

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 deals with Chief Controlling Officer based audit of the Directorate of School Education. Chapter-V contains findings arising out of audit of revenue receipts of the Union Territory and Chapter-VI 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 2011-12 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 110

the previous Reports. Matters relating to the period subsequent to 2011-12 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 2011-12 and in the preceding two years is given in **Tables 1 and 2** below.

Table 1: Comparative position of receipts

(₹ in crore)

Receipts	2009-10	2010-11	2011-12
Revenue receipts	2,841	3,200	2,771
Tax revenue	868	1,074	1,329
Non-tax revenue	643	743	153
Grants-in-aid and contributions	1,330	1,383	1,289
Capital receipts	33	--	--
Recovery of loans and advances	5	4	4
Public Debt receipts	659	854	788
Public Account receipts	836	393	1,059
Total receipts	4,374	4,451	4,622

(Source: Accounts of UT of Puducherry)

Table 2: Comparative position of expenditure

(₹ in crore)

Expenditure	2009-10			2010-11			2011-12		
	Non-plan	Plan	Total	Non-plan	Plan	Total	Non-plan	Plan	Total
Revenue expenditure									
General services	806	65	871	833	32	865	933	35	968
Social services	489	776	1265	578	801	1379	649	849	1,498
Economic services	696	247	943	904	388	1292	369	383	752
Grants-in-aid and contributions	4	--	4	4	--	4	4	--	4
Total	1,995	1,088	3,083	2,319	1,221	3,540	1,955	1,267	3,222
Capital Expenditure									
Capital outlay	(-) 4	373	369	2	369	371	(-)6	381	375
Loans and advances disbursed	*	*	2	2	--	2	2	--	2
Repayment of public debt	*	*	131	*	*	148	106	51	157
Contingency fund	--	--	--	--	--	--	--	--	--
Public account disbursements	*	*	613	*	*	772	*	*	795
Total	(-) 4	373	1,115	4	369	1,293	102	432	1,329
Grand Total	1,991	1,461	4,198	2,323	1,590	4,833	2,057	1,699	4,551

(Source: 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 addition, the C&AG conducts audit of 64 other autonomous bodies, under

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

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 Organisational structure of the Office of the Principal Accountant General, Tamil Nadu and Puducherry

As a part of restructuring of State Audit Offices by the C&AG, the erstwhile office of the Principal Accountant General (Civil Audit), Tamil Nadu and Puducherry and office of the Principal Accountant General (Commercial and Receipt Audit), Tamil Nadu were renamed as the Principal Accountant General (General and Social Sector Audit), Tamil Nadu and Puducherry and Principal Accountant General (Economic and Revenue Sector Audit) Tamil Nadu from 2 April 2012. Under the directions of the C&AG, these two audit offices 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 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

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

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 2011-12, 158 units of various departments/organisations/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, 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 one Performance Audit. The highlights of audit findings are given in the following paragraph.

1.6.1.1 Performance Audit on 'Functioning of the Government Industrial Training Institutes'

The Industrial Training Institutes in the UT function to ensure steady flow of skilled workforce to meet the growing manpower requirement of the industries. A Performance Audit on 'Functioning of the Government Industrial Training Institutes (ITIs) in the UT was taken up to assess whether the ITIs were managed efficiently as per the norms laid down by the Director General of Employment and Training, Government of India. The Performance Audit disclosed the following:

Against nine ITIs proposed to be opened during Eleventh Five Year plan period (2007-12), only two ITIs were opened.

The ITIs continued to offer some of the courses without National Council for Vocational Training affiliation and as a result the trainees were provided with provisional certificates in lieu of National Trade Certificates, which would deprive their job prospects at national level.

An amount of ₹ 10 crore released by Government of India to four ITIs for development of infrastructure and teaching facilities through Public Private

Partnerships was not utilized as Department could not ensure the active participation of industrial partners.

Though six trades were identified for upgradation under the scheme 'Vocational Training Improvement Project', the syllabus of the respective trades were not revised as envisaged in the scheme.

'Skill Development Initiative Scheme' introduced during 2009-10 to improve the skills of early school leavers and existing workers in the industries was not implemented effectively due to failure in identifying the needs of industry, form a registered society in time and other administrative delays.

There was shortfall ranging from 40 to 70 *per cent* in filling up of seats available under Apprenticeship Training programme indicating that ITIs did not ensure placement of their successful candidates with the industries for practical experience as apprentices.

(Paragraph 2.1)

1.6.2 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:

Injudicious termination of contract for construction of a fishing harbour at Mahe resulted in avoidable time and cost overrun of ₹ 33.63 crore.

(Paragraph 3.2.1)

The Chief Engineer's injudicious rejection of the contractor's claim under the agreement and statutory provision led to arbitration and avoidable interest payment of ₹ 1.10 crore.

(Paragraph 3.2.2)

Failure of the Land Acquisition Officer and the Executive Engineer, Public Works Department to acquire land by invoking urgency provision resulted in avoidable expenditure of ₹ 1.05 crore.

(Paragraph 3.2.3)

Failure of the Registrar of Co-operative Societies to get approval of the UT Government for enhancement of the authorized share capital of a society within the due dates for repayment of loan led to avoidable payment of penal interest and foregoing of rebate totaling ₹ 33.09 lakh and further liability of ₹ 13.02 lakh.

