and five CPs³ (out of 10 CPs) selected on simple random sampling method. Prior to commencement of audit, entry conferences were held (April 2013) with the Secretaries of PWD and LAD wherein the audit objectives, audit criteria and methodology of audit were discussed. Audit findings were discussed with the Secretaries of PWD and LAD in exit conferences held during December 2013 and their replies have been incorporated.

Audit Findings

2.1.6 Planning

2.1.6.1 *State Water Policy is yet to be notified*

The National Water Policy, 2002 formulated (April 2002) by Government of India, *inter alia*, prescribes that

³ Bahour, Villianur, Kottucherry, Neravy and T.R.Pattinam

- exploitation of ground water resources should be regulated and over exploitation of ground water should be avoided especially near the coast to prevent ingress of seawater
- efficiency of utilization in all diverse uses of water should be optimized and an awareness of water as a scarce resource should be fostered
- besides creating additional resources, adequate emphasis needs to be given to physical sustainability of existing resources by levying water charges for various uses in such a way that they cover at least the operation and maintenance charges.

Towards achieving these objectives, National Water Policy stipulated that State Water Policy should be formulated within two years for effective management of water resources. However, the Department of Science and Technology, Puducherry, formulated a State Draft Water Policy (SDWP) only in November 2012 containing a section on Drinking water regarding periodical monitoring of quality of water, water pricing for ensuring physical and financial sustainability of the systems, etc., and called for comments from all stake holders. As such SDWP is yet to be notified (December 2013) even after lapse of nine years.

The UT Government replied (January 2014) that State Water Policy is being finalized. However, in absence of such policy, the available ground water resources were over-exploited, slackness in periodical monitoring of water quality was noticed and demand charges raised were not sufficient to meet the operation and maintenance cost as discussed in succeeding paragraphs.

2.1.6.2 *Failure in regulation of ground water extraction*

Over extraction of ground water resource

With a view to regulate extraction of ground water, the UT Government declared (February 2005) Puducherry and Karaikal regions as notified area and any user who proposes to use ground water has to get permit from State Ground Water Authority (SGWA) for sinking borewell and fix Bulk meters at strategic points to measure the water supplied as mandated by CPHEEO. Though ground water level continued to deplete at the rate of one to 1.5 metre per year as per the report (2008-09) of State Ground Water unit, SGWA permitted PWD and CPs to drill 259 borewells under RWS during 2008-13. An analysis of number of borewells, population and quantity of water extracted in sample CPs as on March 2013 against the requirement of maximum of 70 Litres Per Capita per Day (lpcd), indicated excess extraction as given in **Table 1** below:

Table 1 – Over extraction of water in sample CPs

Commune Panchayats	Number of borewells	Population (census 2011)	Requirement at 80.5 ⁴ lpcd (MLD)	Actual extraction (MLD)	Excess drawal (MLD) (5-4)	Actual lpcd supplied (5/3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Bahour	50	68757	5.53	22.01	16.48	320
Villianur	111	126798	10.21	42.44	32.23	335
Kottucherry	19	23186	1.87	1.06	- 0.81	46
Neravy	6	12841	1.03	1.96	0.93	152
T.R.Pattinam	6	21335	1.72	4.03	2.31	189
Total	192	252917	20.36	71.50	51.14	

(Source: Details furnished by CPs and information in col. 4 to 7 worked out by audit based on norms; MLD – Million litres per day)

Against requirement of 20.36 MLD of water, 71.50 MLD was extracted resulting in excess extraction of 51.14 MLD except in one CP (Kottucherry). The UT Government replied (January 2014) that CPs would be directed to effect metered water supply in rural areas to avoid wastages and to follow CPHEEO norm for piped water supply. It further stated that action would be initiated to provide bulk water meter at borewell points in future.

2.1.6.3 Formulation of water supply schemes without conducting habitation survey

Planning and Research department obtains plan proposals every year in terms of habitations/villages/population from PWD to be covered in the ensuing year and fund requirement for implementation of RWS schemes. It was noticed that PWD proposed water supply schemes without conducting any habitation survey to identify the status of existing drinking water supply and quantity/quality of water. The UT Government claimed in the Draft Annual Plan 2007-08 that all the villages were fully covered under RWS. However, in absence of habitation survey, the department lost the opportunity to identify the habitations which had slipped back from fully covered to partially/not covered and to plan suitably.

The Government replied (January 2014) that water supply schemes were formulated based on the census report as per CPHEEO norms and the habitation survey was conducted to assess the exact population. The Puducherry region had to cater to the needs of migrating population from Tamilnadu and hence additional borewells were required beyond the

⁴ Includes 15 per cent on 70 lpcd towards unaccounted transmission loss as per CPHEEO norms

replacement borewells in lieu of defunct borewells. However requirement of water should have been provided based on the habitation survey.

2.1.7 Scheme Implementation

2.1.7.1 Construction of OHTs with capacity more than required

Over Head Tanks were constructed with capacity more than the required norms leading to excess expenditure

As per CPHEEO guidelines, designing of schemes should be based on projected population for design period and respective daily water supply requirement. CPHEEO further prescribes that design period of Over Head Tank (OHT) should be for 15 years. However, it was noticed that in respect of four schemes, PWD had projected the population for 30 years instead of 15 years as prescribed by CPHEEO. As a result the respective four OHTs under these schemes were constructed with excess capacities than required at a cost of ₹ 3.54 crore (**Appendix 2.1**).

Had PWD correctly adopted population projection for 15 years, the cost of construction of OHTs could have been limited to ₹ 2.18 crore (approximate). Further construction of OHTs with higher capacity than required would only lead to over exploitation of ground water and excess supply as discussed earlier as water is being supplied to the present population from these OHTs, which were filled twice a day. Thus, wrong adoption of population figures by PWD resulted in construction of OHTs with excess capacity than actually required leading to an excess expenditure of ₹ 1.36 crore.

Though the Government justified (January 2014) the design period taken as 30 years, they accepted audit observation and stated that future design would be made for 15 years.

2.1.7.2 Objective of preventing seawater ingress not achieved

Vision 2020 document suggested (March 2003) that due to sea water intrusion upto five to seven kilometers in coastal areas, any extraction of ground water has to be done only beyond this distance. Considering sea water intrusion in coastal villages of Bahour CP having a projected population of 13718, the work of “Augmentation of water supply system to coastal villages in Bahour Commune (South Zone)” was taken up by PWD during 2003-04 with an aim of providing water from two new borewells to be sunk at villages located at a distance of more than six kilometers from shoreline.

Though the work of construction of OHT was completed (March 2006) at a cost of ₹ 77.74 lakh, the work of sinking two new borewells was not taken up due to paucity of fund. Works of laying distribution lines and other sub works were completed at a cost of ₹ 249.65 lakh and the scheme was handed over to the CP in August 2012 after connecting OHT with existing four old borewells located within three kilometers from shoreline in the villages of Bahour CP itself. Thus the objective of preventing extraction of

ground water in coastal area to avoid ingress of seawater was defeated despite an investment of ₹ 327.39 lakh.

When pointed out, the UT Government replied (January 2014), that only existing four borewells were connected without going for new borewells. Drawing more water from existing borewells in the coastal area would only result in ingress of seawater.

2.1.7.3 Excess expenditure due to non-consideration of DI pipes

Ductile Iron (DI) pipes are more flexible and elastic and less brittle than Cast Iron (CI) pipes. DI pipes are strong and stand up better to hydraulic pressure tests as required by service regulations and are approximately 30 *per cent* lighter than conventional CI pipes with same life period as that of CI pipes. Moreover, cost of DI pipes was less than that of CI pipes. In view of above, UT Government directed (October 2006) PWD to adopt DI pipes to the extent possible for water supply lines. Despite this, in respect of 5 OHTs⁵ constructed during 2008-13, PWD utilized CI pipes for inlet, outlet, overflow and washout lines, thus leading to an excess expenditure of ₹ 12.32 lakh.

UT Government accepted audit observation and stated (January 2014) that in future DI pipes would be utilized in RWS schemes.

2.1.7.4 Creation of unnecessary infrastructure

(i) UT Government accorded (March 2011) expenditure sanction for ₹ 18.20 crore towards implementing the scheme of “providing water supply scheme for Manavelly, Thattanchavadi, G.N. Palayampet, Odiyampet and adjoining areas in Villianur Commune Panchayat” and water was proposed to be extracted from seven borewells. When construction of OHT was in progress, PWD proposed (August 2011) to provide pumping main from another existing borewell located in Athuvaikalpet, in addition to seven borewells to improve source to OHT by utilizing savings available in the estimate of above work. After obtaining necessary approvals, this work was completed at a cost of ₹ 23.71 lakh. Scrutiny of project report revealed that yield from the seven borewells originally proposed was sufficient to supply water to OHT for the designed population under the scheme. As such executing this work in addition to the seven borewells was unnecessary resulting in avoidable expenditure of ₹ 23.71 lakh.

UT Government replied (January 2014) that as the command area of OHT is designed including Athuvaikalpet, it is essential to utilize the existing borewell in Athuvaikalpet. But, the entire command area could be adequately covered with yield from seven borewells originally proposed

⁵ Chinna Arachikuppam, Sendhanatham, Moorthikuppam, Pathakudy and Melakasakudi

and work of connecting this borewell was actually taken up probably to utilize the savings which was not in order. Further, this borewell had become defunct as it was damaged by local miscreants even before commencement of scheme, and thus expenditure on this account remained unfruitful.

(ii) To augment water supply source in coastal areas, UT Government sanctioned (December 2003) the work of 'Augmentation of Water supply to the Coastal village of Bahour CP (North zone)'. Work was designed to supply 1.40 MLD of water to the projected population of 20065 in the year 2033 spread over eight villages. Scheme was commissioned in November 2010. Meanwhile, PWD proposed (August 2010) sinking of another bore well at Kirumampakkam village along with pumping main for a cost of ₹ 25.89 lakh and completed the work in January 2012. Scrutiny of records revealed that the OHT was connected to five other borewells having yield of 2.43 MLD which was more than sufficient to meet the demand as proposed in the project report. As such the additional infrastructure created at a cost of ₹ 25.89 lakh was unnecessary.

During exit conference, the Department replied (December 2013) that considering the excess yield all the sources would be operated with reduced pumping hours.

2.1.8 Operation and Maintenance of water supply system

Infrastructure facilities created by PWD in rural areas for RWS are handed over to respective CPs except those created in Headquarters area of five CPs in Puducherry region, which are operated and maintained by the Public Health (PH) Division, PWD on behalf of CPs.

2.1.8.1 Non-revision of domestic water charges

Domestic Water charges levied were not sufficient to meet the O & M expenses

National Water Policy stipulates that water charges shall be fixed so that revenue derived from water supply should meet at least the Operation and Maintenance (O & M) charges. Besides, the Vision 2020 document indicated that cost of supply of water being ₹ five per cu.m, under-pricing of water at the rate ₹ 0.50 per cu.m for domestic consumers is a major cause for over extraction and suggested that the initial hike of water charges should not be less than ₹ two per cu.m and ultimately the domestic consumer should pay the full cost of domestic water supply. A review of the water charges levied by CPs and PWD revealed the following:

(i) In respect of systems maintained by CPs, water charge was levied at the rate of ₹ 10 per month per water connection (₹ 20 in Manadipet CP) since 1984. **Table 2** gives the details of demand charges raised and the corresponding O & M expenses of CPs in Puducherry and Karaikal region.

Table 2 – Shortfall in meeting O & M expenditure

Region	Demand Charges* (₹ in crore)	O & M expenditure (₹ in crore)	Percentage of demand charges against O & M expenditure
Puducherry	1.75	13.35	13
Karaikal	0.63	4.67	13

* calculated at ₹ 10 per connection per month

No tariff revision for domestic consumers was considered for nearly three decades and as a result demand charges levied during 2008-13 could meet only 13 *per cent* of the O & M charges as shown in **Table 2** above.

(ii) In respect of systems maintained by PWD, water charges were levied for domestic consumers at a rate of ₹ 0.50 per 1000 litres or ₹ 45 per quarter on a flat rate basis in the event of defective meters. Mention was made in Audit Report 2006-07 (paragraph 3.1.8.2) that existing water tariff does not meet even the O & M charges as stipulated by CPHEEO.

Though in reply to above para UT Government stated (November 2007) that Audit views would be considered as and when the water tariff is revised, tariff revision was done for commercial supply alone during January 2010 and tariff for domestic supply was not revised to meet the O & M expenses. Further, as of September 2013, there was an arrear of ₹ 10.66 crore on account of water charges yet to be collected from the consumers, indicating slackness in collection.

The UT Government replied (January 2014) that proposal for revision of tariff is under consideration and action is being taken to collect arrears.

2.1.8.2 Non-functioning of water meters

Demand charges for water supplied were collected on quarterly basis. In the sample CPs of Bahour and Villianur, 4585 out of 5706 meters, available under the control of PWD, were in a state of disrepair (80 *per cent*) as of December 2012. Scrutiny of water charges collected revealed the following:

- Though non-functioning water meters accounted for 80 *per cent*, no action was taken to rectify them.
- 4,585 consumers had not paid flat rate charges for a period ranging from three months to 39 months amounting to ₹ 26.81 lakh.
- 110 commercial consumers were levied water tariff at domestic rate.

- Though rules provided for disconnection of water service in case of defaulters, no concrete action was taken by PWD except publishing notification in newspapers.

The UT Government replied (January 2014) that action is being taken to levy commercial tariff for commercial consumers.

2.1.8.3 *Non-collection of water charges*

Maintenance of 1,110 water connections pertaining to five villages⁶ which were earlier maintained by Villianur CP were handed over to PWD during the year 2006. Audit scrutiny revealed that since their transfer neither PWD nor CP levied water charges on these water connections due to communication gap regarding number of connections handed over by CP, resulting in loss of revenue amounting to ₹ 9.99 lakh⁷ to PWD during the last five years.

The UT Government replied (January 2014) that action would be taken to collect the water consumption charges from the consumers.

2.1.8.4 *Unauthorised connections not regularized*

Bahour and Villianur CPs had a total of 16427 water connections as of October 2013. However a survey conducted by Health Department through Primary Health Centres revealed that 21929 houses had water connections in Bahour and Villianur CPs. This indicates poor implementation/monitoring leading to loss of revenue at the rate of ₹ 6.60 lakh⁸ per annum.

When pointed out, UT Government replied (January 2014) action would be taken to identify unauthorized connections.

2.1.9 *Quality of water supplied*

Bureau of Indian Standards (BIS) and CPHEEO prescribed biological, chemical and physical norms for ensuring quality of drinking water supplied. If quality of water is not satisfactory necessary remedial measures have to be taken to ensure safe and clean drinking water. In UT, water samples are collected and forwarded to Laboratories for quality check. Following deficiencies were noticed in quality of water supplied.

⁶ Agaram, Koodapakkam, Olavaikal, Poraiyur and Senthatham

⁷ ₹ 45 x 1110 x 20 quarters (five years :2008-13)

⁸ 5,502 x ₹ 10 (minimum levied by CPs) x 12 months

Quality of water supplied could not be ensured due to delay in communicating the test results of water samples

2.1.9.1 Deficiencies in quality of water supplied

Indian Standard 10500:1991 stipulated that if bacteriological test results showed presence of coliform organism, repeat sampling had to be done immediately to confirm the result for taking remedial measures. Water samples were collected by staff of Primary Health Centres of the respective CPs and submitted in the labs for water quality monitoring. Though test results of samples delivered were available the next day, results were collected only when staff made their next visit to the Lab for submission of next batch of samples.

Out of 2,412 samples, 704 (29 *per cent*) were found to be not fit for drinking/not satisfactory in respect of bacteriological testing. However, the test results were collected only after a delay of nearly 7 to 28 days. As a result, repeat sampling in respect of quality affected water could not be done immediately defeating the very objective of sample testing. Apart from this, water from 22 borewells was found to be unfit due to high iron content while water from 16 other borewells was found to be with high sodium content indicating possible sea water intrusion.

During exit conference the Secretary to Government replied (December 2013) that necessary instructions would be issued to get the results on the day of test itself and that all sources would be tested and orders would be issued to close the quality affected borewells.

2.1.9.2 Non-availability of equipment for testing the presence of heavy metals

Indian Standard 10500:1991 stipulates that drinking water should be tested for 43 physical and chemical parameters to ascertain its quality other than bacteriological, pesticide residues, virological, biological and radioactive tests. However, water samples were tested only for 21-22 parameters. The presence of heavy metals/toxic elements such as Copper, Aluminium, Chromium, Cadmium, Mercury etc., could not be analysed, as necessary equipment was not available. Hence, PH Division proposed (March 2010) to purchase an Atomic Absorption Spectrophotometer (AAS) to analyse them. However no action was taken in this regard and water is supplied without testing for presence of heavy metals in violation of stipulated norms.

When pointed out, the UT Government replied (January 2014) that action would be initiated at the earliest to procure Atomic Absorption Spectrophotometer.

2.1.9.3 Non supply of Field Test Kits

Under 'National Rural drinking water quality monitoring and surveillance Programme' 100 *per cent* of Rural Drinking water sources must be initially

screened for water quality by nine easily detectable parameters such as pH, salinity, hardness, alkalinity, nitrate, fluoride and bacteriological testing etc., GOI also instructed all State Governments (August 2010) to procure Field Test Kits (FTKs) and distribute them to all Gram Panchayats. Though UT had 98 village panchayats, only 33 FTKs were available and the same were retained by PH laboratory on the ground that village panchayats lacked proper institutional setup. As such, none of the village panchayats were provided with FTKs and the objective of initial screening, which could be easily done as envisaged through supply of FTKs, stands defeated.

The UT Government replied (January 2014) that FTKs could not be issued to Gram Panchayats as there was no proper institutional setup viz., CCDU which is required for the continuous water quality monitoring and surveillance activities and hence the procured FTKs were utilized in laboratory for testing purpose and also for demonstration during training session. However, reply goes against the instructions of GOI.

2.1.10 Conclusion

Implementation of RWS schemes suffered due to unregulated extraction of ground water and non-adoption of supply norms, which would adversely affect sustainability of limited ground water source. Designing of schemes deviating from the norms prescribed by CPHEEO resulted in avoidable extra expenditure. Water charges levied were not sufficient to meet the Operation and Maintenance expenses as envisaged in the National Water Policy and there was also huge arrear in collection of water charges. The quality of water supplied was not as per the prescribed standards.

2.1.11 Recommendations

- Steps may be taken to regulate over exploitation of ground water to ensure sustainability of the scarce resource.
- Necessary norms may be complied with for implementing the RWS schemes effectively and economically to avoid creation of idle assets.
- Due care may be taken to ensure safe and clean drinking water as per prescribed standards.

CHAPTER III

COMPLIANCE AUDIT

CHAPTER III

COMPLIANCE AUDIT

This chapter presents the results of Compliance Audit of various departments of the Government, their field formations, local and autonomous bodies. Instances of lapses in the management of resources and failures in observance of the norms of regularity, propriety and economy have been presented in the succeeding paragraphs:

3.1 Wasteful Expenditure/Over payment

REVENUE AND DISASTER MANAGEMENT DEPARTMENT

PROJECT IMPLEMENTATION AGENCY

3.1.1 Wasteful expenditure due to non-construction of houses

Failure of Revenue department to verify title deeds and action of the Project Implementation Agency in releasing cash assistance to beneficiaries without any binding conditions for recovery in case of default resulted in wasteful expenditure of ₹ 52.92 lakh.

