

**CHAPTER I**  
**INTRODUCTION**

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## 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 2013-14 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 84

the previous Reports. Matters relating to the period subsequent to 2013-14 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 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 2013-14 and in the preceding two years is given in **Tables 1 and 2** below.

**Table 1: Comparative position of receipts**

(₹ in crore)

Receipts	2011-12	2012-13	2013-14
<b>Revenue receipts</b>	<b>2,771</b>	<b>3,146</b>	<b>4,308</b>
Tax revenue	1,329	1,917	1,904
Non-tax revenue	153	118	1,193
Grants-in-aid and contributions	1,289	1,111	1,211
<b>Capital receipts</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
Recovery of loans and advances	4	3	3
Public Debt receipts	788	529	750
Public Account receipts	1,059	715	911
<b>Total receipts</b>	<b>4,622</b>	<b>4,393</b>	<b>5,972</b>

(Source: Finance Accounts of UT of Puducherry)

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

Expenditure	2011-12			2012-13			2013-14		
	Non-plan	Plan	Total	Non-plan	Plan	Total	Non-plan	Plan	Total
<b>Revenue expenditure</b>									
General services	933	35	968	1,100	39	1,139	1,191	44	1,235
Social services	649	849	1,498	571	681	1,252	653	1,008	1,661
Economic services	369	383	752	391	264	655	1,283	299	1,582
Grants-in-aid and contributions	4	Nil	4	5	Nil	5	5	Nil	5
<b>Total</b>	<b>1,955</b>	<b>1,267</b>	<b>3,222</b>	<b>2,067</b>	<b>984</b>	<b>3,051</b>	<b>3,132</b>	<b>1,351</b>	<b>4,483</b>
<b>Capital Expenditure</b>									
Capital expenditure	(-6)	381	375	6	309	315	6	356	362
Loans and advances disbursed	2	Nil	2	1	Nil	1	1	Nil	1
Repayment of public debt	106	51	157	126	62	188	128	76	204
Contingency fund	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Public account disbursements	*	*	795	*	*	717	*	*	709
<b>Total</b>	<b>102</b>	<b>432</b>	<b>1,329</b>	<b>133</b>	<b>62</b>	<b>1,221</b>	<b>135</b>	<b>432</b>	<b>1,276</b>
<b>Grand Total</b>	<b>2,057</b>	<b>1,699</b>	<b>4,551</b>	<b>2,200</b>	<b>1,355</b>	<b>4,272</b>	<b>3,267</b>	<b>1,783</b>	<b>5,759</b>

(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<sup>1</sup> and 16<sup>2</sup> 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)<sup>3</sup> and 20(1)<sup>4</sup> of the C&AG's (DPC) Act. In

<sup>1</sup> 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

<sup>2</sup> Audit of all receipts which are payable into the Consolidated Fund of UT having legislative assembly

<sup>3</sup> Audit of accounts of corporations established by or under law made by Parliament

<sup>4</sup> 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<sup>5</sup> 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 2013-14, 181 units of various departments/organisations/ companies/corporations were audited for Compliance Audits and Performance Audits, against 169 units planned.

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<sup>5</sup> 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/organisations are also reported upon.

### **1.5.1 Performance Audit of programmes/activities**

The present Report contains a Performance Audit. The highlights of audit findings are given in the following paragraphs.

#### ***1.5.1.1 Performance Audit on ‘Implementation of Public Distribution System in the Union Territory of Puducherry’***

The Public Distribution System (PDS) was implemented in Union Territory of Puducherry with the aim of providing essential commodities to the poor at subsidised rate. Performance Audit on implementation of PDS was conducted to assess the effectiveness of Civil Supplies and Consumer Affairs Department in identifying eligible beneficiaries, supply of ration goods in timely manner, adequacy of financial arrangements and proper monitoring system to ensure proper distribution of food grains and to avoid diversion of essential goods. Performance Audit revealed the following significant findings:

Though Government of India (GOI) had identified only 83,600 Below Poverty Line (BPL) families as eligible for coverage under PDS with entitlement of 35 kg of food grains per family, the Union Territory Government identified more number of BPL families (1,44,658) leading to scaling down of rice entitlement of BPL families in order to match food grains allotment by GOI.

The Firm selected for implementation of Smart Ration Card system was not technically qualified resulting in delayed implementation. Follow up action for removing ineligible cards identified for enrollment under Smart Ration Card was incomplete.