(Paragraph 3.2.4)

Failure of the Public Works Department to handover the land, free of encroachments, for formation of approach roads to a newly constructed bridge resulted in the bridge and road constructed at a cost of ₹ 23.90 crore idling.

(Paragraph 3.3.1)

Failure of the Principal, Pondicherry Engineering College, to utilise the grants in time for construction of a hostel for Scheduled Caste students, resulted in blocking of funds of ₹ 1.75 crore for six years.

(Paragraph 3.4.1)

Failure to conduct soil investigation before preparation of the estimate for work by Puducherry Municipality resulted in blocking of funds of ₹ 89.31 lakh for more than five years.

(Paragraph 3.4.2)

In four divisions of Public Works Department, 87.70 per cent of works were awarded on nomination basis compromising transparency in awarding the works. The Chief Engineer split up two works to bring the estimated value within his sanctioning powers while the Superintending and Executive Engineers exceeded their annual financial limits for awarding works.

(Paragraph 3.5.1)

PIPDIC deviated from the accepted principles of financial propriety and nominated a private party as a Joint Venture partner without following tender process. Further, failure to adhere to milestones led to cancellation of allotted coal block resulting in non accrual of envisaged benefit of availability of cheaper power.

(Paragraph 6.2)

Sanction of short term loan to a private company without adequate financial safeguards resulted in non-recovery of ₹ 2.51 crore.

(Paragraph 6.3)

1.6.3 Chief Controlling Officer based audit

The Report contains one Chief Controlling Officer based audit. The highlights of audit findings are given in the following paragraphs.

1.6.3.1 Chief Controlling Officer based audit of the Directorate of School Education

Education inculcates national and cultural values in students, provides them knowledge, skill and information. It further enables them to know their

rights and duties and expands their vision and outlook, creates a spirit of healthy competition and desire to advance. The Union Territory Government of Puducherry implements various schemes through the Directorate of School Education to provide education to the students by spending about ₹ 300 crore per annum. Though preference to the Government schools was on the decline, the Government schools catered to 50 and 68 *per cent* of the students at the elementary and secondary levels respectively in the year 2011-12 and continued to play a major role. Some of the audit findings that resulted from the Chief Controlling Officer based audit of the Directorate of School Education are given below:

There was no Perspective Plan formulating long term strategies to deliver quality education. Delay in release of funds led to non-acquisition of lands for constructing class rooms and providing playgrounds and failure to ensure availability of land and feasibility of extending the existing buildings resulted in non-availing of the loan sanctioned by NABARD.

Enrolment in the Government schools showed a declining trend and they were far lagging behind the private schools in respect of pass percentage of students at Secondary and Higher Secondary level examinations. Though the gap in performance between the students belonging to scheduled castes and the general category students had reduced over the years at the Secondary school level, the gap between them remained static at about 16 *per cent* at the Higher Secondary level.

Shortfalls were noticed in provision of basic amenities such as classrooms, toilets, playgrounds and computers. Short fall was also noticed in implementing various schemes for the benefit of students. There were large scale vacancies in the posts of Principal and Vice Principal, Headmaster, physical education lecturer and instructors etc.

Thus, the Government schools suffered from inadequate infrastructure, insufficient number of teaching staff and deficient implementation of the schemes meant for benefit of the students.

(Paragraph 4.1)

1.6.4 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 CAG. These accounts are also subject to supplementary audit conducted by CAG. As on 31 March 2012, the Union Territory of Puducherry had 13 working PSUs, which employed 5,839 employees. These PSUs registered a turnover of ₹ 336.68 crore as per the latest finalised accounts. This turnover was equal to 2.39 *per cent* of State GDP for the year 2011-12. The PSUs incurred an overall loss of ₹ 55.81 crore and had accumulated losses of ₹ 449.45 crore as per their latest finalised accounts.

As on 31 March 2012, the investment (capital and long term loans) in all 13 PSUs was ₹ 726.25 crore. It grew by 16.95 *per cent* from ₹ 620.99 crore in 2007-08 to ₹ 726.25 crore in 2011-12. Financing and Manufacturing sectors accounted for 20.72 *per cent* and 55.09 *per cent* respectively of total investment in 2011-12. The Government contributed ₹ 82.24 crore towards equity, loans and grants during 2011-12.

As per the latest finalised accounts, two PSUs earned a profit of ₹ 5.31 crore and nine PSUs incurred loss of ₹ 61.12 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 CAG shows that the State PSUs incurred losses to the tune of ₹ 1.99 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.

Twelve PSUs had arrears of 21 accounts as of September 2012. Arrears need to be cleared by setting targets for PSUs and expediting the work relating to preparation of accounts.

(Paragraph 6.1)

1.7 Response of departments to the draft paragraphs

Draft Paragraphs/Performance Audit Report were forwarded demi officially to the Development Commissioners/Secretaries of the departments concerned between June and November 2012 with the request to send their responses within six weeks. Government replies have been received for only six out of 17 paragraphs/ Performance/CCO Audits featured in this Report. 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 by the departments. The pendency of paragraphs/recommendations for which replies/Action Taken Notes had not been received is as follows:

(a) Out of 84 paragraphs included in the Audit Reports relating to the years from 2004-05 to 2009-10, departmental replies were not received for 53 paragraphs as of December 2012.

(b) Government departments had not furnished Action Taken Notes as of December 2012 on 291 recommendations made by the PAC in respect of Audit Reports pertaining to the period 1988-89 to 2003-04.