UT Government established (April 2005) the Project Implementation Agency (PIA) for implementing various relief works under ‘Tsunami Reconstruction and Rehabilitation projects’ and released an amount of ₹ 75 crore to it during 2005-06 under World Bank assistance. The main objective of PIA was to carry out repair and reconstruction of houses which have been damaged or destroyed by Tsunami (December 2004) by providing financial assistance to beneficiaries. Under this programme, on receipt of application from beneficiary, Revenue department would conduct field inspection to ensure that land is available/in possession of beneficiary to reconstruct house and would forward eligible applications to PIA.

PIA would enter into an agreement with beneficiary for construction of house and release financial assistance of ₹ 2.80 lakh in four¹ installments. The beneficiary has to complete construction within 12 months from the date of signing agreement. If the beneficiary fails to complete atleast 50 *per cent* of construction within six months, the agreement provided that construction of house would be executed by PIA and three *per cent* of the cost of construction executed would be recovered from beneficiary.

¹ ₹ 84,000 (30 *per cent* on signing of agreement), ₹ 84,000 (30 *per cent* on completion upto roof level), ₹ 70,000 (25 *per cent* on completion of roof) and ₹ 42,000 (15 *per cent* on completion of construction)

However, the agreement did not provide any penalty clause for recovering the amount released, from the defaulting beneficiaries, who fail to take up the work.

Scrutiny of records (2012) revealed that during 2010-11, PIA issued expenditure sanction for ₹ 32.84 crore in respect of 1,148 beneficiaries in Puducherry region for reconstruction of houses. However, it was noticed that as of September 2013, 63 beneficiaries who received first installment of ₹ 84,000 as early as in April 2010 did not take up construction work so far. PIA had not taken any action in respect of these beneficiaries except sending one memorandum during April-August 2011. It was noticed that out of 63 beneficiaries, eight beneficiaries did not possess valid documents for their respective sites while in respect of five other beneficiaries their respective sites could not be identified.

When pointed out, PIA replied that expenditure sanctions were issued based on the list provided by Revenue department without verifying the title deeds and hence work could not be taken up as certain litigations regarding title deed of the property and possession crept in while commencing construction. It further stated that construction work in respect of defaulters could not be taken up by PIA as provided in the agreement due to dearth of technical staff. However PIA should have included penalty clause in the agreement for recovery of amount from beneficiary in case of default.

Thus failure of the Revenue Department to ensure availability of land with proper title deeds and failure of PIA in releasing financial assistance without any binding conditions resulted in wasteful expenditure of ₹ 52.92 lakh².

The matter was referred to Government in October 2013; reply has not been received (January 2014).

INFORMATION AND PUBLICITY DEPARTMENT

3.1.2 Wasteful expenditure on advertisement

Calling for tenders for procurement and supply of Colour Television to households free of cost, without finalizing scheme guidelines resulted in non-implementation of scheme leading to wasteful expenditure of ₹ 40.13 lakh towards advertisement of tenders.

The Government of Union Territory of Puducherry proposed (October 2009) to purchase and distribute Colour Television (CTV) sets free of cost to households living Below Poverty Line (BPL) through Information and

² 63 x ₹ 84,000

Publicity Department (Department). A High Level Committee (HLC) was constituted (November 2009) to monitor activities relating to formulation and implementation of the scheme. HLC meeting was held during November 2009 to formulate the scheme guidelines. However no decision was reached on the basic parameters such as the target beneficiaries of scheme, number of households to be covered and size of CTVs to be purchased. HLC did not meet again to finalise these issues for successful implementation of scheme. An amount of ₹ 40 crore was provided in the budget 2009-10 for implementing it, which was surrendered in March 2010.

An amount of ₹ 60 crore was again provided in the budget 2010-11 for the scheme. The Department floated (13 April 2010) a tender for value of ₹ 60 crore for supply of 1.5 lakh CTVs in two sizes (14” and 21”) without finalizing the basic parameters of the scheme. However, opening of tenders was postponed (May 2010) as tender schedule did not contain technical specification of the CTVs to be purchased. Meanwhile the scope of scheme was widened to cover all ration card holders (3.26 lakh) instead of BPL families (1.48 lakh) as initially proposed in August 2009. Tender was cancelled (September 2010) as the financial powers of the competent authority was only ₹ 25 crore and a second tender for value of ₹ 25 crore for supply of 60,000 CTVs was floated on 8 September 2010 for purchase of either 14” or 21” CTV, still without framing guidelines. However, opening of tenders received during second call too was postponed (8 October 2010) as no concrete decision was taken regarding the size of CTV. Further, it was also decided (October 2010) to explore possibility of supplying Direct to Home (DTH) antennas to the households which do not opt for CTVs resulting in further delay in implementation of the scheme.

Meanwhile, the Finance Department instructed (December 2010) not to incur any expenditure under the CTV scheme in order to meet expenditure of emergent nature towards flood relief measures and the budget provision made during 2010-11 was surrendered/diverted. The scheme was not pursued any further. In the meanwhile ₹ 40.13 lakh was spent towards cost of advertisement calling for global tenders twice for procurement of CTVs and their subsequent postponement/cancellation.

Failure of the Government to implement the scheme without firming up the guidelines such as target beneficiaries to be covered under scheme, kind of free supply item (i.e. CTV or DTH) to be given and size of CTVs to be purchased etc., resulted in wasteful expenditure of ₹ 40.13 lakh on account of advertisement charges on publication of tenders.

When pointed out, Government accepted the delay in finalising the size and number of CTV. However, it contended that planning was not poor and stated that scheme could not be implemented only due to requirement of funds to meet the expenses of emergent nature on account of natural calamity, and therefore, the expenditure on advertisement was justified.

However, funds were provided in the budgets of 2009-10 and 2010-11 and were available between April 2009 and December 2010. The surrender on account of natural calamity was only in December 2010. Audit contention is that the expenditure on calling for tenders without finalizing the basic parameters, which led to the tenders not being fruitful, pointed to faulty planning. Therefore action of initiating premature procurement led to wasteful expenditure of ₹ 40.13 lakh on account of tender advertisement charges.

PUBLIC WORKS DEPARTMENT

3.1.3 Overpayment to contractors

Adoption of wrong price indices while calculating the price variation for steel and cement led to an overpayment of ₹ 27.36 lakh to contractors.

The clause 10 CA introduced (September 2004) by Central Public Works Department provided for price variation for steel/cement during the stipulated period of contract. Price variation under this clause was to be calculated based on the price indices for steel/cement as valid on the last stipulated date of receipt of tender including extensions, if any, and price indices during the period under consideration (CI). Further in respect of works which were allowed justified Extension of Time (EOT), price variation would be limited to price indices prevailing at the time of stipulated date of completion or as prevailing for the period under consideration, whichever is less. The price indices for steel/cement were revised on quarterly basis and communicated to all the divisions/circles of Public Works Department (PWD) for adoption while calculating price variation in respect of dates falling in the respective quarterly period.

The Executive Engineer, PWD, Yanam executed two sub works viz., construction of compound wall and construction of ancillary building under the main work 'Landscaping and tourist amenities around the Yanam Obelisk'. The works put to tender on 10 December 2010 were awarded to two contractors during January 2011 at a cost of ₹ 1.86 crore and ₹ 1.85 crore respectively with 3 May 2011 as stipulated date of completion. The work of construction of ancillary building was completed in March 2012 (treated as justified EOT) and the work of construction of compound wall was completed in June 2012.

Scrutiny of records revealed that the EE allowed (December 2011) price variation of ₹ 16.71 lakh for 54.79 Metric Tonnes (MT) of steel and 222.20 MT of cement brought to site within stipulated period of completion of both the works by adopting the price indices of steel and cement as on

1 April 2010 (as instructed by the Chief Engineer while approving the tender), instead of adopting price indices of steel/cement as on 10 December 2010 which was the stipulated last date of tender as per the provisions of clause 10 CA.

Further, in respect of the sub work ‘construction of ancillary building’, the EE allowed (September 2012) price variation of ₹ 25.27 lakh in respect of 77.50 MT of steel and 250.52 MT of cement brought to site during justified EOT by adopting the price indices of steel/cement as on date of running account bills instead of price indices as on stipulated date of completion which was lesser than the period of consideration as per the provisions of clause 10 CA.

Had the correct price indices been adopted as per the provisions of clause 10 CA, price variation would have been limited to ₹ 14.62 lakh instead of ₹ 41.98 lakh. Thus, the action of the EE/CE in allowing price variation based on wrong price indices resulted in overpayment of ₹ 27.36 lakh (**Appendix 3.1**).

The matter was referred to Government in October 2013; reply has not been received (January 2014).

3.2 Avoidable Expenditure

PUBLIC WORKS DEPARTMENT

3.2.1 Avoidable extra expenditure

Delay in granting expenditure sanction for a road work under Revamped Central Road Fund resulted in avoidable extra expenditure of ₹ 1.76 crore.

The Revamped Central Road Fund (CRF) was established (December 2000) by Government of India (GOI) for development and maintenance of highways by collecting cess, as a duty of excise/customs, on diesel and petrol. While CRF accrued in respect of each State/Union Territory would be retained by GOI, one third of the allocation would be kept at the disposal of the Union Territory (UT) Government to be utilised for sanctioned projects and reimbursement sought for thereafter. During 2007-08, an amount of ₹ 12.32 crore accrued under CRF was lying unutilized with GOI in respect of UT of Puducherry.

The Ministry of Shipping, Road Transport and Highways (MOSRTH), GOI accorded administrative approval for ₹ 359.80 lakh (January 2008) for the work ‘Improvements to Nedungadu road from Karaikal-Thirunallar

Road branching from NH 45A at Km 174/900' at Karaikal. As per the CRF (State Roads) Rules, 2007, the project is to be technically approved, financially sanctioned by the UT Government and awarded within four months from the date of Administrative Sanction (AS) i.e. within May 2008, failing which the work shall be deemed to have been de-sanctioned.

The Public Works Department (PWD) submitted (January 2008) proposal for expenditure sanction for the work to UT Government and in anticipation of expenditure sanction invited tenders (February 2008) and the lowest tender, quoted for ₹ 2.60 crore, was forwarded to CE for approval. The Development Commissioner (DC), however, instructed (April 2008) to submit the proposal for expenditure sanction after release of funds by GOI. PWD approached (May 2008) MOSRTH for release of funds under CRF and requested extension of validity for AS upto August 2008. In the meantime, tender was cancelled in August 2008 as the lowest tenderer refused to extend the tender validity date.

PWD prepared (January 2009) a revised estimate for ₹ 4.69 crore and sought revised administrative approval from MOSRTH with the assurance that UT Government would bear the additional cost beyond 10 *per cent* of the sanctioned amount. MOSRTH revalidated the AS and issued financial sanction (February 2010) upto 31 March 2010. The UT Government accorded (March 2010) expenditure sanction for ₹ 4.65 crore and the work was completed (December 2010) at a total cost of ₹ 4.36 crore.

Scrutiny of records revealed that after inception of revamped CRF in December 2000, PWD had executed 11 works (cost - ₹ 35.94 crore) sanctioned under CRF and got reimbursement (₹ 26.06 crore) from GOI. In all these cases expenditure was initially met from UT fund and got reimbursed subsequently.

Thus, action of DC in insisting for release of funds by GOI before issuing expenditure sanction led to avoidable extra expenditure of ₹ 1.76 crore (₹ 4.36 crore - ₹ 2.60 crore) on account of delayed execution of work, of which ₹ 0.40 crore would not be reimbursed by GOI as it was more than 10 *per cent* of sanctioned amount resulting in an additional burden to UT Government.

The matter was referred to Government in June 2013, reply has not been received (January 2014).

PUBLIC WORKS AND HINDU RELIGIOUS INSTITUTIONS DEPARTMENTS

3.2.2 Avoidable additional liability

Failure of the Public Works Department to ensure availability of clear site before inviting tenders and failure of Hindu Religious Institutions Department to evict encroachments resulted in foreclosure of contract and award the work to the same contractor in second call with an additional liability of ₹ 0.59 crore.

Central Public Works Department (CPWD) works manual stipulates that availability of clear site is a desirable prerequisite before approval of Notice Inviting Tenders.

UT Government accorded (March 2009) administrative approval for the component ‘Revitalisation of Nalankulam’ under Thirunallar Temple Town Development Project (TTTDP) by availing Housing and Urban Development Corporation (HUDCO) loan. TTTDP was monitored by the District Collector, Karaikal who is the chairman of the District level implementing and monitoring committee, which shall meet as often as required, but the duration between two meetings should not exceed one month.

Scrutiny of records revealed that based on the assurance given by the Thirunallar Temple Authorities (TTA) functioning under the control of Hindu Religious Institutions Department (HRID), Public Works Department (PWD) invited (October 2009) tender for the sub work ‘Construction of toilet blocks, change rooms, shops and cloak rooms in Nalankulam area’ and issued (March 2010) work order to the lowest tenderer for ₹ 2.77 crore with a completion period of 12 months (April 2011). However, PWD could not hand over the site even after stipulated date of completion as TTA did not evict the encroachers residing (36 residences) around Nalankulam.

Though Superintending Engineer, Karaikal, suggested (June 2010) work be foreclosed as it was not possible to handover the site immediately, no action was taken by the Chief Engineer till May 2011. After repeated requests to handover the clear site, the contractor requested (April 2011) to increase the rate by 25 *per cent* with a revised target date. The Department turned down the request and foreclosed (June 2011) the contract. The contractor sought for arbitration and an arbitrator was appointed (December 2011) who passed an award (July 2012) of ₹ 20.79 lakh in favour of contractor on account of loss of profit, against which, the Department’s appeal is still pending in the court (May 2013).

Meanwhile, the work was retendered in September 2011 and was awarded to the same contractor being the lowest tenderer in the second call for

₹ 3.36 crore. The work scheduled to be completed in March 2013 was in progress (October 2013).

Thus, failure to clear encroachments and make the site available during the first tender call resulted in re-awarding the work to the same contractor in second call with an additional liability of ₹ 0.59 crore (₹ 3.36 crore – ₹ 2.77 crore).

When pointed out by Audit, the CE, though accepted that calling of tenders should be made only after ensuring availability of clear site, contended that the first call was made only as an attempt to explore the feasibility. This contention is not acceptable, as it only resulted in adverse arbitration award and consequent additional liability.

The matter was referred to Government in July 2013; reply has not been received (January 2014).

3.3 Idle investment/Blocking of funds

PUBLIC WORKS DEPARTMENT

3.3.1 Idle investment on construction of distribution grid

Imprudent action of the Public Works Department in commencing the work of laying distribution grid without ensuring availability of land for construction of OHT resulted in idle expenditure of ₹ 7.82 crore spent on distribution grid.

UT Government accorded (January 2005) expenditure sanction for ₹ 10.90 crore under Comprehensive Urban Water Supply Scheme for Zone VIII – Moolakulam, subdivided into Zone VIII A – Moolakulam and Zone VIII B – Thanthai Periyar Nagar. The work under Zone VIII B included, among other things, construction of overhead tank (OHT) and laying of related distribution grid. The identified land for construction of OHT was approved (March 2007) by the site selection committee and requisition was sent (May 2007) to Land Acquisition Officer (LAO). However, as the Department failed to furnish the Fund Availability Certificate (FAC) as requested (January 2008), the LAO returned (April 2008) the acquisition proposal.

Scrutiny of the records revealed (February 2013) that though land for construction of OHT was not available, the Department went ahead with the work of laying of distribution grid for OHT by obtaining (March 2009) National Bank for Agriculture and Rural Development (NABARD) loan for ₹ seven crore. After obtaining administrative approval

(September 2009), the department awarded the work (January 2010) to the lowest tenderer and the work of laying distribution grid was completed in July 2011 at a cost of ₹ 7.82 crore.

Meanwhile the Department initiated the land acquisition proposal by issuing (September 2009) FAC to the LAO and approached (December 2009) NABARD for sanction of loan for construction of OHT. The required land was acquired and handed over to the Department in February 2011. As no reply was received from NABARD regarding sanction of loan, the Department decided (February 2011) to execute the work under UT Government's own fund and awarded (August 2011) the work of construction of OHT at a cost of ₹ 6.97 crore. As of December 2013, the expenditure incurred on this work was ₹ 5.75 crore and work is nearing completion. As such, the distribution grid completed in July 2011 could not be put to use and remained idle (December 2013).

Thus, Department failed to execute the work in proper sequence. It should have ensured availability of land, which is a prerequisite (availability of clear site) as prescribed in CPWD manual, for construction of OHT and should have commenced both the works, (i.e) construction of OHT and distribution grid simultaneously in order to synchronise the completion period of both the works. Had this been done properly, both the works would have been completed at the same time and water supply scheme could have been implemented.

Failure of the Department to do so resulted in the distribution grid laid at a cost of ₹ 7.82 crore remaining idle for more than two years.

The matter was referred to Government in October 2013, reply has not been received (January 2014).

INFORMATION TECHNOLOGY DEPARTMENT

3.3.2 Blocking of funds due to non-availability of land

Failure of the Department to ensure availability of land before release of funds resulted in blocking of funds of ₹ 1.86 crore outside Government account for more than two years.

Government proposed (January 2008) to construct administrative block for Directorate, State Data Centre and Networking Operating Centre for effective implementation and functioning of e-Governance projects. State Data Centre was to be constructed as per specifications like high ceiling with appropriate physical security so as to ensure security of the data.

Land measured 00-49-74 ha³, of which a portion of private land of 00-14-00 ha belonging to Karumuthu Mariamman Devasthanam, Karuvadikupam, Puducherry, was identified (October 2008) by site selection committee for this purpose. Department of Information Technology (Department), however, did not obtain No Objection Certificate (NOC) for the site from Hindu Religious Institutions (HRI), which controls the temples.

When proposal for fund allocation was sent (October 2009) to Planning and Research Department (PRD), it was returned (November 2009) with instruction to submit it during finalisation of revised estimates of 2009-10. The Department, however, resubmitted the proposal only in January 2011 and an amount of ₹ 1.86 crore was allocated by PRD. Department submitted a proposal (January 2011) for acquisition of land to Land Acquisition Officer (LAO) based on this allocation. Meanwhile the amount was released (March 2011) to e-Governance society, the implementing agency, which kept the amount in savings bank account.

The Directorate approached the Hindu Religious Institutions (HRI) only in September 2011, three years after site identification, to issue No Objection Certificate (NOC) to acquire the land. In response, Commissioner, HRI, expressed their inability (May 2012) to allot the said land and suggested an alternate land. The decision on suitability of the alternate site was yet to be taken by the Directorate (August 2013) and the amount released for this purpose continued to be kept outside Government account.

Thus, failure of the Department to effectively pursue acquisition of land resulted in blocking of funds of ₹ 1.86 crore outside Government account for more than two years. Besides, State Data Centre continues to function in a rented building with an annual rental liability of ₹ 2.91 lakh.

When pointed out, Government replied (October 2013) that a proposal for alternate land was already under consideration and on approval the fund would be transferred to the implementing Agency for construction of building. It was further stated that if suitable site could not be identified, the fund would be returned to Government account.

³ Private land - 00-17-38 ha; PWD land - 00-09-00 ha and Government poromboke land : 00-23-36 ha

JAIL DEPARTMENT

3.3.3 Idle investment on construction of staff quarters

Non-provision of separate entrance for staff quarters constructed within the Jail complex resulted in idle expenditure of ₹ 84.15 lakh.