Diversion of kerosene allotted under PDS was noticed while wheat was not supplied to beneficiaries in Yanam region despite availability of allocation.

Shortfall in inspection of Fair Price Shops was noticed and the State, District and Block level vigilance committees were not formed.

***(Paragraph 2.1)***

## **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 to provide sufficient funds to meet the expenditure of construction of Medical College buildings resulted in avoidable payment of interest of ₹ 2.35 crore to the contractor on belated payments.

*(Paragraph 3.1.1)*

Purchase of land falling under Coastal Regulatory Zone for establishing a residential school resulted in unfruitful expenditure of ₹ 13.64 crore.

*(Paragraph 3.1.2)*

Failure of Slum Clearance Board in providing clear site, free access and to get revised structural design in time for construction of tenements resulted in unfruitful expenditure of ₹ 32.03 lakh.

*(Paragraph 3.1.3)*

Issue of pattas and release of assistance for construction of houses to landless labourers even before completion of land acquisition proceedings and subsequent termination of these proceedings resulted in unfruitful expenditure of ₹ 28.40 lakh.

*(Paragraph 3.1.4)*

## **1.5.3 Revenue receipts**

### ***1.5.3.1 Audit of functioning of Transport Department***

The Audit of Transport Department of Union Territory of Puducherry was undertaken to study the effectiveness of the functioning of the Department in terms of working of check posts, levy of tax and compliance with the various provisions of the Acts/Rules. The Audit revealed the following significant findings:

The non-implementation of basic function of enforcement of check posts resulted in possibility of unauthorised operation of vehicles within the State and violations of other provisions of the MVT Act. The usage of dual software in running the day-to-day functions of the Department resulted in improper projection of data with consequent effect of Department not being able to determine the validity of permits or fitness of the transport vehicles during collection of tax. The number of authorised Pollution testing centres was meagre in comparison with the number of vehicles being registered.

The functioning of Road Safety Council, as well as the Road Safety Cell in implementing and monitoring road safety activities needs to be strengthened as the number of accidents had shown an increasing trend. The absence of an internal audit wing, during the period of audit, indicates poor internal control mechanism to ensure effective functioning of the department.

*(Paragraph 4.10)*

#### **1.5.4 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 C&AG. These accounts are also subject to supplementary audit conducted by C&AG. As on 31 March 2014, the Union Territory of Puducherry had 13 working PSUs, which employed 5,765 employees. These PSUs registered a turnover of ₹ 378.86 crore as per the latest finalised accounts. This turnover was equal to 1.80 *per cent* of State GDP for the year 2013-14. The PSUs incurred an overall loss of ₹ 32.17 crore and had accumulated losses of ₹ 490.12 crore as per their latest finalised accounts.

As on 31 March 2014, the investment (capital and long term loans) in all 13 PSUs was ₹ 714.98 crore. It grew by 2.28 *per cent* from ₹ 699.02 crore in 2009-10 to ₹ 714.98 crore in 2013-14. Financing and Manufacturing sectors accounted for 18.95 *per cent* and 56.29 *per cent* respectively of total investment in 2013-14. The Government contributed ₹ 114.72 crore towards equity, loans and grants during 2013-14.

As per the latest finalised accounts, three PSUs earned a profit of ₹ 14.30 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. Thirteen PSUs had arrears of 34 accounts as of September 2014. Arrears need to be cleared by setting targets for PSUs and expediting the work relating to preparation of accounts.

*(Paragraph 5.1)*

The Company's failure to contribute employer's contribution at concessional rate under employees' provident fund scheme resulted in extra payment of ₹ 2.72 crore.

*(Paragraph 5.2)*



## **1.6 Response to Audit**

Twelve Draft Paragraphs (DPs) and a Performance Audit (PA) were forwarded demi-officially to the Development Commissioners/Secretaries of the departments concerned between June 2014 and January 2015 with the request to send their responses within six weeks. Government replies have been received in respect of PA and five DPs. The replies, wherever received, have been suitably incorporated in the Report.

A review of the Inspection Reports (IRs) issued upto 31 March 2014 revealed that 3,586 paras relating to 934 IRs remained outstanding at the end of June 2014 (**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 63 paragraphs included in the Audit Reports relating to the years from 2009-10 to 2012-13, departmental replies were not received for 26 paragraphs as of December 2014.
- (b) Government departments had not furnished Action Taken Notes as of December 2014 on 318 recommendations made by the PAC in respect of Audit Reports pertaining to the period 1988-89 to 2008-09.