

CHAPTER I : INTRODUCTION

1.1 About this report

This report contains compliance audit observations of 5 union territories without legislatures. Compliance audit refers to examination of transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with. Compliance audit also includes an examination of the rules, regulations, orders and instructions for their legality, adequacy, transparency, propriety and prudence.

Audit is conducted by the Comptroller and Auditor General (C&AG) as per the Auditing Standards¹ approved by him. These standards prescribe the norms which the auditors are expected to follow in conduct of audit and require reporting on individual cases of non-compliance and abuse, as well as on weaknesses that exist in systems of financial management and internal control. The findings of audit are expected to enable the executive to take corrective action and also to frame policies and directives that will lead to improved financial management of the organizations, thus contributing to better governance.

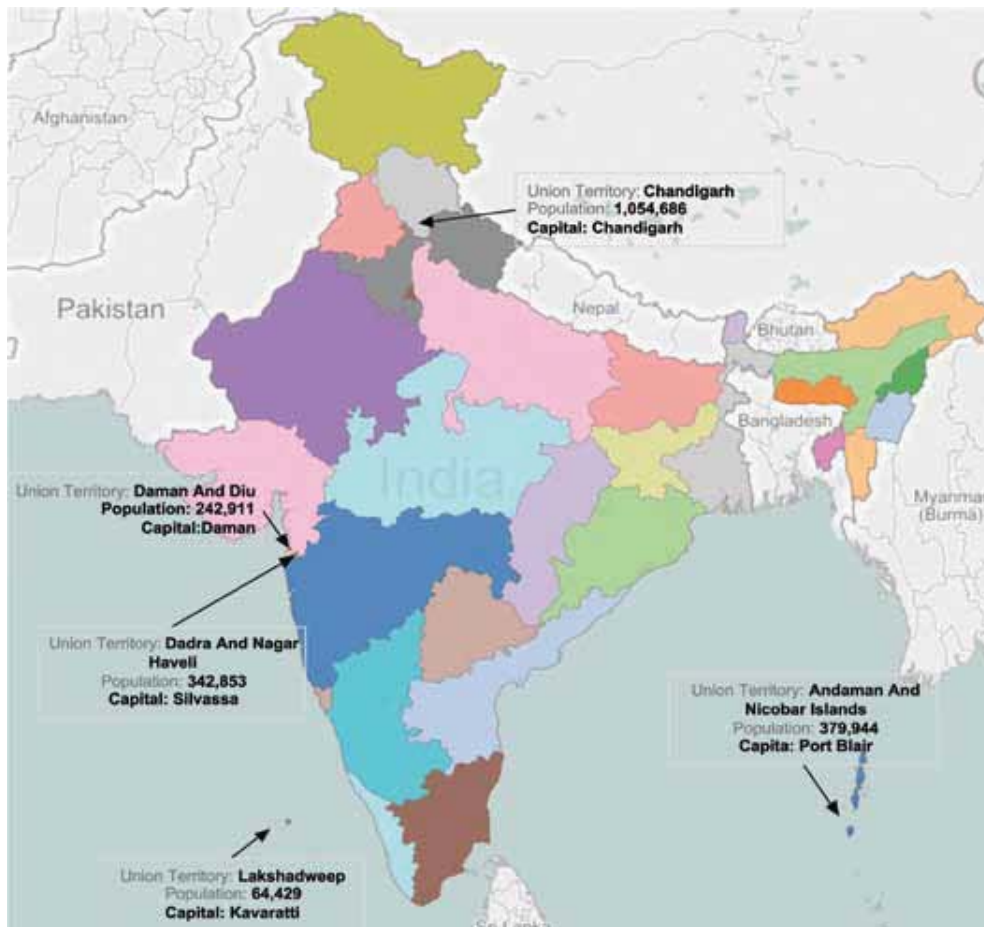
This report includes audit findings based on the compliance audit of government departments/offices/institutions under the administrative control of the UTs without legislature. Till last year, audit observations in respect of UTs without legislature had been featuring in the C&AG's audit report for the Union Government on compliance audit. To bring forward an integrated perspective of audit of the UTs and an overview of the finances a separate audit report has been prepared for the first time.

1.2 Constitutional status of the UTs

There are seven Union Territories (UTs) specified under Part-II of the First Schedule to the Constitution of India, viz., Andaman & Nicobar Islands, Chandigarh, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep, National Capital Territory of Delhi and Puducherry. Out of these, only National Capital Territory of Delhi and Puducherry have legislatures, council of ministers and their own consolidated funds. The rest five are without legislature.