Pondicherry Prison Rules, 1969 stipulate that every subordinate officer of a Jail for whom residential rent free quarters are provided should reside therein. UT Government sanctioned (January 2004) ₹ 8.39 crore towards first phase of construction of new central jail complex at Kalapet *interalia* included 16 units of staff quarters (type I-12, type II-2 and one each in type III and IV). On completion, the Jail started functioning at Kalapet from October 2008. However, staff quarters constructed at a cost of ₹ 97.29 lakh are yet to be allotted (December 2013) to eligible staff except for one type IV quarters allotted (April 2011) to the Superintendent of Jail.

When pointed out, the Chief Superintendent of Jail stated (March 2013) that the Group C officials did not occupy type I quarters since they were eligible for type II quarters. Further all officials were reluctant to occupy the quarters as their family members have to undergo frisking at the main entrance since there was no separate entrance for staff quarters.

Scrutiny of the records revealed the following:

- (i) The prescribed living area for type II quarters was 26.5 sq.m to 50 sq.m and the type I quarters constructed had a living area of 36 sq.m., which is on par with type II quarters and department is free to carry out any non-structural changes, if necessary, to facilitate the allotment of type I quarters to eligible staff.
- (ii) As per approved drawing, there was a separate entrance for quarters. However during execution separate entrance was not provided on security grounds and was postponed for second phase of development.

Thus, quarters constructed at a cost of ₹ 84.15 lakh⁴ are idle for more than two years defeating the objective for which they are provided and eligible staff continued to stay outside in violation of the provisions of Pondicherry Prison Rules 1969. They were allowed House Rent Allowance and compensation in lieu of rent free accommodation.

When pointed out, Government replied (October 2013) that the quarters would be occupied from 1 December 2013. However, it was noticed that the quarters are yet to be occupied (January 2014).

⁴ Excluding the cost of type IV quarters (₹ 13.14 lakh)

3.4 Public Private Partnership of development of Karaikal port

PORT DEPARTMENT

3.4.1 Introduction

Karaikal, a minor port in Union Territory of Puducherry, is situated in the east coast of India between two major ports namely Chennai (260 kms in north) and Tuticorin (400 kms in south). The Union Territory Government of Puducherry (UT Government) proposed (May 2005) to develop this minor port into an all weather deep water port through public private partnership and entered into a Concession Agreement⁵ (CA) with Concessionaire in January 2006 for development of Karaikal Port in a phased⁶ manner on Built, Operate and Transfer (BOT) basis for a concession period of 30 years⁷.

The Concessionaire formed (November 2006) a Special Purpose Vehicle (SPV) and completed Phase I of port development with two berths in April 2009 at a cost of ₹ 417.83 crore. The commercial operation of the Port commenced in June 2009. While additional three berths have been constructed under Phase 2A, mechanization of these berths under phase 2A Extension is currently under progress. Currently, the Port is operating with five berths having a cargo handling capacity of 21 Million Tonnes Per Annum (MTPA). The Secretary to the Government (Ports) is overall in-charge for functioning of Port Department. The Director of Ports is the administrative head of the Port Department and is assisted by one Executive Engineer.

An audit was conducted covering various stages of port development including selection of the Concessionaire, execution of the project and the port operation during the period from April 2009 to March 2013 to check whether selection of Concessionaire was fair and transparent, port development was undertaken as per the terms of CA and required monitoring mechanism was in place to safe guard the interests of UT Government.

⁵ A supplementary concession agreement was signed in November 2010

⁶ In three phases with two cargo handling berths in each phase

⁷ Extendable by mutual consent for a further period of 20 years (two 10 year periods), with a concession fee of 10 *per cent* during first ten year period and 11 *per cent* with one *per cent* increase every year during second ten year period

Audit findings

3.4.2 Improper selection of Concessionaire

General Financial Rules, 2005⁸ prescribed that bid documents should comprise Expression of Interests (EOI), Request for qualification and Request for proposals (RFP). EOI should be published atleast in one National Daily and in Ministry's website to promote wider participation and transparency in the process. EOI should contain broad scope of work, eligibility and pre-qualification criteria to be met by the Service provider and his past experience in similar work. It also stipulates that adequate time should be given for their responses.

After analysing the responses to EOI, RFP should be issued to short listed service providers calling for technical and financial proposals and the bid which is technically sound and financially advantageous should be selected.

Though, UT Government invited (May 2005) EOI for development of Karaikal Port in national dailies, the same was not published in the website. Further, EOI did not prescribe any pre-qualification criteria and technical/financial parameters. Nineteen firms responded to EOI and they were asked (13 July 2005) to make a presentation on 19 and 20 July 2005 regarding details of their company, port development plan, experience in the field of port development and other related works, giving them seven days time.

Only four firms came forward to submit presentation in this short notice. Six firms requested for postponement due to short notice/administrative reasons and remaining nine firms did not respond. However, the UT Government went ahead with the presentation made by four firms on the scheduled date and selected the Concessionaire for execution of the Project on the recommendation made by the Port Privatization Committee⁹ based on the presentation submitted by the firm. Accordingly a Letter of Intent (LOI) was placed (21 September 2005) on the firm. The presentation did not contain any information of revenue share or any other consideration payable by the concessionaire, which was also the case with other vendors making the presentation.

Therefore, selection process was done without following two stage process as prescribed in the GFR. Further, the concessionaire was selected by the

⁸ Rules 168 to 175

⁹ Committee constituted by UT Government consisting of Secretary to Government (Port) as Chairman, Collector-Karaikal, Director of Ports, Director of Science, Technology and Environment, Deputy Secretary to Government (Law), Under Secretary to Government (Finance) and Under Secretary to Government (Port) as members and Executive Engineer (Port) as the Member Secretary.

UT Government without analysing any financial and technical parameters and ascertaining its own share of revenue expected to be generated out of the project, which is a pre-requisite for awarding any contract on competitive basis.

3.4.3 Fixation of concession fee after award of work

As per the LOI, the Concessionaire submitted (November 2005) a Detailed Project Report (DPR) for phase 1 alone with a royalty 2.50 *per cent* on revenue from port operations payable to the UT Government. However, while entering into Concession Agreement (CA) in January 2006, the concession fee (revenue share payable to the UT Government) was fixed as 2.60 *per cent* of the gross income¹⁰, which was accepted by the UT Government.

Thus, the revenue share of the UT Government was only known after selection of Concessionaire, which was against the principles of equity and fairness required to be exhibited in the selection process wherein the revenue share receivable from the bidders should have been considered as one of the most important parameters for the purpose of evaluation and selection.

The physical and financial performance of the port during 2009-13 was given below:

Table – 1 : Financial and Physical Performance of Port

(₹ in crore)

Year	Number of vessels visited the port	Quantity of cargo handled (in Tons)	Gross Revenue	Profit (+)/ loss (-)	Concession fee paid
2009-10	48	1352132	48.62	-9.09	1.26
2010-11	122	4788641	169.66	23.99	4.41
2011-12	191	6010421	221.25	23.36	5.75
2012-13	181	6611220	277.02	-28.86	7.20
Total	542	18762414	716.55		18.62

Apart from concession fee, an amount of ₹ 77.90 lakh had been received from the Concessionaire towards lease charges¹¹.

The revenue share of 2.60 *per cent* payable to the UT Government was based on the revenue projections in the DPR for 30 years for Phase I alone. As per the DPR, it was projected that the revenue would be ₹ 207.50 crore at the end of 30th year of the Project. It could be seen from **Table-1** that during the 4th year (2012-13) of the Project itself, the Port had earned gross

¹⁰ Revised as gross revenue on intervention of GOI in November 2010

¹¹ Land measuring 598 acres was allocated to the Concessionaire at a lease charge of ₹ 1000 per acre per annum as per the provisions of CA

revenue of ₹ 277 crore, which was in excess of the initial projection by 33.49 *per cent*.

The UT Government did not take into account the quantum of revenue to be generated on account of additional cargo handling capacity to be installed under subsequent phases.

3.4.4 Development of Port

Status of the Project

The Detailed Project Report (DPR) envisaged the development of port in a phased manner as follows:

Phase-1: Development of two berths viz. one coal berth and one general cargo berth, together would handle 4 million tons of cargo per annum.

Phase-2: Development of two berths viz. one liquid cargo berth and one container Terminal in the event of achieving 70 *per cent* capacity utilization of Phase 1. The handling capacity of Phase 1 and 2 will be 6.6 million tons of cargo per annum.

Phase-3: Development of two berths viz. one coal berth and one container Terminal on achieving 70 *per cent* capacity utilization of Phase 2. The combined capacity of all the three phases shall be 9.7 million tons of cargo per annum with six berths.

While Phase 1 was completed in April 2009 at a cost of ₹ 417.83 crore, Phase 2 of project had been taken up in two stages, Phase 2A (construction of 3 berths) and 2A Extension (Mechanisation of berths constructed under Phase - 2A), which is under progress (September 2013) and an amount of ₹ 1818.71 crore has been incurred so far towards Phase 2, without any specific time line for completion (**Appendix 3.2**).

3.4.4.1 Development of Phase-2A of the Project without submission of revised DPR

The CA stipulated that port should be developed strictly in line with Master development plan and as per the major milestones stipulated in the agreement, the project was to be implemented in a phased manner viz., only on achievement of 70 *per cent* capacity utilisation of the port facilities created in Phase-1, plan for execution of Phase-2 should be prepared. Further, the development of port has to be scrutinized by an Independent Engineer to ensure compliance with all approved plans and designs.

The Concessionaire, even before the completion of Phase-1, requested (September 2008) the UT Government to approve fused development¹² of

¹² Combined development of port across all the phases instead of phase-wise development as proposed in the DPR

port by scaling up the cargo handling capacity from 10 MTPA to 45 MTPA to face the upcoming competition. Though the UT Government gave only in principle approval (December 2008), the Concessionaire planning to have a total of nine berths capable of handling 47 MTPA (including the two berths already developed in phase 1), went ahead with developing three berths in Phase 2A and mechanization of these berths under Phase 2A extension without submission of revised DPR, though DPR already submitted contained revenue projections for Phase 1 alone.

When UT Government instructed (December 2012) the concessionaire to submit revised DPR, they stated (January 2013) that all these issues were broadly covered in the original DPR itself based on which CA was signed. This contention was not correct as the original DPR contained financial and traffic projections for phase-1 only and did not cover Phase 2 and 3. However, UT Government did not take any further action and Concessionaire went ahead with his plans without its approval. The UT Government even failed to insist upon performance guarantee towards development of phase 2A as contained in CA for Phase 1 (₹ one crore valid through the period of development under Phase 1).

Thus, entire construction activities of Phase 2A and 2A Extension was without submission of DPR, expenditure approval and concurrence of the UT Government. During exit conference the department replied (December 2013) that though it had insisted upon the Concessionaire to furnish a DPR for Phase 2, it was in receipt of periodical reports from the Concessionaire including drawings, designs etc.

However, drawings and designs should have been received in advance and subject to scrutiny by Independent Engineer. Though in principle approval was given by UT Government, it failed to follow it up by obtaining revised DPR and thereby lost the opportunity to ensure that port was strictly developed in line with Master Development Plan of the DPR.

3.4.4.2 *Failure in obtaining Pollution Control clearance*

The Puducherry Pollution Control Committee (PPCC) advised the Concessionaire to install mechanized conveyer system to handle coal as it received complaints from the public regarding pollution due to coal handling. Though the concessionaire installed mechanized conveyer system as a part of Phase 2A extension, it could not be operated due to non-availability of required power supply (10.8 MVA). It was observed from the records that the Electricity Department stated (May 2013) that it would take at least two years for effecting the power supply to this system. The effort of Concessionaire to get temporary power supply from other captive power projects did not materialise. Thus the plan of Concessionaire to complete Phase 2A extension in October 2012 did not materialise and was deferred till October 2015 which led to locking of capital and related financial implications as discussed in succeeding paragraphs.

3.4.4.3 *No financial safeguards in case of termination of agreement*

According to the CA, the UT Government had to bear the outstanding debt as on end date, both in case of termination by the Concessionaire or by the UT Government or on account of Force de majeure. The UT Government was only aware of the development cost of phase 1 (₹ 351 crore), since the concessionaire did not submit the revised DPR for fused development of port. Thus without informing the UT Government about further cost of development, the Concessionaire incurred an expenditure of ₹ 2,236.54 crore (**Appendix 3.2**) till date towards development of port, of which loan amounted to ₹ 1678.65 crore and had repaid only ₹ 101.08 crore against scheduled payment of ₹ 130.04 crore.

As PPCC did not give pollution clearance for Phase 2A extension as discussed in the preceding paragraph, operation of it was postponed until October 2015. Due to this delay, the Karaikal port, which was operated on profit until March 2012, sustained a loss of ₹ 28.86 crore during the year 2012-13 and the Concessionaire requested (March 2013) the lenders for debt restructuring and accordingly the entire loan amount pending as of December 2012 was reworked to ₹ 1886.49¹³ crore which shall be repayable in 44 quarterly instalments commencing from June 2014 to June 2025. The debt restructuring also included a Funded Interest Term Loan¹⁴ (FITL) for ₹ 100.80 crore, which was created for repayment interest on term loans for the period 30 December 2012 – 30 June 2013, leading to additional cost escalation.

Had proper DPR, financial closure and expansion requirements been obtained and monitored by UT Government in time, either delay in commissioning or wasteful creation of infrastructure out of borrowings could have been avoided. Failure of concessionaire to do so and the failure of UT Government in allowing the port expansion programme without obtaining the revised DPR led to the UT Government assuming additional risks without sufficient considerations in the event of termination of CA.

The UT Government, though being the Public partner with the liability to bear the outstanding debt in the event of default by concessionaire, was not consulted in this regard during the entire process. It was further noticed that no amendments were made in the CA regarding the above developments, as it was entered upon based on the DPR, which contained financial projections for phase 1 alone. When pointed out, Government replied (December 2013) that the issue would be referred to Law department to get its opinion for suitable revision.

¹³ Includes all the loans availed for Phase 1, 2A, 2A extension, construction of warehouse and OSV/PSV along with FITL

¹⁴ Fresh loan to repay the interest component if the project financed by the bank is not in a position to generate income even to pay interest on the overdue loan

3.4.5 Deficiencies in CA and its implementation

3.4.5.1 *Irregular provision for engagement of Concessionaire's own staff as Expert*

The CA provided for appointment of an Expert by engaging one of the persons out of the panel of members suggested by Concessionaire. The expert shall review the progress of construction on a quarterly basis and defects pointed by him should be rectified at the cost of Concessionaire. Though CA was entered in January 2006, the Department requested to appoint the Expert only in May 2008 and the Concessionaire responded (June 2008) with a panel of two names. The UT Government approved one among them as expert who happened to be then advisor of concessionaire and currently one of the Board of Directors of Karaikal Port. Thus, the action of UT Government in appointing an Expert, who is already an advisor to Concessionaire defeated the very purpose of such an arrangement, because of possible conflict of interest.

It was noticed that though Concessionaire sent monthly progress reports to UT Government, none of them was attested/certified by the Expert. Further UT Government neither issued any instructions to the Expert nor received any appraisal reports from him, except completion report for phase 1 of the Project.

When pointed out, the EE replied (January 2013) that Expert is the person deployed on behalf of UT Government to supervise/conduct inspections during development of port and officials of the department visited the port before accepting the completion certificate furnished by the Expert. However, visit was carried out as procedural necessity and the fact remains that the UT Government did not supervise the port development activities through the Expert during the entire period of Phase 1.

3.4.5.2 *Non-conduct of Financial and Operational Audits*

Under clause 16 of CA, the UT Government shall have the right to conduct financial/operational audit of the Port to ensure the accuracy of the income to Concessionaire from which it gets a share and to check upon compliance with approved and agreed plans for development and operation of the port and maintenance of port facilities and assets. However UT Government did not conduct any financial/operational audits so far, thus failing to exercise legitimate power vested with it under the agreement to ensure the accuracy of the income reported by the firm and to ensure that works were carried out as per agreed plans.

When pointed out, the EE replied (January 2013) that the department had no expertise to conduct financial audit. However department could have engaged a suitable agency for this purpose, as the revenue share of the UT Government would depend upon the accuracy of the income reported and operational performance of the port. The UT Government accepted

(December 2013) the fact and directed the department to initiate suitable proposal for appointment of an agency for conduct of financial/operational audit.

3.4.5.3 *Non-notification of port dues*

The CA gave full rights to the Concessionaire to fix the port dues in respect of vessels visiting the port. However, such port dues have to be notified by the UT Government as per the provisions of the Indian Ports Act, 1908. Any concession in port dues allowed by concessionaire in respect of any vessel should be ignored and all port dues have to be calculated only as per the notified port dues for revenue sharing.

It was noticed that even after lapse of four years since the commencement of commercial operation, the port dues were yet to be notified. When details of fees levied were called for (June 2009) by the Department, the concessionaire did not furnish them and hence the department was not in a position to verify the correctness of the revenue declared. Failure to notify the port dues would also lead to monopolistic situation/restrictive trade practices and would defeat the terms of CA, which stipulated that the Concessionaire should be fair to all users in levying the port tariff.

When pointed out, the Department replied (January 2013) that action would be taken to notify the port dues after collecting the same from the Concessionaire.

3.4.5.4 *Irregularity in operation of Escrow Account*

As per the supplementary agreement entered into with the Concessionaire in line with the Model Concession Agreement released by the Government of India in September 2006, the Concessionaire should deposit or cause to deposit all fee and any other revenues from or in respect of the Port Terminal in an Escrow account for eventual assessment and transfer of revenue share payable to the Government. An Escrow account towards this purpose was maintained by the Concessionaire at Indian Bank, Harbour Branch, Chennai.

During test check of invoices it was noticed that port dues collected in respect of two ships¹⁵ amounting to ₹ 2.74 crore were credited to another account (Andhra bank) instead of the designated Escrow Account. When this was pointed out, it was stated that the revenue of ₹ 213.86 crore was credited by the Concessionaire with the Andhra Bank from the year 2011-12 with the permission of lenders, because of the overdraft arrangements (₹ 20 crore) made with them. It was further stated that no payments were made from that account and the amount so credited was later on transferred to Escrow Account. However, the fact remains that there was violation of the agreement condition and in absence of financial

¹⁵ MV Hind and MV Bagwan

audit, Audit could not provide assurance, as to whether the revenues were accounted and shared as per CA.

3.4.6 Monitoring and Evaluation

According to Planning Commission guidelines on monitoring, PPP projects are based on long-term Concession Agreement specifying quality of service and quantifiable performance standards that have a direct bearing on users of such projects. The concessionaire is empowered to use public assets for building infrastructure projects and to levy and collect user charges for the use of public assets. Projects require close monitoring by the Government with a view to ensure that the provisions of the respective concession agreements and the applicable laws are enforced.

The following are the deficiencies in the monitoring and evaluation system in the Project:

3.4.6.1 *Failure of UT Government to nominate one director to the Board of Directors*

As per the Model Concession Agreement circulated (September 2006) by the Government of India, one Director on the Board of directors of Concessionaire has to be a nominee of the Government to safeguard the interest of Government in the Project. However, no action was taken in this regard by the UT Government until November 2011. When the UT Government approached (December 2011) the concessionaire in this regard, he called for (June 2012) the name and designation of the official to be nominated along with Director Identification Number. Though a proposal was mooted out by the Department in July 2012 to appoint Secretary to Government (Ports) as Board of Director, no action was taken thereafter by UT Government as the incumbent Secretary retired in October 2012.

When pointed out, the UT Government directed (December 2013) the department to speed up the proposal to appoint the incumbent Secretary to Government (Ports) as one of the Board of Directors.

