CHAPTER I

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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

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* 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 13[1] and 16[2] 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 14[5] 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.

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[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.