

CHAPTER I

INTRODUCTION

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from Performance Audit of selected programmes and activities and compliance audit of Government departments, Government companies and autonomous bodies.

Compliance audit refers to examination of the transactions relating to receipt and expenditure 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.

The Performance Audit, besides involving compliance audit, examines whether the objectives of programme/activity/department are achieved economically and efficiently.

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 findings of audit 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.

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 audit of transactions 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).

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 (Civil Audit), Tamil Nadu and Puducherry and the Principal Accountant General (Commercial and Receipt Audit), Tamil Nadu.

The comparative position of receipts of the UT Government and expenditure incurred by the Government during the year 2010-11 and in the preceding two years is given in **Tables 1** and **2** below.

Table 1: Comparative position of receipts

(₹ in crore)

Receipts	2008-09	2009-10	2010-11
Revenue receipts	2,459	2,841	3,200
Tax revenue	725	868	1,074
Non-tax revenue	629	643	743
Grants-in-aid and contributions	1,105	1,330	1,383
Capital receipts	--	33	--
Recovery of loans and advances	5	5	4
Public Debt receipts	444	659	854
Public Account receipts	610	836	393
Total receipts	1059	4,374	1251

Table 2: Comparative position of expenditure

(₹ in crore)

Expenditure	2008-09			2009-10			2010-11		
	Non-plan	Plan	Total	Non-plan	Plan	Total	Non-plan	Plan	Total
Revenue expenditure									
General services	624	57	681	806	65	871	833	32	865
Social services	412	547	959	489	776	1265	578	801	1379
Economic services	707	219	926	696	247	943	904	388	1292
Grants-in-aid and contributions	4	--	4	4	--	4	4	--	4
Total	1,747	823	2,570	1,995	1,088	3,083	2,319	1,221	3,540
Capital Expenditure									
Capital outlay	7	254	261	(-) 4	373	369	2	369	371
Loans and advances disbursed	*	*	3	*	*	2	2	--	2
Repayment of public debt	*	*	123	*	*	131	*	*	148
Contingency fund	--	--	--	--	--	--	--	--	--
Public account disbursements	*	*	400	*	*	613	*	*	772
Total	7	254	787	(-) 4	373	1,115	4	369	1,293
Grand Total	1,754	1,077	3,357	1,991	1,461	4,198	2,323	1,590	4,833

* 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/receipts of the departments of Government of Union Territory of Puducherry under Section 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 addition, the C&AG also 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 Offices that conducted the audit

Under the directions of the C&AG, the Office of the Principal Accountant General (Civil Audit), Tamil Nadu and Puducherry and the Office of the Principal Accountant General (Commercial and Receipt Audit), Tamil Nadu conduct audit of Government departments, Corporations, Companies, Autonomous Bodies and Institutions under them which are spread all over the UT.

1.5 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments and corporations/companies of Government based on

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

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

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. The 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 2010-11, 185 units of various departments/organizations/companies/corporations were audited for compliance audits and performance audits.

1.6 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, the deficiencies noticed during compliance audit of the Government departments/organizations are also reported upon.

1.6.1 Performance Audit of programmes/activities

The present Report contains four Performance Audits/one long paragraph. The highlights of audit findings are given in the following paragraphs:

1.6.1.1 Performance Audit of 'Acquisition and utilisation of the acquired land for public purposes'

Revenue and Disaster Management Department acquires private lands for public purposes based on the requirements of various Government departments. A performance audit of 'Acquisition and utilisation of the acquired land for public purposes' in the Union Territory of Puducherry was taken up during March to July 2011 covering transactions relating to the period 2006-2011. The basic aim of the audit was to assess whether the land acquisition process was done as per provisions in the Land Acquisition Act, 1894 and the lands acquired were utilised by the Government

departments for the intended purposes. The Performance Audit disclosed the following:

Funds of ₹ 118.79 crore out of the funds provided for acquisition of land were drawn from the Government Account and kept in savings bank accounts in the commercial banks instead of keeping in the Public Account of the Union Territory Government.

Ninety two *per cent* of the acquired lands, some of which acquired under the emergency clause of acquisition, remained unutilised for a period ranging from four to nine years.