3.4.6.2 *Non-engagement of Independent Engineer*

In order to have an independent agency to monitor and inspect the project, the clause relating to the appointment of Expert was revised (November 2010) in the supplementary agreement by substituting the word 'Expert' as "Independent Engineer" in line with the terms of Model Concession Agreement (MCA) formulated by the Planning Commission. The Independent Engineer should be selected from a panel of experts/consulting firms prepared by the UT Government based on mutual acceptance, who shall have the right of Inspection during the construction and operation of the Port to ensure compliance with all approved plans and designs.

It was noticed that the UT Government did not appoint any such Independent Engineer till date and the entire development of the Port at a cost of ₹ 2,236.54 crore was being carried out without any supervision on the part of UT Government. When pointed out the Department replied that the Expert already appointed continued to function as Independent Engineer and clauses of MCA would not be applicable to Karaikal Port Project as UT Government had its own CA with the Concessionaire.

The supplementary agreement specifically contained provision for engagement of Independent Engineer and the intended purpose was not served by just renaming the Expert as Independent Engineer since the Expert engaged was as an advisor to the Concessionaire, who could not be called independent.

When pointed out, the Department replied (December 2013) that an Independent Engineer would be appointed to monitor and evaluate the project.

3.4.6.3 Non-constitution of separate bodies for monitoring the Project

The ‘Guidelines for monitoring of PPP projects’ issued by the Planning Commission in May 2009 recommended a two-tier PPP monitoring and reporting structure, i.e. establishment of PPP Project Monitoring Unit (PMU) at the project level with an officer at least of the rank of the Director/Deputy Secretary/Superintending Engineer as the head of the PMU and a Performance Review Unit (PRU) at Government level headed by an officer not below the rank of Joint Secretary. PMU has to submit monthly reports at regular intervals to PRU on the key project parameters such as compliance of the conditions precedent, adherence to time lines, assessment of performance, remedial measures for curing defaults, imposition of penalty, levy and collection of user charges and compliance with the instructions of Independent Engineer etc.

The PRU should go through the monthly report and should initiate action for rectifying any defaults or lapses and should prepare quarterly reports for submission to competent authority on the status of such PPP Project focusing on any non-compliance relating to the provisions of the relevant contract, especially in terms of the standards of performance or loss to the public exchequer and the users.

It was, however, observed that the UT Government neither formed PMU nor PRU. The only effort made by the Department in this aspect was to contact National Institute of Port Management (NIPM) (July 2007) requesting it to monitor the port development activities, which was turned down (July 2007) by NIPM expressing its inability due to shortage of manpower.

When pointed out, the Department replied (April 2013) that the Director of Port, Andhra Pradesh and Gujarat Maritime Board (GMB) was approached

(August 2011) for setting up of necessary structure for monitoring the Port activities. While no reply was received from Director of Ports, Andhra Pradesh, GMB had requested (July 2012) the Director of Ports, Puducherry to depute an officer for discussion in this regard and no further action was taken. The Department stated (December 2013) that action would be initiated to set up the Monitoring committees at the earliest.

3.4.6.4 *Non-conducting of Annual Physical verification*

All the assets created for the Project by the concessionaire would be transferred to the UT Government at the end of the concession period on terms and conditions including price determined two years prior to the end date. To facilitate this, the CA empowered the UT Government to conduct an annual physical inventory of plant, equipment and accessories in pursuance of the Operational Audit. Further, the assets could not be removed by the firm without prior written approval of UT Government.

Karaikal port owned plants, machinery and equipment valuing ₹ 66.68 crore as per balance sheet of SPV as of 31 March 2013. The UT Government, however, did not conduct any inspection/annual physical inventory of plant to take stock of the assets acquired by the Concessionaire for the Project. When pointed out, the EE stated (December 2013) action would be initiated to conduct annual physical verification.

3.4.7 Conclusion

The UT Government issued EOI for port development without specifying pre-qualification criteria for selection of concessionaire. Selection procedure was not proper as it was done on the basis of unstructured presentation without specifying criteria for evaluation or adopting pre-determined quantitative and qualitative parameters. The revenue share of 2.60 *per cent* was fixed after award of the contract, defeating the very purpose of the competitive bidding.

The CA contained various deficiencies such as failure to safeguard the financial interest of UT Government in the event of termination of CA, irregular provision for engagement of the Concessionaire's own staff as Expert, etc. Financial and operational Audits were not conducted and the concessionaire was allowed to develop subsequent phases of the Port without submission of revised DPR.

The monitoring system was weak due to failures of UT Government in appointing a director to the Board of Directors of the Port, non-engagement of an independent engineer, non-constitution of separate bodies for monitoring of the Project, irregularity in operation of escrow account, non-conducting of annual physical verification of assets of the Project etc.

Recommendations

- Selection of the Concessionaire may be made in a transparent, fair and equitable manner, based on GOI guidelines
- While entering into such long-term agreements, care should be exercised to incorporate suitable clauses to safeguard the financial interests of the Government
- Financial and Operational Audits may be conducted in the present PPP to ensure the accuracy of the revenue realized, operation of the escrow Account and to evaluate the operational efficiency of the Port
- Government may consider appointing Independent Engineer and Director to the Board of Directors in line with the Model Concession Agreement to monitor the project.

The matter was referred to Government in December 2013; reply has not been received (January 2014).

CHAPTER IV

REVENUE RECEIPTS

CHAPTER IV

REVENUE RECEIPTS

4.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of the Union Territory of Puducherry and the grants-in-aid received from the Government of India during the year 2012-13 and the corresponding figures for the preceding four years are given in the following table:

(₹ in crore)

Sl. No.	Category	2008-09	2009-10	2010-11	2011-12	2012-13
I	Revenue raised by the Government					
	(a) Tax revenue	725.35	867.74	1,074.47	1,329.43	1,917.22
	(b) Non-tax revenue	628.64	642.93	742.78	153.31	118.15
	Total (I)	1,353.99	1,510.67	1,817.25	1,482.74	2,035.37
II	Receipts from the Government of India – Grants-in-aid	1,104.51	1,330.66	1,382.78	1,288.68	1,110.77
III	Total receipts of the Government (I + II)	2,458.50	2,841.33	3,200.03	2,771.42	3,146.14
IV	Percentage of I to III	55	53	57	54	65

(Source: Finance Accounts of the respective years)

The above table indicates that during the year 2012-13, the revenue raised (₹ 2,035.37 crore) by the Union Territory Government was 65 *per cent* of the total revenue receipts (₹ 3,146.14 crore) as against 54 *per cent* in the preceding year. The balance (₹ 1,110.77 crore) 35 *per cent* of the receipts during 2012-13 was obtained from the Government of India.

4.1.1 The details of tax revenue raised during the year 2012-13 along with the figures for the preceding four years are given in the following table:

(₹ in crore)

Sl. No.	Heads of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+)/ decrease (-) in 2012-13 over 2011-12
1	Taxes on sales, trade, etc.	381.86	453.11	595.00	750.15	1,287.10	(+) 71.58
2	State excise	279.60	329.06	378.55	447.27	503.98	(+) 12.68
3	Stamp duty and registration fees	30.80	50.15	51.93	77.43	72.67	(-) 6.15
4	Taxes on vehicles	32.46	34.75	48.27	53.55	52.64	(-) 1.70
5	Land revenue	0.38	0.54	0.62	0.80	0.55	(-) 31.25
6	Others	0.25	0.13	0.10	0.23	0.28	(+) 21.74
Total		725.35	867.74	1,074.47	1,329.43	1,917.22	

(Source : Finance Accounts of the respective years)

Reasons for variation in receipts in 2012-13 over 2011-12 as furnished by the Departments concerned are mentioned below:

Taxes on sales, trade, etc.: The increase (71.58 *per cent*) was due to revision of rate of tax and buoyancy in trade.

State excise: Increase (12.68 *per cent*) was due to upward revision of Excise Duty and Licence fee.

Other Departments did not furnish (December 2013) the reasons for variation despite being requested (July 2013).

4.1.2 The details of the non-tax revenue raised during the year 2012-13 along with the figures for the preceding four years are given in the following table:

(₹ in crore)

Sl. No.	Heads of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+) / decrease (-) in 2012-13 over 2011-12
1	Power	545.90	549.39	662.71	58.73	29.58	(-) 49.63
2	Interest receipts, dividends and profits	47.60	56.98	42.15	38.72	35.64	(-) 7.95
3	Medical and public health	6.55	6.58	10.77	8.46	13.94	(+) 64.78
4	Education, sports, art and culture	0.46	0.45	0.61	0.84	0.73	(-) 13.10
5	Crop husbandry	0.29	0.39	0.41	0.48	0.51	(+) 6.25
6	Other receipts	27.84	29.14	26.13	46.08	37.75	(-) 18.08
	Total	628.64	642.93	742.78	153.31	118.15	

(Source : Finance Accounts of respective years)

Reasons for variation in receipts in 2012-13 over 2011-12 as furnished by the departments concerned are mentioned below:

Power: The decrease (49.63 *per cent*) was due to utilising the receipts from sale of power for purchase of power.

Medical and public health: The increase (64.78 *per cent*) was due to more collection in hospital stoppages and licence fee.

Other Departments did not furnish (December 2013) reasons for variation despite being requested (July 2013).

4.2 Variation between the budget estimates and actuals

The variation between the budget estimates and actual revenue receipts for the year 2012-13 in respect of the principal heads of tax and non-tax revenue is given in the following table:

(₹ in crore)

Sl. No	Heads of Revenue	Budget estimates	Actuals	Variation excess (+) or shortfall (-)	Percentage of variation excess (+) or shortfall (-)
1	Taxes on sales, trade, etc.	1,395.61	1,287.10	(-) 108.51	(-) 7.78
2	State excise	688.50	503.98	(-) 184.52	(-) 26.80
3	Stamp duty and registration fees	121.29	72.67	(-) 48.62	(-) 40.09
4	Taxes on vehicles	87.67	52.64	(-) 35.03	(-) 39.96
5	Land revenue	1.36	0.55	(-) 0.81	(-) 59.56
6	Interest receipts, dividends and profits	39.87	35.64	(-) 4.23	(-) 10.61
7	Medical and public health	16.43	13.94	(-) 2.49	(-) 15.16
8	Education, sports, art and culture	0.30	0.73	0.43	(+) 143.33
9	Crop husbandry	0.52	0.51	(-) 0.01	(-) 1.92

(Source : Annual Finance Statement and Finance Accounts of respective years)

The Departments did not furnish (December 2013) reasons for variation despite being requested (July 2013).

4.3 Analysis of collection

The break-up of total collection at the pre-assessment stage and after regular assessment under the Pondicherry General Sales Tax Act (PGST) and Puducherry Value Added Tax Act (PVAT) for the year 2012-13 and the corresponding figures for the preceding two years as furnished by the Department are given in the following table:

(₹ in crore)

Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection	Percentage of col. 2 to 6
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2010-11						
ST	4.72	---	0.43	0.04	5.11	92.37
VAT	288.64	---	0.66	---	289.30	99.77
Non-VAT	300.14	---	0.44	---	300.58	99.85
2011-12						
ST	2.73	0.37	0.19	0.03	3.26	83.78
VAT	383.03	0.01	1.35	--	384.39	99.65
Non-VAT	360.93	0.54	1.02	--	362.50	99.57
2012-13						
ST	---	1.40	0.10	0.01	1.49	0.00
VAT	571.31	0.35	1.29	0.00	572.95	99.71
Non-VAT	394.34	0.00	1.66	0.00	396.00	99.58

The above table shows that the collection of revenue at pre-assessment stage in respect of VAT was in the range of 99 *per cent* during 2010-11 to 2012-13.

4.4 Arrears of revenue

The arrears of revenue pending for collection as on 31 March 2013 under the principal heads of revenue, as reported by various Departments was ₹ 455.49 crore as indicated below:

(₹ in crore)

Sl. No.	Departments	Total arrears	Arrears outstanding for more than five years	Remarks
(1)	(2)	(3)	(4)	(5)
1.	Commercial Taxes	218.77	46.75	Arrears related to collection of tax under PGST/CST and VAT Acts and major portion was covered under court cases.
2.	Electricity	198.47	67.87	Reasons for pending arrears on account of sale of power to consumers were not furnished by the Department.
3.	State Excise	21.32	9.68	Arrears were mainly due to non payment of <i>kist</i> by the lessees of arrack and toddy shops.

(1)	(2)	(3)	(4)	(5)
4.	Public Works	11.16	3.75	The arrears related to water charges due from consumers.
5.	Government Automobile Workshop	3.66	--	Arrears were due from Government departments towards sale of petrol, oil and lubricants.
6.	Port	0.59	0.57	Arrears were mainly due from M/s Container Corporation of India Limited, Government of India Undertaking, towards land rent.
7.	Stationery and Printing	0.26	0.02	Arrears related to amount due from Government departments.
8.	Town and Country Planning	0.13	0.13	Arrears related to final cost of plots due from the allottees of various housing schemes.
9.	Tourism	0.08	0.05	Arrears were mainly due from guests/Government Officials/MLAs and Ministers towards room rent.
10.	Co-operation	0.08	0.01	Arrears related to audit fees and other receipts due.
11.	Judicial	0.04	0.03	In some cases, the accused were undergoing imprisonment and in some cases, appeals were pending in courts, etc.
12.	Industries and Commerce	0.11	0.11	Arrears related to rent due from defunct industrial units and to be recovered under the Revenue Recovery Act.
13.	Transport	0.41	0.33	Arrears were due to non-recovery of motor vehicles tax.
14.	Agriculture	0.32	0.15	Arrears due from PASIC and local bodies towards rent and cost of seeds.
15.	Information and Publicity	0.09	0.09	Arrears of rent to be collected from PRTC.
	Total	455.49	129.54	

Other Departments did not furnish (December 2013) the details of arrears of revenue, if any.

4.5 Fraud and evasion of tax

Details of cases of fraud and evasion of sales tax detected, cases finalised and demands for additional tax and penalty levied as reported by the Commercial Taxes Department are mentioned below:

Cases pending as on 1 April 2012	Cases detected during 2012-13	Total	Number of cases in which assessments/investigations were completed and additional tax and penalty levied		Number of pending cases as on 31 March 2013
			Number of cases	Amount demanded (₹ in crore)	
130*	92	222	54	1.46	168
* The opening balance furnished by the Department does not tally with the closing balance of 134 given last year.					

4.6 Failure to enforce accountability and protect the interest of the Government

Principal Accountant General (Economic and Revenue Sector Audit), Tamil Nadu arranges periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as per the prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs). Important irregularities are included in the IRs issued to the heads of offices inspected with copies to the next higher authorities for taking corrective action. The heads of offices/Government are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report compliance to the office of the Principal Accountant General within one month from the dates of issue of the IRs. Serious irregularities are also brought to the notice of the heads of Departments by the office of the Principal Accountant General.

A review of IRs issued upto December 2012 disclosed that 576 paragraphs involving ₹ 209.63 crore relating to 173 IRs remained outstanding at the end of June 2013. The Department-wise breakup of the IRs and audit observations outstanding as on 30 June 2013 are as given in the following table:

(₹ in crore)				
Sl. No.	Tax Heads	Outstanding		Amount
		Inspection Reports	Audit Observations	
1	Sales tax	50	253	66.62
2	Stamp duty and registration fees	66	136	2.60
3	Taxes on vehicles	32	138	4.22
4	State excise	25	49	136.19
	Total	173	576	209.63

(Source : as per data maintained in the office of the PAG)

4.7 Status of recovery against audit observations accepted by the Government

A review of the replies of the Government to the paragraphs of the Audit Reports for the last five years from 2007-08 to 2011-12 shows that against the revenue effect of ₹ 93.44 crore pointed out by audit, the Department accepted observations of ₹ 77.82 crore but the actual recovery was only ₹ 0.32 crore. The year-wise breakup of the recovery of revenue till October 2013 is given in the following table:

(₹ in crore)

Year of Audit Report	Revenue effect of the chapter	Amount accepted by the department	Amount recovered
2007-08	9.49	1.80	0.20
2008-09	73.28	73.28	0.01
2009-10	0.34	0.06	0.04
2010-11	9.54	2.63	0.04
2011-12	0.79	0.05	0.03
Total	93.44	77.82	0.32

It is recommended that the Government may revamp the recovery mechanism to ensure that the amount involved in accepted cases is promptly recovered.

4.8 Results of audit

Test check of the records of sales tax, state excise, stamp duty and registration fees and taxes on vehicles conducted during the year 2012-13 revealed under assessment/short levy/loss of revenue amounting to ₹ 18.85 crore in 102 audit observations. During the course of the year, the Commercial Taxes Department and Revenue Department accepted ₹ 12.21 lakh in 11 audit observations of which ₹ 4.45 lakh pertaining to six cases were pointed out during the year and the rest in earlier years. An amount of ₹ 5.43 lakh was recovered by the Commercial Taxes Department.

This Chapter contains a Performance Audit on “Implementation of Value Added Tax in Union Territory of Puducherry” and two paragraphs on “Stamp Duty and Registration Fees” and “State Excise” involving money value of ₹ 1.09 crore.

COMMERCIAL TAXES DEPARTMENT

Value Added Tax

4.9 Performance Audit on “Implementation of Value Added Tax in Union Territory of Puducherry”

Highlights

The returns prescribed under the Puducherry Value Added Tax did not facilitate cross verification of the claim of input tax credit by dealers.

(Paragraph 4.9.6.3)

The Department did not ensure adherence by the dealers to the provisions of the Act/Rules regarding filing of certificate in Form ‘CC’.

(Paragraph 4.9.6.4)

There was delay in finalisation of assessments which were selected for detailed scrutiny of accounts.

(Paragraph 4.9.6.5)

Absence of validation checks in the software rendered the information captured in the system unreliable.

(Paragraph 4.9.6.6)

4.9.1 Introduction

The Empowered Committee of State Finance Ministers constituted by the Union Government, in its meeting held in January 2002, unanimously decided to introduce Value Added Tax (VAT) system in all the States and Union Territories and issued a White Paper (January 2005) defining the basic designs of the State level VAT. VAT is a multi-stage destination/consumption based tax system with tax being levied on every stage of value addition and has provision for granting setoff or credit for the tax paid on the purchases against tax payable on sales. In the Union Territory of Puducherry, VAT was introduced with effect from 1 July 2007.

4.9.2 Organisational set up

The Commissioner of Commercial Taxes (CCT) is the head of Commercial Taxes Department (CTD) and exercises administrative control. He is assisted by a Deputy Commissioner and two Assistant Commissioners. The Commercial Tax Officers, Deputy Commercial Tax Officers and Assistant Commercial Tax Officers are the Assessing Authorities (AAs)

responsible for the levy and collection of tax and arrears thereof in the respective assessment divisions. Besides, there is a 'Mobile Wing' formed for the purpose of conducting surprise inspections and unearthing sales suppressions and evasion of taxes. Monitoring and control at the Government level is done by the Secretary, Finance Department.

4.9.3 Audit objectives

Performance Audit (PA) was conducted with a view to ascertain:

- compliance to the provisions of the Puducherry Value Added Tax Act, 2007 (PVAT Act) and the Rules made thereunder in safeguarding the revenue of the Union Territory;
- adequacy and effectiveness of the system and procedure in place to ensure the correctness of input tax credit and the use and effectiveness of computer application in implementation of the value added scheme of levy and
- adequacy and effectiveness of internal control mechanism in preventing any leakage of revenue.