Even after eight years since Government decided to set up a Special Economic Zone in Puducherry, it has not been established. Land measuring 336-12-52 hectares acquired at a cost of ₹ 73.39 crore for establishment of the SEZ remained unutilised for over four years.

Land measuring 27-20-60 hectares acquired between 1995 and 2010 at a cost of ₹ 10.10 crore for distribution of free house sites to the Scheduled Caste and other economically backward class people were not allotted due to non-identification of the beneficiaries.

(Paragraph 2.1)

1.6.1.2 Performance Audit of “Sports Development and Physical Education in the Union Territory of Puducherry”

Sports development and physical education are essential components of human resource development. A Performance Audit of ‘Sports Development and Physical Education in the UT of Puducherry’ revealed some areas of concern in development of sports infrastructure and in functioning of the autonomous bodies set up for sports development.

Perspective plan and annual action plans were not formulated for development of sports and allied activities in the UT. Budget proposals for grants-in-aid were submitted belatedly by the Puducherry State Sports Council and Rajiv Gandhi School of Sports, which carried out the sports development activities.

Additional Central assistance released to the Puducherry State Sports Council for creation of sports infrastructural facilities was diverted to meet administrative expenses of the Council.

Construction of indoor stadia at Mahe and Karaikal, though sanctioned in 2004/2005 at a total cost of ₹ 12.94 crore and revised subsequently to ₹ 18.16 crore were not completed as of June 2011, despite spending ₹ 17.64 crore due to improper planning and non-provision of adequate funds in time by Government.

Land for construction of mini stadium in each commune panchayat for coaching, training, conduct of sports and games meet for the rural youth was not acquired due to non-provision of funds.

Cash awards for 309 sports persons were not distributed by the Puducherry State Sports Council on the ground of paucity of funds.

The scheme of Nutritional Diet for development of the talented students in games/sports at school level, approved in 2007 had not been implemented for want of proper playgrounds and non-finalisation of the mode of implementation.

(Paragraph 2.2)

1.6.1.3 Performance Audit of 'Utilisation of declaration forms in inter-State trade'

There was delay in uploading of details of issue/utilisation of declaration forms in TINXSYS website, adversely impacting monitoring/checking of Inter State trade. Understatement of the value of purchases by three dealers in their accounts resulted in non levy of tax and penalty of ₹ 58.85 lakh on the corresponding sales turnover.

(Paragraph 4.11)

1.6.1.4 Performance Audit of 'Stamp duty and registration fees'

- Remission of stamp duty of ₹ 25.93 lakh was incorrectly granted on documents registered by women.
- Exemption of stamp duty of ₹ 2.59 crore was incorrectly granted on sale/mortgage deeds executed by or in favour of co-operative societies.
- Misclassification of documents resulted in short levy of stamp duty and registration fees of ₹ 30.58 lakh.
- Under valuation of properties resulted in short levy of stamp duty and registration fees of ₹ 2.78 crore.
- Incorrect adoption of guideline value resulted in short levy of stamp duty and registration fees of ₹ 46.40 lakh.
- Incorrect allocation of Transfer Duty Surcharge of ₹ 27.53 lakh was made to local bodies.

(Paragraph 4.14)

1.6.1.5 Schemes implemented by Social Sector Companies of Puducherry

Transaction audit of the schemes implemented by Puducherry Adi Dravidar Development Corporation Limited (PADCO) and Puducherry Backward Classes and Minorities Development Corporation Limited (PBCMDC) revealed that:

- the companies had not prepared the data base of eligible beneficiaries at village/block level and consequently could not accurately plan their activities.
- the companies did not achieve annual targets due to avoidable delays in selection of beneficiaries.
- PADCO retained the major portion of scheme funds in interest bearing short term deposits without disbursement.
- both the companies disbursed term loans without verifying the purchase and installation of assets and its insurance.
- there were instances of selection of ineligible beneficiaries, obtaining inadequate securities, *etc.* by both the companies.
- implementation of term loans through Primary Agricultural Co-operative Banks (PACB) proved to be a failure as PACBs did not release their portion of loan to the selected beneficiaries.
- both the companies failed to monitor the schemes during and after implementation and did not install an effective recovery mechanism.