4.9.4 Scope and methodology

There are seven assessment divisions in CTD viz., four assessment divisions in Puducherry region and one each in the outlying regions of Karaikal, Mahe and Yanam. Out of seven divisions, five divisions¹ were selected for detailed study taking into consideration number of dealers and revenue mobilisation. Details regarding selection of cases for scrutiny, completion of assessments, filing of Form 'CC' etc. pertaining to the period from July 2007 to March 2013 were gathered from assessment divisions and Co-ordination Section of CTD and used for analysis. Data pertaining to registration of dealers, cancellation of Registration Certificates (RCs), filing of returns, payment of taxes, etc. were also analysed from the database maintained in CTD. Besides data analysis, physical verification of records was also undertaken during PA. Compliance of provisions of the Act/Rules in registration of dealers, cancellation of RCs, filing of returns by dealers, claim of Input Tax Credit (ITC), payment of taxes were some of the areas covered during analysis. Out of 2,375 assessments made during 2009-10 to 2011-12 in five assessment divisions, 2,023 cases involving turnover of more than ₹ 20 lakh were selected for scrutiny. Audit observations included in local audit reports were also considered.

¹ Karaikal, Puducherry I, II, IAC and IW

4.9.5 Acknowledgment

An Entry Conference was held with Deputy Commissioner (Commercial Taxes) in September 2012 wherein audit objectives, scope and methodology were explained to the Department. The statements of facts were forwarded to the Government in November 2012, June and July 2013. Exit Conference was held with the Secretary to Government, Finance Department in August 2013, wherein audit findings were discussed. Views expressed by the Government and CTD during the Exit Conference and replies received at other points of time have been considered and suitably incorporated in the Performance Audit Report. Audit acknowledges the cooperation extended by the CTD in providing necessary records and information.

4.9.6 Audit Findings

4.9.6.1 Registration

Section 4 of the PVAT Act, provides that every dealer, other than those dealing with goods mentioned in the First Schedule, whose total turnover is not less than ₹ five lakh and casual traders irrespective of their turnover are liable for registration under this Act. As per proviso under Section 4 of the Act, dealers exclusively dealing in exempted goods shall not be liable for registration. According to Section 4A of the PVAT Act, the threshold limit for registration in respect of dealers who purchase and sell goods exclusively within the Union Territory is ₹ 10 lakh.

Number of registered dealers pertaining to five assessment divisions covered in PA, though in upward trend till 2011-12, declined by eight *per cent* during 2012-13 as compared to the previous year as may be seen from the data provided by the Department.

Year	No. of registered dealers
2007-08	9,480
2008-09	10,996
2009-10	11,221
2010-11	11,640
2011-12	12,550
2012-13	11,555

The Department attributed the reason for decline in the number of registered dealers in 2012-13 to cancellation of RCs of large number of dealers who stopped their business or did not renew their registration, after verification of their places of business.

- **Widening of tax base**

- ***Street surveys***

A Survey Cell with two Assistant Commercial Tax Officers was formed (December 2006) for conducting street surveys to identify potential unregistered dealers and to bring them into tax net. Audit, however, noticed that the Department failed to undertake street survey on a regular basis. Street surveys were conducted in 2007-08 and 2008-09 identifying 221 unregistered dealers. However, none was conducted during the period from 2009-10 to 2011-12.

The Department stated (August 2013) that street surveys were not conducted during 2009-10 to 2011-12 due to shortage of staff. However, surveys were conducted during the period between April 2012 and July 2013 and 120 unregistered dealers were identified.

It is suggested that necessary framework prescribing the periodicity, methods of survey and monitoring of the result of such surveys may be evolved.

- ***Cross verification of data/information obtained from other Departments/agencies***

As per Section 5(ii) of the PVAT Act, every dealer importing goods in the course of business from outside territory of India shall be liable for registration irrespective of their quantum of total turnover.

Audit cross verified the registration status of importers who were issued Import Export Code (IEC) by Joint Director General of Foreign Trade (JDGFT), Puducherry, with database of CTD and could not identify registration status of 63 importers who were doing business in Puducherry. After Audit pointed this out, Department replied (August 2013) that 12 dealers were unregistered and remaining dealers were registered.

Department further stated that customs data was forwarded to the Mobile Wing for cross verification and JDGFT, Puducherry was requested to send details of importers along with IEC on a monthly basis.

Further, Audit independently cross verified the details of 81 industries selected randomly from Yellow Pages of Telephone directory (2012-2013) and 80 traders to whom trade licences were issued by Puducherry Municipality, with database of the CTD. Out of these 161 cases, registration status of 74 dealers could not be ascertained.

After Audit pointed this out, Department replied (August 2013) that inspections of the place of business of the dealers pointed out by audit were carried out and it was found that 15 dealers were not available in the

place of business and in respect of nine dealers, notices were issued to get themselves registered under the PVAT Act.

It is suggested that the Department may consider evolving a system for obtaining data periodically from other agencies and making use of the same in widening tax base.

- **Renewal / Cancellation of registration**

Rule 8 of PVAT Rules stipulates that within 30 days of commencement of every year, except the year of commencement of these rules, every registered dealer, other than a casual trader, shall, until his registration is cancelled, submit his RC to registering authority and pay the fee as required under Section 8(2) of the PVAT Act for renewal of registration for the year subsequent to that in which the registration is obtained. The registering authority shall have to immediately return the RC with due endorsement of renewal unless there is any reason to withhold such registration.

Audit noticed from analysis of data obtained from CTD that RCs in respect of 210 dealers were not cancelled even though they did not renew their registration, as shown in the following table:

Year from which RCs were not renewed	No. of dealers	Period of delay as on 31 March 2013
2009-10	3	3 years and 11 months
2010-11	23	2 years and 11 months
2011-12	74	1 year and 11 months
2012-13	110	11 months

Department replied (August 2013) that out of 210 dealers, 43 dealers had since renewed their registration, notices were issued to 38 dealers to renew their registration, registration of 105 dealers has since been cancelled and cancellation of registration of 24 dealers was in progress.

Further, Audit noticed from an analysis of data in the system that cancellation of RCs of 807 dealers who did not renew their registration were stated to be 'in progress'.

The Department added that out of 807 dealers in respect of whom the process of cancellation of RCs was in progress, 66 dealers renewed their registration, RCs of 173 dealers were since cancelled and in respect of the remaining 568 dealers, the process of cancellation was in progress.

Delay on the part of Department in cancelling the registration of dealers who did not renew their RCs may pave way for misuse of RC.

4.9.6.2 *Analysis of Staff requirement vis-a-vis clearance of legacy issues*

The sanctioned strength in the cadre of assessing officers was 45 during the period covered by PA, whereas the actual strength had reduced from 37 in 2008-09 to 31 as on March 2013. Though recommendation was made in the ‘Review on Transition from Sales Tax to Value Added Tax’ (Para 4.9 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010) to consider filling up of vacancies of assessing officers to tide over the legacy issues of the earlier PGST regime, the staff strength has not increased.

Year	Sanctioned strength	Actual strength	Vacancy	Assessments to be finalised under PGST	No. of assessments finalised	Assessment pending as on 31 March
2008-09	45	37	8	23,202	2,644	20,558
2009-10	45	34	11	20,558	520	20,038
2010-11	45	32	13	20,038	1,332	18,706
2011-12	45	31	14	18,706	2,204	16,502
2012-13	45	31	14	16,502	1,496	15,006

(Source: Information furnished by the department)

The above table indicates that though five years had elapsed since the introduction of VAT system of levy, only 35 *per cent* of the assessments relating to PGST which were outstanding as on 1 April 2008 had been finalised. Out of 15,006 cases pending finalisation as on 31 March 2013, Audit noticed that 625 cases were pending for more than 10 years and 14,381 cases were pending for five to ten years. Since any delay in finalisation of assessments would result in delay in raising additional demand, if any, filling up of vacancies in the posts of assessing officers requires immediate attention of the Department.

Department replied (August 2013) that proposal for filling up of vacancies was sent to the Government in February 2011 after the audit comment in this regard, made in the ‘Review on transition from sales tax to VAT’. As regards the pending assessments, the Department replied that instructions were issued to all the assessing officers to complete the same on priority basis.

Though instructions were stated to have been issued, 65 *per cent* of the assessments relating to PGST are yet to be finalised. Delay in finalisation would result in postponement of additional revenue that may arise on finalisation of assessments.

4.9.6.3 *Absence of details in the returns to verify the claim of ITC*

As per section 24(1) of the PVAT Act read with Rule 19(1) PVAT Rules, every registered dealer shall file a tax return in Form-I within 15 days after

end of the month to which the tax relates. The monthly return provides details of tax period, name and TIN of dealer, turnover of purchase and sales, output tax liability, claim of ITC etc. Details of adjustments in output tax and ITC, sales turnover and purchase turnover are required to be furnished in Annexure I, II and III respectively to the monthly return. However, name and TIN of dealers from whom goods were purchased or to whom goods were sold were not required to be furnished; in the absence of which, ensuring the correctness of claim of ITC was rendered impossible.

In five divisions covered in PA, dealers claimed ITC of ₹ 897.04 crore during the period from 2007-08 to 2012-13. Verification of correctness of claim of ITC without calling for books of accounts is possible only if invoice-wise details of purchase and sales (invoice number, date of invoice, name and TIN of selling dealers/purchasing dealers, value of goods and tax paid/collected) are provided by both selling and purchasing dealers in their monthly tax returns. As these details were not available in the tax returns filed by purchasing/selling dealers, the Department was unable to ensure the correctness of claim of ITC.

After Audit pointed out this, the Department replied (August 2013) that to overcome the deficiencies, PVAT Rules were amended (June 2013) requiring the dealers to furnish invoice wise details of local sales and local purchases. The Department further stated that a module was also developed for capturing details in the returns from August 2013 onwards.

4.9.6.4 *Filing of certificate in Form ‘CC’*

According to Section 54 of the PVAT Act, every dealer whose total turnover in a year exceeds rupees fifty lakh shall get his accounts audited by Chartered Accountant or Cost Accountant and shall submit a copy of the audited statement of accounts and certificate in Form ‘CC’. Rule 52 of the PVAT Rules provides that such certificate shall be furnished to the assessing authority on or before thirtieth September of the year succeeding to which it relates. The penal provisions which could be initiated against dealers who willfully act in contravention of any of the provisions of the Act or who commit a breach of the Rules are provided in Section 59(2)(d) of the PVAT Act and Rule 57 of the PVAT Rules respectively.

The dealers are required to furnish details of local purchases in Annexure I of the Certificate. The receipt of Form ‘CC’ along with Annexure I would enable the Department to ensure correctness of ITC claimed by the dealer.

Details of non filers of Form ‘CC’ certificates, furnished by five divisions covered in PA, are given in the following table:

Year	Eligible dealers required to file Form 'CC'	Dealers who have filed Form 'CC'	Dealers who have not filed Form 'CC'	Percentage of non filers
2007-08	1,543	613	930	60.27
2008-09	1,852	691	1,161	62.69
2009-10	2,187	683	1,504	68.77
2010-11	2,817	768	2,049	72.74
2011-12	2,368	484	1,884	79.56

Though the percentage of non-filers of Form 'CC' increased from 60.27 to 79.56 *per cent* during the period from 2007-08 to 2011-12, the Department did not invoke the penal provision of the Act/Rules against the dealers who failed to file the certificates to act as effective deterrent against such non filing of certificates.

The Department replied (August 2013) that 480 Form 'CC' certificates were since collected from the dealers and action was being taken in respect of other cases.

4.9.6.5 Selection of cases for detailed scrutiny under PVAT Act

Section 24(2) of the PVAT Act provides that the returns submitted by the dealer along with tax due thereon shall be accepted as self-assessed and the assessing authority may select, either at his discretion or as directed by the Commissioner, any dealer for detailed assessment.

In terms of Section 24(5) of the Act, no assessment shall be made after a period of three years from the end of the year to which the return relates. Delay in selection of cases for scrutiny / completion of assessments would result in cases getting time barred and the cases escaping from being subjected to scrutiny. The CCT adopted 'Business Intelligent Software' for selection of cases for scrutiny on the basis of quantum of tax paid and ITC availed.

Audit noticed from the details furnished by the Department that out of 6,546 cases selected for detailed assessment by scrutiny of accounts during October 2009 and November 2012, scrutiny was completed only in respect of 689 cases (10.5 *per cent*) at the end March 2013, as detailed in the following table:

Year of selection	No. of cases selected for scrutiny	No. of cases in respect which assessments made	Pending finalisation as on 31 March 2013	Percentage of completion
2009-10	4663	540	4123	11.6
2011-12	1883	149	1734	7.9
Total	6546	689	5857	10.5

On selection of cases for scrutiny of accounts, the AAs issue summons to these dealers to produce the documents required for such scrutiny. However, Audit noticed that out of 4,663 cases selected for scrutiny in October 2009, summons calling for accounts were not issued in respect of 774 cases till March 2013, which rendered the cases getting time barred for scrutiny. Further scrutiny of accounts was not completed in respect of 88.4 per cent and 92.1 per cent of cases selected in 2009-10 and 2011-12 respectively. This is indicative of absence of proper monitoring by higher authorities of the progress in completion of assessments.

4.9.6.6 Computerisation

Department computerised its functions with a software developed by National Informatics Centre namely 'PVAT Soft' which has a centralised database. The software was utilised for capturing and processing data through offline mode from July 2007 and from April 2010 onwards through online mode. The software contains modules / functions for utilisation by departmental officers and dealers. The modules / functions 'PVAT', 'COMVAT', 'PGSTVAT' are being used by departmental officers for tax administration, MIS and tax collection for prior VAT period respectively and module/ functions viz. 'e-Registration', 'e-Renewal of Registration', 'e-Filing of monthly returns' and 'e-Payment of Taxes' for the use of dealers. Besides, another module viz. 'Form Verification' is used by both dealers and departmental officers. Data entered into system was verified and authorised by the AAs.

Analysis of the data base of the entire period July 2007 to March 2012 revealed following deficiencies:

- Though e-filing of returns was made mandatory with effect from April 2010, there is no provision for on line submission of audit certificates in Form 'CC' by the dealers.
- Details of dealers like name, address, date of commencement of business, PAN etc. were stored in the 'dealer master' table. The value of term deposit receipts received from the dealers as security² was stored in 'dealer master' table. All other details of the term deposits like number and date of issue, value, validity period and expiry date were stored in 'security deposit' table.
 - Analysis of 'dealer master' table indicated collection of security deposits valuing ₹ 9.57 crore from 7,706 dealers. Audit, however, noticed that in the 'security deposit' table, details of securities valuing ₹ 74.31 lakh received from 862 dealers alone were captured. Audit further noticed that term deposits for ₹ 2.82 lakh

² As per Rule 11 of the PVAT Rules, Security Deposits shall be either in the form of immovable property or Post Office Savings Bank Deposit or National Savings Certificates or term deposits from Schedules banks/nationalised banks

received as security from 39 dealers had matured. Thus, the Department had no system to monitor the validity period of the instruments.

After Audit pointed this out, the Department stated that a suitable module would be developed to capture the submission of security deposit at the time of obtaining TIN and the same would be put to use within six months.

Lack of validation controls

Analysis of ‘dealer master table’ and ‘Form-I table’ revealed lack of validation controls, which led to following deficiencies.

- While applying for registration under the PVAT Act, the dealers are required to provide Permanent Account Number (PAN) in the application for registration in Form-A. Analysis of the ‘dealer master table’, however, indicated that PAN had not been captured in the system in respect of 274 dealers. Further analysis revealed that PAN captured in the system in respect of 63 dealers was found to be invalid as they were not in prescribed/standard format of CBDT. Analysis also revealed that Import Export Code (IEC) in respect of 10 dealers was incorrect and they were not in prescribed/standard format of Director General of Foreign Trade (DGFT).
- Section 24(1) of the PVAT Act provides that every registered dealer shall file a tax return for each tax period within 15 days after end of the period. Rule 19 of the PVAT Rules provides that the tax return shall be in Form-I. In Form-I, dealers are required to provide their total tax liability for a particular month along with rate of tax wise break up details of their sales in the appropriate columns. Similarly, their total claim of ITC and rate of tax wise break up details of corresponding purchases are provided in the appropriate columns. Instances were noticed by Audit, where total tax liability, declared in tax returns, did not tally with break up details of tax due on sale of various goods. Similarly total claim of ITC made in tax returns was at variance with rate of tax wise break up details of eligible purchases. The deficiencies, in details of output tax and ITC claim provided by the dealers in their tax returns, occurred due to absence of validation control in the software. The same are discussed in following two paragraphs:

- In 424 monthly returns filed by 299 dealers of seven divisions during the period from July 2007 to March 2010, aggregate of output tax payable on sales turnover of goods taxable at different rates and adjustments made thereon was at variance with total tax liability mentioned in ‘total output tax’ column of the Form-I (sum of tax due mentioned R.3(B) to R.10(B) was ₹ 2.83 crore whereas total tax liability mentioned was ₹ 2.23 crore (R.11(B) of Form-I return). Similarly, Audit noticed such differences in respect of five returns, filed after April 2010 when e-filing of returns were made

mandatory, by five dealers pertaining to four assessment circle³ (aggregate tax due in respect of each category of goods worked out to ₹ 2.86 lakh whereas total tax liability mentioned was ₹ 0.22 lakh).

- In 291 monthly returns filed by 217 dealers of seven divisions during the period from July 2007 to March 2010, aggregate of ITC credits claimed in respect of purchase goods taxable at different rates and adjustments made thereon was at variance with total ITC claimed in Form-I (sum of ITC as mentioned in R.14(B) was ₹ 1.20 crore; whereas total claim of ITC in R.16(B) was ₹ 3.19 crore). Similarly, Audit noticed such variance, in respect of 206 returns filed by 183 dealers of seven divisions during the period from April 2010 to March 2013 when the tax returns were filed on line (sum of ITC as mentioned in R.14(B) was ₹ 2.15 crore; whereas total claim of ITC in R.16(B) was ₹ 2.39 crore).

After Audit pointed this out, the Department replied that in the returns relating to January 2012, ITC relating to purchase of goods taxable at one *per cent* was not exhibited in the system at column R.14.1(B) of Form-I return but the total tax credit at R.16(B) was correctly computed taking into account the credit relating to purchase of goods taxable at one *per cent*. Therefore, there was no short levy of tax. The Department further stated that in respect of returns filed prior to April 2010, the discrepancy was due to data entry errors and there was no short levy as the tax liability of the dealer was correctly computed and collected. However, Audit noticed that similar discrepancies were in existence even after e-filing of tax returns was made mandatory from April 2010, which warrants introduction of validation controls in e-filing modules.

- The amount of tax credit available in excess in a month (R26 of Form-I return) is carried forward to the next month and is exhibited in Annexure I-C of the succeeding month. The amount shown under item 1 of Annexure I-C to the Form-I of a month as “Tax credit carried forward from previous period” and the amount shown in R.26 of Form-I of the previous month as “tax credit carried forward to next tax period” should be identical. Audit noticed that in 240 returns filed by 174 dealers, tax credit carried forward from previous month (₹ 1.87 crore as per Annexure.I of Form-I) was more than the closing balance of the previous month (₹ 0.82 crore as per R.26 of Form.I for previous month). Similarly, even after April 2010 when e-filing of tax returns were made mandatory, Audit noticed such discrepancy in 445 tax returns filed by 343 dealers (₹ 6.42 crore as per Annexure-I where it was ₹ 2.73 crore as per R.26 of Form-I).

³ Karaikal, Mahe, Puducherry-II and Yanam

After Audit pointed this out, the Department replied that the discrepancy occurs mostly in cases where revised returns were filed by the dealers and there is no short levy of output tax. The Department, however, agreed to verify all the cases pointed out in Audit and furnish a report after verification.

However, on further scrutiny of the data in the system, Audit noticed that such discrepancies exist even in cases where revised returns were filed for both previous and succeeding months.

4.9.6.7 *Subsequent acceptance of cheques from dealers whose earlier cheques got dishonoured*

- As per Rule 67 of the PVAT Rules, one of the modes for remitting tax due is by means of a crossed cheque in favour of AA. The Rules, however, provide that the method of payment by means of cheque shall not be applicable to casual dealers and dealers whose cheque got dishonoured by the banks for want of funds on more than one occasion.

Analysis of dump data revealed that out of 4,190 cheques dishonoured by the banks during the period from July 2007 to March 2013, for various reasons like insufficiency of funds, amount in words and figures being different, variation in signature of drawer, etc. 3608 cheques were dishonoured for want of funds. Further, it was noticed that out of these 3608 cheques, 2,205 cheques tendered by 324 dealers for payment of ₹ 82.91 crore were dishonoured for more than one occasion. Audit noticed that these 324 dealers were, however, allowed to make subsequent payments by way of cheques.

Audit further noticed that cheques tendered by 11 dealers were dishonoured for not less than 25 times; the maximum being 87 times in the case of one dealer. The provision of payment by cheques to the dealers whose cheques were earlier dishonoured also resulted in providing unintended financial accommodation of tax amounting to ₹ 3.36 crore during the period from July 2007 to September 2009, when there was no provision to levy interest for belated payment of monthly tax.

The Department replied (August 2013) that in order to realise tax dues without further delay, subsequent cheques were also accepted. The Department further stated that at present the system has a control by which dealers whose cheques were dishonoured are blocked from applying for declaration forms until they make payment.

However, control mechanism evolved would not be applicable to all dealers but only to those dealers who engage in inter-State transactions requiring declaration forms.

- Verification of remittance of tax against the cheques dishonoured by banks revealed that in respect of 79 cheques received from 41 dealers,

subsequent payment was found to be lesser by ₹ 1.03 crore. Similarly, in respect of 177 cheques tendered by 127 dealers, final payment of ₹ 2.15 crore is yet to be received.

The Department replied (August 2013) that short payment/final payment in respect of cases pointed out by audit, will be verified and report submitted to Audit. The Department added that, as observed by audit, a special MIS is developed to show details of amount due to be collected against the bounced cheques.

It is suggested that there should be an effective system in place to monitor the collection of arrears in respect of those cases.

4.9.6.8 *Non-reversal of ITC*

As per Rule 17(3)(v) of the PVAT Rules, ITC shall be allowed for purchase of goods made within the Union Territory from a registered dealer and when they are sold, against declarations in Form 'C', in the course of inter-State trade or commerce falling under Section 8(1) of the Central Sales Tax Act.

During scrutiny of assessment records, Audit noticed in Puducherry-I division and Industrial Assessment Circle that five dealers made inter-State sale of goods, not covered by declarations in Form 'C', for ₹ 31.49 crore during the period from 2007-08 to 2011-12. Though the transactions warrant reversal of ITC already claimed by the dealer, proportionate ITC was not reversed either by the dealers in the monthly returns or by the AAs. The amount of ITC reversible works out to ₹ 38.37 lakh.

After Audit pointed this out, the Department replied in August 2013 that notices proposing reversal of ITC were issued. Further report is awaited (November 2013).

4.9.6.9 *Non / Short levy of penalty*

According to Section 24 of the PVAT Act, every registered dealer shall file a tax return within 15 days after end of the month. Section 24A of the PVAT Act, introduced with effect from 29 September 2009, provides that if a dealer fails to pay the tax within the prescribed due date, the dealer shall pay, in addition to the tax, penalty at two *per cent* of such amount for each month or part thereof for the entire period of default.

- Analysis of 'tax collection table' of database revealed that 5939 dealers paid tax of ₹ 263.89 crore belatedly, with delay which ranged from five days to 1,226 days, during the period from 2009-10 to 2012-13. Penalty leviable worked out to ₹ 6.08 crore in respect of 2973 dealers who paid tax of ₹ 256.20 crore belatedly, excluding the cases where the penalty leviable was less than ₹ 100. However, Penalty on belated payment of tax was either not levied or was short levied by the Department.

Further, Audit cross checked monthly returns filed by the dealers in three⁴ divisions and found that nine dealers paid tax during the period between October 2009 and March 2013 belatedly with delay ranging from five days to 583 days. Penalty leviable in these cases worked out to ₹ 38.67 lakh.

Department replied (August 2013) that automatic demand of penalty in cases of belated payment was introduced in the system with effect from April 2013. However, report regarding levy of penalty in respect of the cases pointed out in Audit is awaited.

4.9.6.10 Other point of interest

Application of reduced rate of tax to industrial inputs

Section 75 of the PVAT Act empowers the Government to alter, add or cancel any of the schedules by issue of Notification. As per Section 31 of the Act, the Government is empowered to notify reduction of tax in respect of any goods. Such delegated powers shall not be used where a Notification seeks to amend the Schedules of the Act.

As per entry 68 of Part-A of Third Schedule, industrial inputs and packing materials as specified in the Appendix were taxable at the rate of four *per cent* and 166 goods were treated as industrial inputs and packing materials and included in the Appendix.

Government subsequently issued a Notification (July 2007) under Section 31 of the Act reducing rate of tax from four *per cent* to one *per cent* on all kinds of industrial inputs and packing materials sold to industries. By issue of another Notification in September 2007, the Government deleted the words “from four *per cent*” included in earlier Notification and thereby extended reduced rate to all goods if they are sold as industrial inputs to industries. The rate was increased to three *per cent* with effect from 1 January 2012 by issue of another Notification in December 2011.

Audit noticed that based on the Notifications issued by the Government, goods which are not mentioned in the Appendix were also treated as industrial inputs and assessed to tax at one/three *per cent*. During PA, Audit noticed from assessment records of 12 dealers pertaining to four divisions⁵ that reduced rate of tax was allowed on the sale turnover of ₹ 203.48 crore relating to the commodities⁶, other than those 166 items specified in Appendix to PVAT Act.

⁴ IAC, Mahe and Puducherry I

⁵ IAC, Karaikal, Puducherry-I and II

⁶ Iron and Steel, aluminium rods, computer monitors, injection moulded parts, diesel driven compressor parts, silica manganese, electrical goods, sheet metal parts etc.

After Audit pointed this out, the Department replied (August 2013) that intention of Government was to provide incentive to all industries and therefore issued Notification allowing reduced rate of tax in respect of all industrial inputs. Department further stated that it was decided to amend entry 68, under Section 75 of the PVAT Act.

4.9.7 Internal Control Mechanism

Internal control mechanism enables the Head of Department to have better co-ordination among different wings of the Department by monitoring various functions executed by them and to ensure that they are carried out in proper manner and in accordance with the rules and regulations. Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and Departmental instructions. Monitoring is a key component of internal control system. The existence of continuous and effective monitoring system is essential to secure the success of internal control system.

Following deficiencies in internal control were noticed:

- Fortnightly Report is furnished by each assessing officer to the CCT. A scrutiny of the fortnightly reports revealed that the position regarding finalisation of assessments selected for detailed scrutiny by CCT is not being indicated therein. Thus, the finalisation of such cases by the AAs is not being monitored by CT.
- Internal audit is an integral part of internal control to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. Audit observed that internal audit was not undertaken in any of the divisions from 2009-10 to 2012-13.

After Audit pointed this out, the Department stated (August 2013) that a module would be developed in the system to monitor finalisation of pending assessments. The Department attributed non conduct of internal audit to shortage of staff but stated that internal audit would be taken up in all divisions during the year 2013-14.

4.9.8 Conclusion

Performance Audit of implementation of VAT system in Union Territory of Puducherry revealed that effective measures need to be taken by the Department to widen the tax base and to bring into the tax net the dealers who carry on business without registration under the PVAT Act. The PA also revealed that there is need for improvement in the areas of computerisation and internal control. Absence of validation controls in the e-filing module resulted in incorrect data being fed into the system. The large number of assessments in respect of which scrutiny was pending and non filing of certificate in Form 'CC' by majority of dealers was indicative

of absence of effective monitoring system. Assessee, whose cheques were dishonoured by banks on more than one occasion, were allowed to make payment by way of cheques, in contravention of provisions of the PVAT Rules.

4.9.9 Recommendations

Government may

- evolve a system to monitor conducting of periodical surveys and for gathering information/details from other Departments/agencies to ensure that dealers liable for VAT registration are promptly detected and registered.
- ensure that the time schedule prescribed in the Act / Rules for renewal / cancellation of the registration may be adhered to strictly to guard against the misuse of the TIN already allotted.
- issue suitable instructions for timely finalisation of assessments of the cases selected for scrutiny and due adherence to the same may be ensured through proper monitoring at higher level.
- introduce a module in the system to monitor filing of certificate in Form 'CC' and non filing of Form 'CC' may be prescribed as one of the norms for selection of cases for detailed scrutiny.
- incorporate appropriate validation controls in the system to curb data entry errors and also to facilitate optimum usage of computerisation.
- institute a system control to restrict acceptance of payment by cheques from the dealers whose cheques were dishonoured by the banks for more than one occasion.

Revenue Department

Stamp Duty and Registration Fees

4.10 Misclassification of instruments of Conveyance as Cancellation Deeds

According to Section 2(10) of the Indian Stamp Act, 1899 conveyance includes a conveyance on sale and every instrument by which property whether movable or immovable, is transferred *inter vivos* and which is not otherwise specifically provided for by Schedule I.

As per Article 23, in the case of conveyance of an immovable property, stamp duty is leviable at the rate of 10 *per cent* including transfer duty surcharge on the market value of the property. As per Article 17 of Schedule I of the IS Act, for Instrument of Cancellation, if attested and not otherwise provided for, stamp duty of ₹ 50 is to be levied on the same.

Government of Puducherry issued a notification in December 2004 whereby remission of 50 *per cent* of stamp duty was granted to women who acquire property through conveyance. The Government of Puducherry restricted the concession to women permanently residing in the Union Territory of Puducherry with effect from 23 August 2007.

It was judicially held⁷ that there can be no such thing as cancellation of a conveyance under which right of property has already been passed. Property can be retransferred only by re-conveyance. Further, it was held⁸ by the Hon'ble Madras High Court that cancellation of a Sale Deed by a Deed of Cancellation can be effected only when a condition that title will pass on payment of consideration, was included in the original Sale Deed.

Audit noticed, during scrutiny of records in Sub-Registry Oulgaret

(October 2012) that conveyance of properties effected (between August 2003 and April 2010) through three Sale Deeds on receipt of consideration was cancelled through instruments registered subsequently (between December 2010 and June 2011) on the ground that consideration was not received and possession not handed over. These instruments were treated as Cancellation Deeds. Since the vendors had re-acquired right and interest over the properties from the original purchasers through these deeds, the same were to be treated as Conveyance Deeds. Accordingly,

⁷ cf Emperror Vs Rameshardoss 32 All 171 SIC 697

⁸ W.A.Nos.592 & 938 of 2009, in Latif Estate Line India Ltd., Vs. Registration Department

stamp duty and registration fees of ₹ 6.21 lakh was required to be levied on the market value of the property of ₹ 94.80 lakh as against ₹ 310 collected by the Department. Thus, there was a short collection of stamp duty and registration fees of ₹ 6.20 lakh due to misclassification of Conveyance Deeds as Cancellation Deeds.

Audit pointed this out to the Department in November 2012 and to the Government in July 2013. Their reply is awaited (January 2014).

Health Department

State Excise

4.11 Short collection of excise duty and additional excise duty

According to Section 21 of the Pondicherry Excise Act, 1970, the Government may levy duty on any excisable article manufactured or produced elsewhere in India and imported into the Union Territory under a license or permit granted under this Act. Government of Puducherry has revised⁹ the Excise duty (ED) and Additional Excise duty (AED) payable on IMFL and Beer with effect from 2.1.2012.

Audit noticed (December 2012/January 2013) from scrutiny of import permit files of the licensees, register of import permits and import liquor received register in the offices of the Deputy Commissioner (Excise), Puducherry and Karaikal that seven licensees imported IMFL and Beer after the dates of revision of ED and AED under permits issued prior to such revision.

Levy of ED and AED was, however, made at old rates. Similarly, Audit noticed from Beer transport permit register of two licensees that ED and AED were collected at old rates in respect of Beer received on 02 January 2012 instead of at new rates. This resulted in short collection of ED and AED of ₹ 26.12 lakh.

After Audit pointed this out to the Department (January 2013), the Deputy Collector (Excise), Puducherry replied (August 2013) that ₹ 6.70 lakh was collected and for the balance, report on collection would be furnished. The Deputy Collector (Excise), Karaikal replied (July 2013) that demand notices were served and the collection particulars will be furnished. Further report is awaited (September 2013).

Audit reported the matter to the Government (July 2013). Their reply is awaited (January 2014).

⁹ Notification No. 4764/DCE/SI/2011(1) dt. 02.01.2012, issued by the Department of Revenue and Disaster Management, Government of Puducherry

CHAPTER V
GOVERNMENT COMMERCIAL
AND
TRADING ACTIVITIES

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GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 Overview of Union Territory of Puducherry Public Sector Undertakings

Introduction

5.1.1 The Union Territory Public Sector Undertakings (PSUs) were established to carry out commercial activities keeping in view the welfare of people. As on 31 March 2013, there were 13 Government companies (all working) and none of them was listed on the stock exchange(s). These PSUs registered a turnover of ₹ 373.92 crore¹ as per their latest finalised accounts (September 2013). This turnover was equal to 2.18 *per cent* of Gross State Domestic Product (GSDP) of ₹ 17,191.67 crore for 2012-13. Major activities of PSUs are concentrated in the manufacturing and financing sectors. The PSUs incurred an aggregate loss of ₹ 31.68 crore as per their latest finalised accounts (September 2013). They had employed 5,829 employees as on 31 March 2013.

5.1.2 No PSU was either established or closed during 2012-13.

5.1.3 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government Company includes a subsidiary of a Government Company.

5.1.4 The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956.

Investments in Union Territory PSUs

5.1.5 As on 31 March 2013, investment (capital and long-term loans) in 13 PSUs was ₹ 711.15 crore as per details given below:

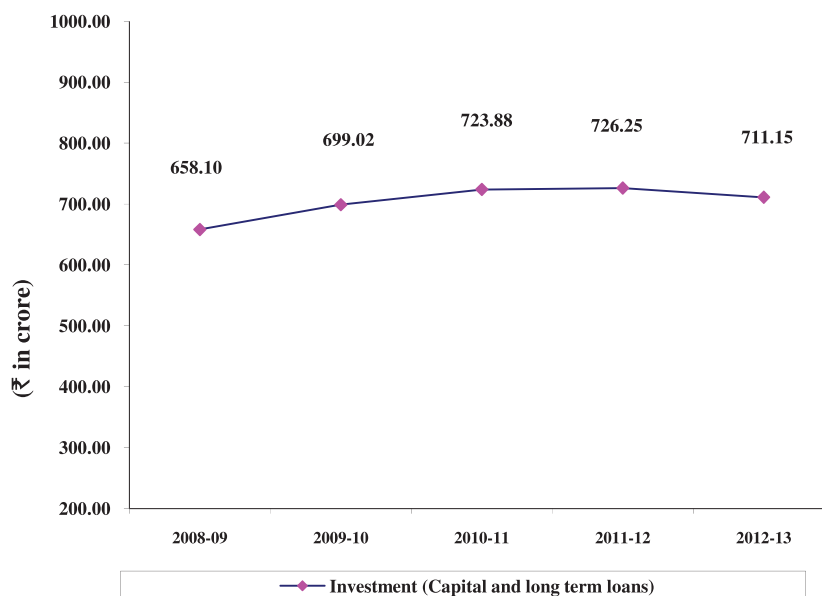
¹ Nine companies finalised their accounts for the years other than 2012-13

(₹ in crore)			
Type of PSUs	Capital	Long Term Loans	Total
Working PSUs	711.15	---	711.15

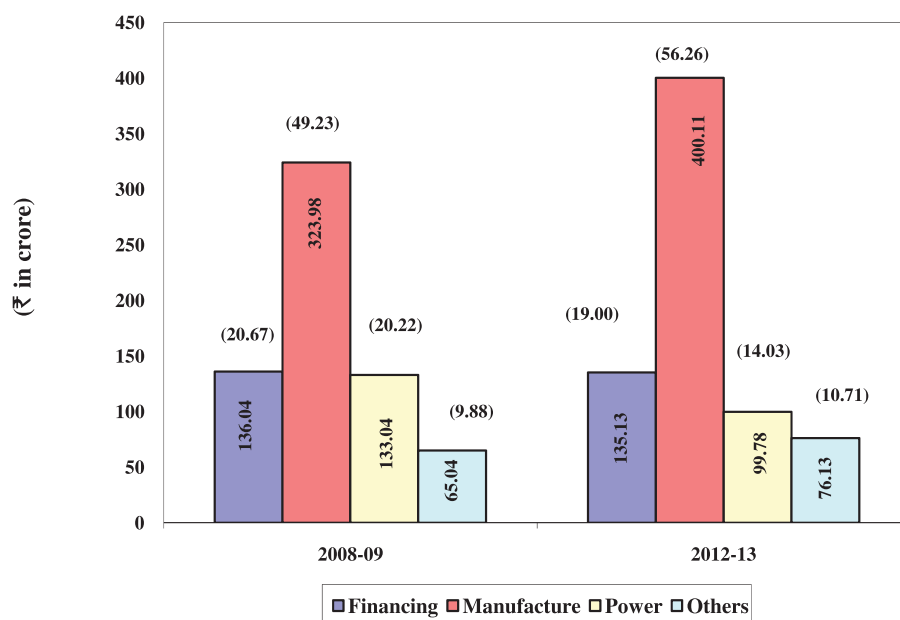
(Source: Details furnished by the companies)

A summarised position of Government investment in PSUs of UT of Puducherry is detailed in **Appendix 5.1**.

5.1.6 As on 31 March 2013, total investment in 13 PSUs was towards capital. Investment has grown by 8.06 *per cent* from ₹ 658.10 crore in 2008-09 to ₹ 711.15 crore in 2012-13.



5.1.7 Investments in various important sectors and percentage thereof at the end of 31 March 2009 and 31 March 2013 are indicated below:



(Figures in brackets show the sector percentage to total investment)

Budgetary outgo, grants/subsidies, guarantees and loans

5.1.8 Details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Appendix 5.3**. Summarised details of budgetary support from Government of UT of Puducherry are given below for three years ended 31 March 2013.