(Paragraph 5.2)

1.6.2 Compliance audit of transactions

The audit of financial transactions, test-checked in various departments of the Government and 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 the Director, Women and Child Development to verify veracity of the information regarding proof of age, income etc. furnished by the applicants resulted in inadmissible payment of old age pension of ₹ 1.23 crore.

(Paragraph 3.1.1)

Due to non-completion of the sewage conveyance system for want of funds and non-construction of collection well and pump house owing to non transfer of land, an expenditure of ₹ 4.85 crore incurred on laying of the sewer lines and construction of sewer appurtenances remained unfruitful.

(Paragraph 3.2.1)

Release of grants-in-aid to the Puducherry Agricultural Workers Welfare Society for free distribution of raincoats and mosquito nets to the Schedule Caste agricultural workers without ascertaining the actual requirement resulted in blocking of funds of ₹ 1.53 crore for one to three years.

(Paragraph 3.4.1)

Release of grant to the Puducherry Management and Productivity Council for construction of office building before allotment of land and poor planning by the Council resulted in blocking of funds of ₹ 1.05 crore over four years.

(Paragraph 3.4.2)

Foreclosure of contract for construction of the administrative and library block at the foundation stage for want of funds and non-utilisation of the same for the proposed Centre for Performing Arts and Research for more than four years resulted in idle expenditure of ₹ 66.32 lakh.

(Paragraph 3.4.3)

There was application of incorrect rate of tax in respect of an assessee resulting in short levy of tax of ₹ 1.10 crore

(Paragraph 4.12)

1.6.3 Commercial and trading activities

As on 31 March 2011, the Union Territory of Puducherry had 13 working PSUs, which employed 5,902 employees. These PSUs registered a turnover of ₹ 338.35 crore for 2010-11 as per the latest finalised accounts. This turnover was equal to 3.01 *per cent* of State GDP for the year 2009-10. The PSUs incurred an overall loss of ₹ 58.80 crore and had accumulated losses of ₹ 378.51 crore as per their latest finalised accounts.

As on 31 March 2011, the investment (capital and long term loans) in all 13 PSUs was ₹ 723.88 crore. It grew by over 19.76 *per cent* from ₹ 604.45 crore in 2006-07 to ₹ 723.88 crore in 2010-11. Financing and Manufacturing sectors accounted for 20.85 *per cent* and 55.03 *per cent* respectively of total investment in 2010-11. The Government contributed ₹ 137.18 crore towards equity, loans and grants during 2010-11.

During the year 2010-11, four PSUs earned a profit of ₹ 16.48 crore and seven PSUs incurred loss of ₹ 75.28 crore. The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of the latest Audit Reports of C&AG shows that the State PSUs incurred losses to the tune of ₹ 9.62 crore which were controllable. The PSUs can discharge their role efficiently if they are financially prudent. There is a need for professionalism and accountability in functioning of PSUs.

All the 13 PSUs of UT had arrear of 25 accounts as of September 2011. Arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts, if necessary.

(Paragraph 5.1)

Puducherry Agro Service and Industries Corporation Limited allowed inadmissible pay and allowances amounting to ₹ 1.83 crore to its employees which needs recovery.

(Paragraph 5.3)

1.7 Response of departments to the draft paragraphs

The draft paragraphs/Performance Audit were forwarded demi officially to the Development Commissioners/Secretaries of the departments concerned between June and November 2011 with the request to send their responses within six weeks. Government replies for seven out of 16 paragraphs/performance audits featured in this Report have been received. The replies, wherever received, have been suitably incorporated in the Report.

1.8 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. The pendency of paragraphs/recommendations for which replies/Action Taken Notes had not been received was as follows:

- (a) Out of 97 paragraphs/reviews included in the Audit Reports relating to the years from 2004-05 to 2009-2010, departmental replies were not received for 56 paragraphs/reviews as of September 2011.
- (b) Government departments had not taken action as of September 2011 on 198 recommendations made by the PAC in respect of Audit Reports pertaining to the period 1977-78 to 2001-02.