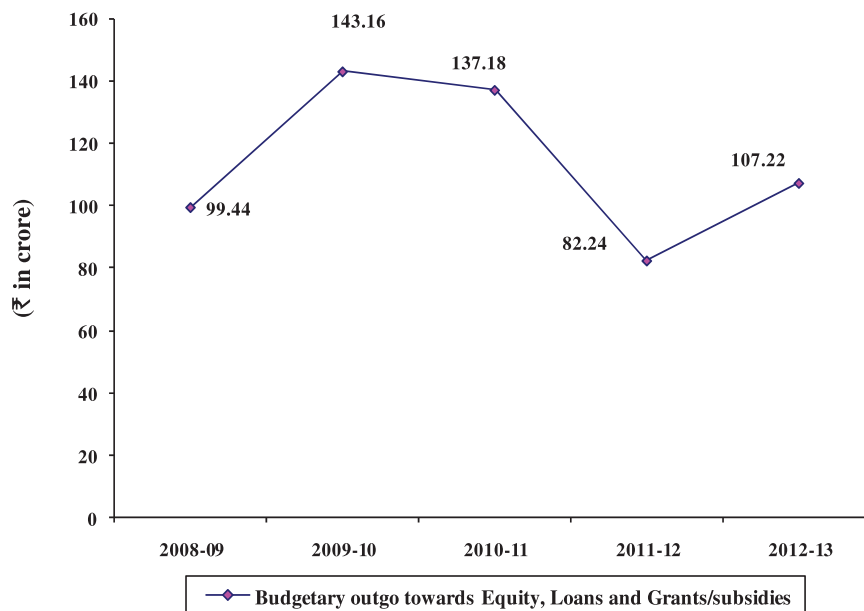
(Amount – ₹ in crore)

Sl. No	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	7	17.72	5	6.73	1	0.25
2	Loans given from budget	1	0.32	---	---	---	---
3	Grants/Subsidy received	6	119.14	6	75.51	9	106.97
4	Total Outgo (1+2+3)	8 ²	137.18	8 ²	82.24	9 ²	107.22
5	Loan converted into equity	2	4.01	---	---	---	---
6	Guarantee Commitment	1	4.97	1	3.64	1	3.61

(Source : Details furnished by the Companies)

² These are the actual number of companies which have received budgetary support in the form of equity, loans and grants/subsidies from the UT Government during the respective years

5.1.9 Details regarding budgetary outgo towards equity, loans and grants/subsidies for the past five years are given in the graph below:



5.1.10 As regards guarantee commitment, only Puducherry Adi Dravidar Development Corporation Limited availed the Government of India guarantee against which ₹ 3.61 crore was outstanding as on 31 March 2013. No guarantee commission was payable to the UT Government by the Company.

Absence of accurate figure for investment in PSUs

5.1.11 Figures in respect of equity and loans outstanding as per records of UT PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should reconcile the differences. The position in this regard as at 31 March 2013 is stated below:

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts 2012-13	Amount as per records of PSUs	Difference
Equity	700.48	700.78	0.30
Loans	0.94	NIL	0.94
Guarantees	3.61	3.61	NIL

(Source: Finance Accounts for 2012-13 and details furnished by the companies)

5.1.12 Audit observed that the differences occurred in two PSUs and were pending reconciliation for over six years up to 2012-13. The UT Government and PSUs may take concrete steps to reconcile the differences in a time bound manner.

Performance of PSUs

5.1.13 Financial results of PSUs are detailed in **Appendix 5.2**. The ratio of PSUs' turnover to State GDP shows the extent of PSUs activities in the State economy. The table below provides details of PSUs turnover vis-a-vis UT GSDP for the period 2008-09 to 2012-13.

(₹ in crore)

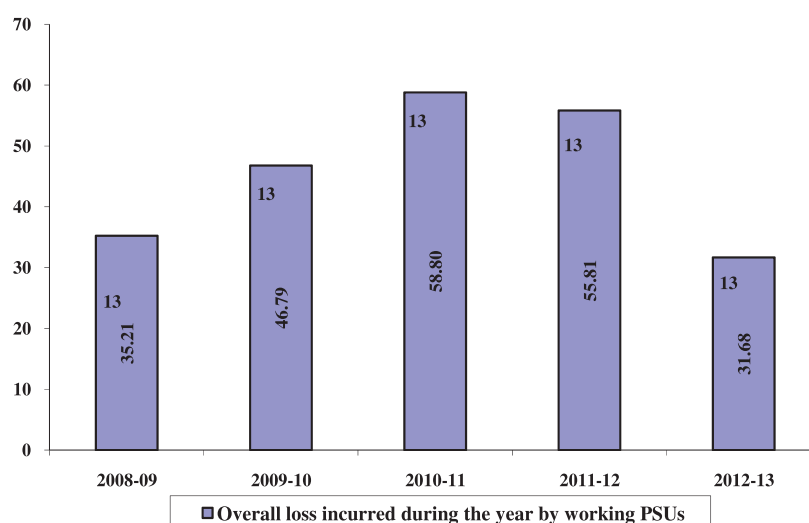
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover	399.89	308.53	338.35	336.68	373.92 ³
GSDP	11,773.57	11,255.23	11,255.23	14,081.06	17,191.67
Percentage of Turnover to State GDP	3.40	2.74	3.01	2.39	2.18

(Source : Details furnished by the Companies and GSDP furnished by UT Government)

Compared to 2008-09, the turnover and percentage of turnover to GSDP showed a decreasing trend indicating that the contribution of PSUs of UT to GSDP was not substantial.

5.1.14 Losses incurred by UT PSUs during the period 2008-13 are given below:

(₹ in crore)



³ Turnover as per latest finalised accounts as on 30 September 2013.

During the year 2012-13, out of 13 PSUs, three PSUs earned profit of ₹ 14.79 crore while nine PSUs incurred loss of ₹ 46.47 crore leading to overall loss. One PSU, viz., Puducherry Backward Classes and Minorities Development Company prepared its accounts on 'no profit no loss' basis. The contributors to profit were Puducherry Power Corporation Limited (₹ 7.95 crore), Puducherry Distilleries Limited (₹ 4.63 crore) and Pondicherry Industrial Promotion, Development and Investment Corporation Limited (₹ 2.21 crore). Heavy losses were incurred by Pondicherry Textiles Corporation Limited (₹ 16.85 crore) and Swadeshee-Bharathee Textile Mills Limited (₹ 11.36 crore).

5.1.15 Losses of PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operational management and monitoring. The Audit Reports of the CAG for the three years ending March 2013 reflect avoidable expenditure/loss of revenue to the extent of ₹ 3.82 crore and idle investment of ₹ 3.48 crore. This could have been controlled with better management. Year wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	Total
Net Profit (loss)	(58.80)	(55.81)	(31.68)	(146.29)
Controllable losses as per C&AG's Audit Report	1.83	1.99	---	3.82
Idle investment	---	---	3.48	3.48

(Source: Latest finalised accounts of companies and CAG's Audit Report)

5.1.16 The above losses pointed out by Audit Reports of the CAG were based on test check of records of PSUs. Therefore, the actual controllable losses could be much more than this. The PSUs can discharge their role efficiently only if they are financially prudent. The above financial situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

5.1.17 Some other key parameters pertaining to UT PSUs are given below:

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Return on Capital Employed (Per cent)	NIL	NIL	NIL	NIL	NIL
Debt	11.48	16.46	19.59	15.35	NIL
Turnover	399.89	308.53	338.35	336.68	373.92
Debt/Turnover Ratio	0.03:1	0.05:1	0.06:1	0.05:1	---
Interest Payments	7.25	10.49	10.56	15.15	12.88
Accumulated Losses	263.76	268.60	378.51	449.45	496.38

(Source: Details furnished by the companies and latest finalised accounts of companies)

5.1.18 As per the latest finalised accounts of PSUs as on 30 September 2013, the capital employed worked out to ₹ 641.58 crore in comparison to capital employed of ₹ 581.28 crore in 2008-09. During the last five years, overall return on capital employed remained “NIL”.

5.1.19 The State Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. As per the latest finalised accounts, three PSUs earned an aggregate profit of ₹ 14.79 crore and two PSU⁴ declared a dividend of ₹ 3.62 crore.

Arrears in finalisation of accounts

5.1.20 Annual accounts of companies are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230 and 619 of the Companies Act, 1956. The table below provides details of progress made by PSUs in finalisation of accounts by September 2013.

Sl.No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of PSUs	13	13	13	13	13
2.	Number of accounts finalised during the year.	13	13	8	17	10
3.	Number of accounts in arrears	20	20	25	21	24
4.	Number of PSUs with arrears in accounts	13	13	13	12	12
5.	Extent of arrears	1 to 3 years	1 to 3 years	1 to 3 years	1 to 3 years	1 to 4 years

(Source: Details compiled by audit)

5.1.21 It could be seen from the table that 12 companies are having arrears in finalisation of accounts ranging from one to four years as on 30 September 2013. The companies should take efforts to reduce the arrears in finalisation of accounts.

5.1.22 As of September 2013, the UT Government invested ₹ 185.28 crore (Equity: ₹ 5.86 crore, Grants/Subsidies: ₹ 179.42 crore) in eight PSUs during the years for which accounts have not been finalised as detailed in **Appendix 5.4**. In the absence of accounts and their audit, investments and expenditure incurred cannot be vouchsafed.

5.1.23 Administrative departments overseeing the activities of these entities have also to ensure that the accounts are finalised and adopted by

⁴ Pondicherry Industrial Promotion Development and Investment Corporation Limited and Puducherry Power Corporation Limited.

these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed periodically by Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (October 2013) with the Secretary to UT Government, Finance Department to expedite the finalisation of accounts in arrears.

5.1.24 It is therefore, recommended that the UT Government should monitor and ensure timely finalisation of accounts with special focus on arrears and comply with the provisions of the Companies Act, 1956.

Adverse Comments on the Accounts and Internal Audit of PSUs

5.1.25 The audit reports of statutory auditors and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(Amount - ₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in loss	2	5.79	2	10.23	3	33.22
2.	Decrease in loss	---	---	---	---	1	17.78
3.	Errors of classification	1	0.60	---	---	---	---
	Total	2	6.39	2	10.23	4	51.00

(Source: Annual accounts of the companies)

5.1.26 During the year, the statutory auditors had given unqualified certificates for eight accounts and qualified certificates for two accounts.

5.1.27 Some of the important comments in respect of accounts of companies are stated below:

Pondicherry Textiles Corporation Limited (2011-12)

- There was understatement of loss due to:
 - (i) accounting of compensation towards Voluntary Retirement Scheme as receivable from Government of Puducherry without its orders – ₹ 1.04 crore.
 - (ii) non-provision for contribution payable to Employees State Insurance Corporation on the interim relief granted to workers and contract labourers – ₹ 1.79 crore.

- (iii) Valuation of closing stock of cloth at cost which had realisable value lower than the cost – ₹ 5.04 crore.

Pondicherry Corporation for Development of Women and Differently Abled Persons Limited (2011-12)

- Non-accountal of ₹ 25.84 crore of grants received from the Government as revenue as per the provisions of Accounting Standard (AS)-12 has resulted in overstatement of loss by ₹ 25.84 crore.
- The Company recognised deferred tax assets in contravention of the provisions of AS-22, which resulted in overstatement of loss by ₹ 8.06 crore.

Puducherry Road Transport Corporation Limited (2010-11)

- The Sixth Pay Commission arrears payable amounting to ₹ 1.05 crore were not provided in the accounts which resulted in understatement of current liabilities and loss.

Swadeshee Bharathee Textile Mills Limited (2009-10)

- Interest of ₹ 23.62 crore payable on the purchase was not provided in its accounts which resulted in understatement of accumulated losses.

5.1.28 Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system during the year 2012-13 is given below:

Sl.No	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 5.2
1.	There was no system of preparing short term/long term business plans and reviewing the same with actuals	2	12 & 13
2.	Internal audit requires strengthening	2	2 & 13
3.	Internal audit manual not prescribed	4	9,11, 12 & 13
4.	Delineated fraud policy not available	5	2, 9, 10, 11 & 13
5.	Non-formation/non-convening of Audit Committee in compliance with Section 292-A of the companies Act, 1956	2	4 & 5

Sl.No	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 5.2
6.	Non-maintenance of proper register for fixed assets	1	5
7.	There was no approved IT strategy or plan	7	2, 3, 4, 5, 10, 12 & 13

(Source: Reports furnished by Statutory Auditors under Section 619(3) (a) of the Companies Act, 1956)

The companies concerned should address the issues commented upon by the statutory auditors and take effective remedial action.

PUDUCHERRY ROAD TRANSPORT CORPORATION LIMITED

5.2 Idling of buses

Buses and additional fitments worth ₹ 3.48 crore procured out of Central assistance were kept idle for more than two years.

Puducherry Road Transport Corporation Limited (Company) formed in 1986 is engaged in road transport services in the Union Territory of Puducherry (UT) with a fleet strength of 85 buses at the end of March 2009.

The Government of India (GOI) formulated (2006) a Central assistance scheme viz “Jawaharlal Nehru National Urban Renewal Mission” (JnNURM). The objectives of JnNURM, *inter alia* aimed at development of infrastructure including public transport in urban areas. The Company, to take advantage of scheme of GOI conducted (March 2009) a study and found that there was scope for increasing its fleet strength upto 128 buses by the year 2010.

Accordingly, the Government of UT, on behalf of the Company approached (March 2009) the GOI for sanction of ₹ 49.79 crore under JnNURM for augmentation of the company’s fleet strength and other facilities such as construction of bus shelters, depots, *etc.* GOI sanctioned (May 2009) ₹ 16.15 crore for purchase of 50 buses in which ₹ 12.92 crore would be the share of Central assistance and balance of ₹ 3.23 crore would be the share of UT. The first instalment of GOI’s assistance (₹ 3.23 crore) and the share of UT (₹ 3.23 crore) amounting to ₹ 6.46 crore was received by the Company during January and March 2010. The second instalment of GOI’s assistance of ₹ 4.73 crore was received in November 2012.

In the meantime, the Company placed (November 2009) purchase orders with private company for supply of 40 fully built buses at a cost of ₹ eight crore and additional fitments such as single integrated controller for Information Technology System (ITS), Global Positioning System (GPS) based Telematic onboard units at a total cost of ₹ 0.45 crore. This company delivered 26 buses in May/June 2010 and remaining 14 buses in January 2013.

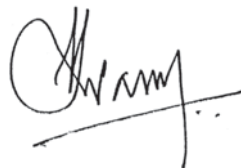
Based on review of the operations of 40 buses purchased through Central assistance during the period June 2010 to March 2013, Audit observed that:

- During the above period, the overall fleet utilisation factor⁵ of these 40 buses was only 59 *per cent*. This was far below the all India average fleet utilisation of 92 *per cent*. The low fleet utilisation was mainly due to idling of five buses continuously from December 2011 to date (December 2013) for want of crew. Further, nine more buses which were received in January 2013 were not registered with the Transport Department up to July/August 2013. Even after registration of these buses, they were not operated till date (December 2013) due to non-availability of crew. Consequently, these 14 buses purchased at a cost of ₹ 3.03 crore were kept idle for majority of the period (80.58 *per cent* of the available days) from September 2011 to till date (December 2013). The idling of these buses resulted in non-achievement of the objective of providing quality transport services within the urban areas under JnNURM, besides loss of revenue of ₹ 2.89 crore to the Company (based on the average revenue earned per day by a bus operated by the Company).
- As per the objectives of JnNURM, the Central assistance was to be utilised as an additional resource to the existing resource of the utilising organisation. Moreover, as per the projections of the Company, the Central assistance of JnNURM was to be utilised for augmentation of its fleet strength. However, out of 40 buses purchased, 26 buses (excluding 14 buses mentioned above) were utilised as replacement of the existing over aged vehicles. Thus, expenditure of ₹ 5.63 crore incurred out of the Central assistance of ₹ 7.96 crore did not fulfill the scheme's objectives of augmentation of the infrastructure facilities.
- Though the Company purchased single integrated controller for ITS and GPS based Telematic onboard units at a total cost of ₹ 0.45 crore, these equipments were not utilised till date (December 2013) as the Company had not developed required software for their operation which rendered the above purchase wasteful.

The Company while admitting (October 2013) the facts stated that the poor operation of buses procured through Central assistance was mainly due to want of crew. However, non-availability of the required manpower for operation of the buses and lack of control over crew absenteeism was an

⁵ This indicates the ratio of buses available *vis-a-vis* the buses put on road.

issue unresolved by the Company since 2005-06, which was commented upon in the Report of the CAG for the year ended 31 March 2009, Government of UT. However, the Company obtained Central assistance and purchased the buses without an action plan for increasing the man power and reducing crew absenteeism resulting in idling of buses.



(K. SRINIVASAN)

Principal Accountant General
(General and Social Sector Audit)
Tamil Nadu and Puducherry

Chennai
The

Countersigned



(SHASHI KANT SHARMA)

Comptroller and Auditor General of India

New Delhi
The

Appendices

Appendix 1.1
(Reference: Paragraph 1.6; Page 8)

Details of IRs issued upto December 2012 and paragraphs pending as on June 2013

Sl.No	Name of the Department/ Directorate/Societies	Inspection Reports	Paragraphs
(1)	(2)	(3)	(4)
1	Accounts and Treasuries	13	48
2	Adi-Dravidar Welfare	11	42
3	Agriculture	41	151
4	Animal Husbandry and Animal Welfare	8	43
5	Arts and Culture	8	36
6	Civil Supplies and Consumer Affairs	9	35
7	Collegiate and Technical Education	38	152
8	Commercial Taxes	2	5
9	Cooperation	12	59
10	Economics and Statistics	2	4
11	Election	3	16
12	Electricity	30	111
13	Fire Service	1	1
14	Fisheries and Fishermen Welfare	18	76
15	Forest and Wild Life	2	9
16	Heads of State	8	24
17	Health and Family Welfare	53	129
18	Hindu Religious Institution	3	10
19	Industries and Commerce	43	148
20	Information and Publicity	2	6
21	Information Technology	3	7
22	Jails	4	26
23	Labour and Employment	17	62
24	Law/Judicial	10	20
25	Local Administration	62	332
26	Planning and Research	2	2
27	Police	4	12

(1)	(2)	(3)	(4)
28	Port	6	22
29	Public Works	64	323
30	Revenue and Disaster Management	24	55
31	Rural Development	20	89
32	Sainik Welfare	1	5
33	Sales tax	50	253
34	School Education	62	233
35	Science, Technology and Environment	3	7
36	Social Welfare	21	63
37	Stamp duty and registration fees	66	136
38	State excise	25	49
39	Stationery and Printing	1	2
40	Taxes on vehicles	32	138
41	Tourism	13	56
42	Town and Country Planning	20	112
43	Transport	9	19
44	Women and Child Development	11	30
	Total	837	3,158

Appendix 2.1
(Reference: Paragraph 2.1.7.1; Page 16)

Details of OHTs constructed with excess capacity due to wrong adoption of design period

Sl No	Name of Commune/ Village	Population projection	Requirement adopted by PWD (LPCD)	Total Demand (mld)	OHT Capacity (in lakh litres)	Cost of construction (₹ in lakh)
Construction of OHTs by adopting population for 30 years						
1	Moorthikuppam	13,718	135	18.52	10.00	107.17
2	Pillaiyarkuppam	20,065	70	14.05	10.00	106.71
3	Pinnatchikuppam	4,421	70	4.08	2.00	66.90
4	Chinnaaratchikuppam	3,354	70	2.35	1.50	73.08
Total					23.50	353.86
Actual requirement with correct projection of population for 15 years						
1	Moorthikuppam	10,611	80.5*	8.54	5.00	
2	Pillaiyarkuppam	15,467	80.5*	12.45	7.00	
3	Pinnatchikuppam	3,044	80.5*	2.45	1.50	
4	Chinnaaratchikuppam	2,359	80.5*	1.89	1.00	
Total					14.50	218.35
Difference						135.51

* including transmission loss at 15 per cent on the requirement of 70 lpcd for rural area

Appendix 3.1
(Reference: Paragraph 3.1.3; Page 27)

Calculation of price variation for cement and steel

Price variation calculation formula : $V = P \times Q \times (CI - CI_0 / CI_0)$ Where V is variation in price of the material

P is base price of material (Cement and Steel)

CI is price index for period under consideration

Q is quantity of material brought at site

CI₀ is price index as valid on the last stipulated date of receipt of tender

(i) Loss due to adoption of wrong price indices for steel/cement brought to site within stipulated period of contract (for both works)

Last date of receipt of tender	Quarter during which material was brought to site	Material	Base price as per NIT per MT in ₹ (P)	Quantity brought to site in MT (Q)	Cost index valid on last date of tender (CI ₀)	Cost index valid during the period of consideration (CI)	Price variation factor* (CI-Cl ₀ /Cl ₀)	Price variation (₹) (4) x (5) x (8)	Excess Payment (₹)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	10,29,457 (C)	
10.12.2010	January – March 2011 (within stipulated period of contract)	Price variation as allowed by PWD with tender date as 1 April 2010								
		Steel	42000	57.49 ¹	197.94	281.25	0.42	10,16,261		
		Cement	5300	222.20 ²	120.00	186.67	0.56	6,54,288		
		Total								
		Price variation to be allowed as per clause 10 CA								
		Steel	42000	57.49	237.50	281.25	0.18	4,44,791		
		Cement	5300	222.20	160.00	186.67	0.17	1,96,301	6,41,092 (B)	
		Total								

* rounded off to two decimal places

¹ (18.94 MT for Constn. of Compound wall + 38.55 MT for constn. of ancillary building)

² (77.83 MT for Constn. of Compound wall + 144.37 MT for constn. of ancillary building)

(ii) Loss due to adoption of wrong price indices for steel/cement brought to site during justified EOT
(Construction of Ancillary building)

Last date of receipt of tender	Quarter during which material was brought to site	Material	Base price as per NIT per MT in ₹ (P)	Quantity brought to site in MT (Q)	Cost index valid on last date of tender (CI _o)	Cost index valid during the period of consideration (CI)	Price variation factor** (CI-Cl _o /Cl _o)	Price variation (₹) (4) x (5) x (8)	Excess Payment (₹)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)			
10.12.2010	May 2011 – February 2012 (during justified EOT)	Price variation as allowed by PWD with tender date as 1 April 2010 and by adopting price indices as on running account bills								17,06,550 (F)	
		Steel	42,000	39,659	197.94	281.25	0.42	7,01,059			
				37,838	197.94	326.25	0.65	10,30,159			
		Cement	5,300	102.91	120.00	190.00	0.56	3,18,163			
				147.61	120.00	193.33	0.61	4,78,071			
		Total									25,27,452 (D)
		Price variation to be allowed as per clause 10 CA									
		Steel	42,000	77,497	237.50	281.25	0.18	5,99,582			
		Cement	5,300	250.52	160.00	186.67	0.17	2,21,320			
		Total									8,20,902 (E)
Actual Payment made									41,98,001 (A) + (D)		
LESS : Payment to be made as per provisions of Clause 10 CA									14,61,994 (B) + (E)		
Over payment									27,36,007 (C) + (F)		

* rounded off to two decimal places

Appendix 3.2
(Reference: Paragraph 3.4.4; Pages 37 and 39)

Phase-wise development of Karaikal port and cost incurred

Proposed plan as per DPR				Actual development				Financial and physical performance during 2009-13				(₹ in lakh)
Phase	No. of berths	Cargo handling capacity (MTPA)	Proposed cost	Phase	No. of berths	Cargo handling capacity* (MTPA)	Cost incurred	Year	Amount of loan availed	Actual quantity of cargo handled (MTPA)	Profit (+)/ loss (-)	
I	2	4	351	I	2	5.2	417.83	2009-10	809.59	1.35	-9.09	
II	2	6.7	--	2A	3	22.7	1,582.48	2010-11	326.83	4.79	23.99	
III	2	9.7	--	2A Extn	Mechanisation of three berths developed in phase 2A		236.23	2011-12	420.85	6.01	23.36	
				2B	4	19	Yet to be taken up	2012-13	121.38	6.61	-28.86	
Total	6	9.7	--		9	47	2,236.54		1,678.65			

* as claimed by the concessionaire

Appendix 5.1

(Reference: Paragraph 5.1.5; Page 74)

Statement showing particulars of up-to-date paid-up capital, loans outstanding and manpower as on 31 March 2013 in respect of Government companies

(Figures in column 5 (a) to 6 (d) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorporation	Paid-up Capital ³			Loans outstanding at the close of 2012-13				Debt equity ratio 2012-13 (Previous year)	Manpower (No. of employees as on 31.3.13)	
				Union Territory Government	Central Government	Others	Total	Union Territory Government	Central Government	Others			Total
(1)	(2)	(3)	(4)	5(a)	5(b)	5(c)	5(d)	6(a)	6(b)	6(c)	6(d)	(7)	(8)
Working Government Companies													
AGRICULTURE & ALLIED													
1	Puducherry Agro Service and Industries Corporation Limited (PASIC)	Agriculture	26 March 1986	13.83	---	---	13.83	---	---	---	---	---	373
2.	Puducherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO)	Civil Supplies and Consumer Affairs	27 September 1990	9.88	---	0.05	9.93	---	---	---	---	---	303
Sector wise total				23.71	---	0.05	23.76	---	---	---	---	---	676
FINANCE													
3.	Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC)	Industries	17 April 1974	104.04 (72.18)	---	8.54	112.58 (72.18)	---	---	---	---	---	124
4.	Puducherry Adi dravidar Development Corporation Limited (PADCO)	Welfare	26 September 1986	13.18	1.68	---	14.86	---	---	---	---	---	71
5.	Pondicherry Corporation for the Development of Women and Differently Abled Persons Limited (PCDWDAP)	Welfare	31 March 1993	3.82	---	---	3.82	---	---	---	---	--	1,244

³ Paid-up capital includes share application money

(1)	(2)	(3)	(4)	5(a)	5(b)	5(c)	5(d)	6(a)	6(b)	6(c)	6(d)	(7)	(8)
6.	Puducherry Backward Classes and Minorities Development Corporation Limited (PBCMDCL)	Welfare	31 March 1999	3.87	---	---	3.87	---	---	---	---	---	8
Sector wise total													
MANUFACTURING													
7.	Puducherry Distilleries Limited (PDL)	Industries	8 December 1971	8.45	---	---	8.45	---	---	---	---	---	98
8.	Pondicherry Electronics Limited (Subsidiary of PIPDIC) (PELECON)	Industries	7 December 1982	---	---	0.10	0.10	---	---	---	---	---	9
9.	Pondicherry Textile Corporation Limited (PONTEX)	Industries	25 November 1985	361.35	---	---	361.35	---	---	---	---	---	2,109
10.	Swadeshee-Bharathee Textile Mills Limited (SBTML)	Industries	4 July 2005	30.21	---	---	30.21	---	---	---	---	---	562
Sector wise total													
POWER													
11.	Puducherry Power Corporation Limited (PPCL)	Electricity	30 March 1993	99.78	---	---	99.78	---	---	---	---	---	114
Sector wise total													
SERVICE													
12.	Puducherry Tourism Development Corporation Limited (PTDC)	Tourism	1 April 2005	17.59	---	---	17.59	---	---	---	---	---	258
13.	Puducherry Road Transport Corporation Limited (PRTC)	Transport	19 February 1986	34.78	---	---	34.78	---	---	---	---	---	556
Sector wise total													
Grand total													
				700.78 (72.18)	1.68	8.69	711.15 (72.18)	---	---	---	---	---	5,829
												(0.02:1)	

Appendix 5.2

(Reference: Paragraph 5.1.13 and 5.1.28; Pages 77 and 81)

Summarised financial results of Government companies for the latest year for which accounts were finalised

(Figures in columns 5(a) to 6 and 8 to 10 are ₹ in crore)

Sl. No.	Sector and name of the company	Period of accounts	Year in which finalised	Net Profit (+)/Loss (-)			Turnover		Impact of Accounts Comments	Paid-up capital	Accumulated profit/loss (-)	Capital employed ⁴	Return on capital employed	Percentage return on capital employed
(1)	(2)	(3)	(4)	Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Working Government Companies														
AGRICULTURE & ALLIED														
1	PASIC	2008-09	2011-12	(-)6.76	0.02	0.37	(-)7.15	39.87	---	10.83	(-)5.17	9.36	(-)7.13	---
2.	PAPSCO	2010-11	2013-14	(-)4.69	0.20	0.22	(-)5.11	129.11	---	9.93	(-)10.92	3.67	(-)4.91	---
Sector wise total				(-)11.45	0.22	0.59	(-)12.26	168.98		20.76	(-)16.09	13.03	(-)12.04	---
FINANCING														
3.	PIPDIC	2012-13	2013-14	2.67	---	0.46	2.21	11.66	---	112.58	28.61	140.50	2.21	1.57
4.	PADCO	2010-11	2013-14	0.04	0.17	0.14	(-)0.27	6.21	---	14.86	(-)7.88	20.58	(-)0.10	---
5.	PCDWDAP	2011-12	2012-13	(-)0.21	---	0.02	(-)0.23	26.44	---	3.82	(-)0.29	7.29	(-)0.23	---
6.	PBCMDCL	2009-10	2012-13	0.21	0.14	0.07	---	1.25	---	3.26	---	10.49	0.14	1.34
Sector wise total				2.71	0.31	0.69	1.71	45.56		134.52	20.44	178.86	2.02	1.13

⁴ Capital employed represents net fixed assets (including capital work- in -progress) PLUS working capital except in case of finance companies, where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).

(1)	(2)	(3)	(4)	5(a)	5(b)	5(c)	5(d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
MANUFACTURING														
7.	PDL	2010-11	2012-13	5.21	0.01	0.57	4.63	28.96	---	8.45	31.63	40.45	4.64	11.47
8.	PELECON	2010-11	2012-13	(-) 0.24	0.01	---	(-) 0.25	0.17	---	0.10	(-) 0.66	(-) 0.17	(-) 0.24	---
9.	PONTEX	2011-12	2012-13	(-) 5.19	10.55	1.11	(-) 16.85	16.45	---	361.35	(-) 475.41	192.12	(-) 6.30	---
10.	SBTML	2009-10	2012-13	(-) 9.08	1.77	0.51	(-) 11.36	10.52	---	28.21	(-) 42.79	16.49	(-) 9.59	---
Sector wise total				(-) 9.30	12.34	2.19	(-) 23.83	56.10	---	398.11	(-) 487.23	248.89	(-) 11.49	---
POWER														
11.	PPCL	2011-12	2013-14	11.65	---	3.70	7.95	76.74	---	99.78	40.64	197.56	7.95	4.02
Sector wise total				11.65	---	3.70	7.95	76.74	---	99.78	40.64	197.56	7.95	4.02
SERVICE														
12.	PTDC	2011-12	2013-14	(-) 1.79	0.01	0.29	(-) 2.09	9.35	---	17.34	(-) 17.40	1.94	(-) 2.08	---
13.	PRTC	2010-11	2012-13	(-) 2.66	---	0.50	(-) 3.16	17.19	---	34.78	(-) 36.74	1.30	(-) 3.16	---
Sector wise total				(-) 4.45	0.01	0.79	(-) 5.25	26.54	---	52.12	(-) 54.14	3.24	(-) 5.24	---
Grand total				(-) 10.84	12.88	7.96	(-) 31.68	373.92	---	705.29	(-) 496.38	641.58	(-) 18.80	---

Appendix 5.3
(Reference: Paragraph 5.1.8; Page 75)

Statement showing grants and subsidy received/receivable, guarantees received, waiver of dues, loans written off and loans converted into equity during the year and guarantee commitment at the end of March 2013

(Figures in column 3 (a) to 6 (d) are ₹ in crore)

Sl.No.	Sector & Name of the Company	Equity/loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year		Waiver of dues during the year			
		Equity	Loans	Central Government	State Government	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/penal interest waived	Total
(1)	(2)	3(a)	3(b)	4(a)	4(b)	4(c)	4(d)	5(a)	5(b)	6(a)	6(b)	6(c)	6(d)
Working Government Companies													
AGRICULTURE & ALLIED													
1.	PASIC	---	---	---	8.00 (G)	---	8.00 (G)	---	---	---	---	---	---
2.	PAPSCO	---	---	---	2.73 (G) 39.53 (S)	---	2.73 (G) 39.53 (S)	---	---	---	---	---	---
Sector wise total		---	---	---	10.73 (G) 39.53 (S)	---	10.73 (G) 39.53 (S)	---	---	---	---	---	---

(1)	(2)	3(a)	3(b)	4(a)	4(b)	4(c)	4(d)	5(a)	5(b)	6(a)	6(b)	6(c)	6(d)
FINANCE													
3.	PIPDIC	---	---	11.27 (G)	5.11 (G)	---	16.38 (G)	---	---	---	---	---	---
4.	PADCO	---	---	---	2.00 (G)	---	2.00 (G)	---	3.61	---	---	---	---
5.	PCDWDAP	---	---	---	28.65 (G)	---	28.65 (G)	---	---	---	---	---	---
6.	PBCMDCL	---	---	---	1.85 (G)	---	1.85 (G)	---	---	---	---	---	---
	Sector wise total	---	---	11.27 (G)	37.61 (G)	---	48.88 (G)	---	3.61	---	---	---	---
MANUFACTURING													
7.	SBTML	---	---	---	10.00 (G)	---	10.00 (G)	---	---	---	---	---	---
	Sector wise total	---	---	---	10.00 (G)	---	10.00 (G)	---	---	---	---	---	---
SERVICE													
8.	PTDC	0.25	---	---	2.00 (G)	---	2.00 (G)	---	---	---	---	---	---
9.	PRTC	---	---	---	7.10 (G)	---	7.10 (G)	---	---	---	---	---	---
	Sector wise total	0.25	---	---	9.10 (G)	---	9.10 (G)	---	---	---	---	---	---
	Grand total	0.25	---	11.27 (G)	67.44 (G)	---	78.71 (G)	---	3.61	---	---	---	---

(G) represents 'Grants'

(S) represents 'Subsidy'

Appendix 5.4

(Reference: Paragraph 5.1.22; Page 79)

Statement showing investments made by the Government of the Union Territory of Puducherry in PSUs whose accounts are in arrear

(₹ in crore)

SLNo.	Name of the Company	Year up to which accounts finalised	Paid-up capital as per latest finalised accounts	Investment made by UT Government during the years for which accounts were in arrears			
				Equity	Loan	Grants/Subsidy	Others
Working Government companies							
AGRICULTURE & ALLIED							
1.	PASIC	2008-09	10.83	3.00 (2009-10)	---	8.00 (2012-13)	---
2.	PAPSCO	2010-11	9.93	---	---	46.76 (2011-12) 2.73 39.53 (2012-13)	---
FINANCING							
3.	PIPDIC	2012-13	112.58	---	---	---	---
4.	PADCO	2010-11	14.86	---	---	2.00 (2012-13)	---
5.	PCDWDAP	2011-12	3.82	---	---	28.65 (2012-13)	---
6.	PBCMDCL	2009-10	3.26	0.31 (2010-11) 0.30 (2011-12)	---	2.06 (2010-11) 2.06 (2011-12) 1.85 (2012-13)	---

SLNo.	Name of the Company	Year up to which accounts finalised	Paid-up capital as per latest finalised accounts	Investment made by UT Government during the years for which accounts were in arrears			
				Equity	Loan	Grants/Subsidy	Others
MANUFACTURING							
7.	PDL	2010-11	8.45	---	---	---	
8.	PELECON	2010-11	0.10	---	---	---	
9.	PONTEX	2011-12	361.35	---	---	---	
10.	SBTML	2009-10	28.21	1.79 (2010-11) 0.21 (2011-12)	---	7.00 (2010-11) 12.00 (2011-12) 10.00 (2012-13)	---
POWER							
11.	PPCL	2011-12	99.78	---	---	---	---
SERVICE							
12.	PTDC	2011-12	17.34	0.25 (2012-13)	---	2.00 (2012-13)	---
13.	PRTC	2010-11	34.78	---	---	7.68 (2011-12) 7.10 (2012-13)	---
	TOTAL		---	3.00 (2009-10) 2.10 (2010-11) 0.51 (2011-12) 0.25 (2012-13)	---	9.06 (2010-11) 68.50 (2011-12) 101.86 (2012-13)	

Glossary of abbreviations

AA	:	Assessing Authorities
AAS	:	Atomic Absorption Spectrophotometer
AED	:	Additional Excise Duty
AS	:	Administrative Sanction
BOT	:	Built, Operate and Transfer
BPL	:	Below Poverty Line
C&AG	:	Comptroller and Auditor General of India
CA	:	Concession Agreement
CBDT	:	Central Board of Direct Taxes
CCT	:	Commissioner of Commercial Taxes
CCDU	:	Communication and Capacity Development Unit
CI	:	Cast Iron
CP	:	Commune Panchayat
CPHEEO	:	Central Public Health and Environmental Engineering Organisation
CPWD	:	Central Public Works Department
CRF	:	Central Reserve Fund
CTD	:	Commercial Taxes Department
CTV	:	Colour Television
DC	:	Development Commissioner
DI	:	Ductile Iron
DPR	:	Details Project Report
DTH	:	Direct to Home
ED	:	Excise Duty
EOI	:	Expression of Interest
EOT	:	Extension of Time
FAC	:	Fund Availability Certificate
FITL	:	Funded Interest Term Loan
FTK	:	Field Test Kit
GMB	:	Gujarat Maritime Board
GOI	:	Government of India
GPS	:	Global Positioning System

GSDP	:	Gross State Domestic Product
HLC	:	High Level Committee
HRI	:	Hindu Religious Institutions
IEC	:	Import Export Code
IRs	:	Inspection Reports
ITC	:	Input Tax Credit
ITS	:	Information Technology System
JDGFT	:	Joint Director General of Foreign Trade
JnNURM	:	Jawaharlal Nehru National Urban Renewal Mission
SPV	:	Special Purpose Vehicle
LAD	:	Local Administration Department
LAO	:	Land Acquisition Officer
LOI	:	Letter of Intent
Lpcd	:	Litres per capita per day
MCA	:	Model Concession Agreement
MLD	:	Million Litres per day
MOSRTH	:	Ministry of Shipping, Road Transport and Highways
MT	:	Metric Tonne
MTPA	:	Million Tonnes Per Annum
MVA	:	Mega Volt Ampere
NABARD	:	National Bank for Agriculture and Rural Development
NIPM	:	National Institute of Port Management
NOC	:	No Objection Certificate
O & M	:	Operation and Maintenance
OHT	:	Over Head Tank
PA	:	Performance Audit
PAC	:	Public Accounts Committee
PAG	:	Principal Accountant General
PAN	:	Permanent Account Number
PGST	:	Pondicherry General Sales Tax
PH	:	Public Health
PIA	:	Project Implementation Agency
PMU	:	Project Monitoring Unit

PPCC	:	Puducherry Pollution Control Committee
PRD	:	Planning and Research Department
PRU	:	Progress Review Unit
PSU	:	Public Sector Undertaking
PVAT	:	Puducherry Value Added Tax
PWD	:	Public Works Department
RCs	:	Registration Certificates
RFP	:	Request for Proposal
RWS	:	Rural Water Supply
SDWP	:	State Draft Water Policy
SGWA	:	State Ground Water Authority
TIN	:	Taxpayer's Identification Number
TTA	:	Thirunallar Temple Authority
TTTDP	:	Thirunallar Temple Town Development Project
UC	:	Utilisation Certificate
UT	:	Union Territory
VAT	:	Value Added Tax