¹http://www.saiindia.gov.in/english/home/Our_Process/Audit_Methology/Audit_Standards/Auditing_Standards.pdf

Map-1



1.3 Administrative arrangement

Under the Government of India (Allocation of Business) Rules, 1961, Ministry of Home Affairs (MHA) is the nodal ministry for legislative matters, finance and budget and services for the UTs. Each UT is administered by an administrator appointed by the President under Article 239 of the Constitution of India. In Andaman & Nicobar Islands, Lt. Governor is designated as the administrator while the Governor of Punjab is appointed as the administrator of Chandigarh. In Dadra & Nagar Haveli, Daman & Diu and Lakshadweep, senior IAS Officers of the AGMUT cadre are appointed as administrators. 'Administrator's Advisory Councils' are set up in the UTs without legislature to advise the administrators on matters concerning the UT. Home Minister's 'Advisory Committees' are set up in these UTs to address general issues relating to the social and economic development of the UTs. For the island UTs of Andaman & Nicobar Islands and Lakshadweep, there is Island Development Authority (IDA) under the

Prime Minister.

1.4 Financial arrangements

The budget provisions in respect of UTs are made in the Detailed Demand for Grants (DDG) of the MHA. Administrators of the UTs have been delegated financial powers upto a certain limit by MHA for sanction of plan schemes. In the DDG, UT-wise budget is provided for each UT under various ministries/departments including MHA. As per the existing funding arrangement, UT administrations are required to refer their expenditure proposals to the concerned ministry for obtaining the approval of the Government of India.

1.5 Authority for audit

The authority for audit by the C&AG and reporting to the Parliament is derived from Articles 149 and 151 of the Constitution of India respectively and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The C&AG conducts audit of expenditure of ministries/departments of the UT administration concerned under sections 13² and 17³ of the C&AG's (DPC) Act⁴. The C&AG is the sole auditor in respect of autonomous bodies which are audited under sections 19 (2)⁵ and 20 (1)⁶ of the C&AG's (DPC) Act. Besides, C&AG also conducts audit of other autonomous bodies which are substantially financed by grants/loans from the Consolidated Fund of India under the provisions of section 14⁷ of the Act. Principles and methodology for various audits are prescribed in the 'Auditing Standards' and the 'Regulations on Audit and Accounts, 2007' issued by the C&AG.

² Audit of (i) all expenditure from the Consolidated Fund of India, (ii) all transactions relating to Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance-sheets and other subsidiary accounts.

³ Audit and report on the accounts of stores and stock kept in any office or department of the union or of a state.

⁴ Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

⁵ Audit of accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

⁶ Where the audit of the accounts of any body or authority has not been entrusted to the C&AG by or under any law made by Parliament, he shall, if requested so to do by the President of India, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the government.

⁷ (i) Audit of all receipts and expenditure of a body or authority substantially financed by grants or loans from the Consolidated Fund of India and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of India in a financial year is not less than ₹ one crore.

1.6 Planning and conduct of audit

Audit process starts with the assessment of risks faced by various departments of the government based on expenditure incurred, criticality/ complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of the 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. The departments 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 reports of the Comptroller and Auditor General of India, which are submitted to the President of India under Article 151 of the Constitution of India.

During 2013-14, the audit offices conducted compliance audit of 293 units situated in the five UTs without Legislature.

1.7 Responsiveness of the government to audit

Intelligent, prompt and vigorous pursuance of objections and timely reporting of important irregularities to government are essential in order to ensure that the audit reports serve their intended purpose and government derives their full value. The responsibility for the settlement of objections devolves primarily upon the disbursing officers, heads of offices and controlling authorities. The heads of offices and next higher authorities are required to comply with the observations contained in the inspection reports (IRs), rectify the defects and omissions promptly and report their compliance to audit within four weeks of receipt of the IRs. Periodical reminders are issued to the heads of the departments requesting them to furnish the replies expeditiously. As of 31 March 2014, 2273 IRs containing 7482 paragraphs were outstanding for settlement in respect of various departments/institutions under the five UTs without legislature. UT-wise details of pending IRs and paragraphs are given in **Appendix-I**.

1.8 Follow-up on audit reports

The Lok Sabha secretariat issued instructions in April 1982 to all ministries to furnish notes to the Ministry of Finance (Department of Expenditure)

indicating remedial/corrective action on various paragraphs contained in the audit reports, soon after these were laid on the table of the house.

In their ninth report (Eleventh Lok Sabha) presented to the Parliament on 22 April 1997, the Public Accounts Committee (PAC) desired that submission of pending Action Taken Notes (ATNs) pertaining to audit reports for the years ended March 1994 and March 1995 should be completed within a period of three months and recommended that ATNs on all paragraphs pertaining to the audit reports for the year ended March 1996 onwards be submitted to them duly vetted by audit within four months from the laying of the reports in Parliament.

Further, the PAC, in their Eleventh Report (Fifteenth Lok Sabha) presented to the Parliament on 20 April 2010, recommended that the chief accounting authorities should be made personally accountable in all cases of abnormal delays in taking remedial action and submitting ATNs to PAC.

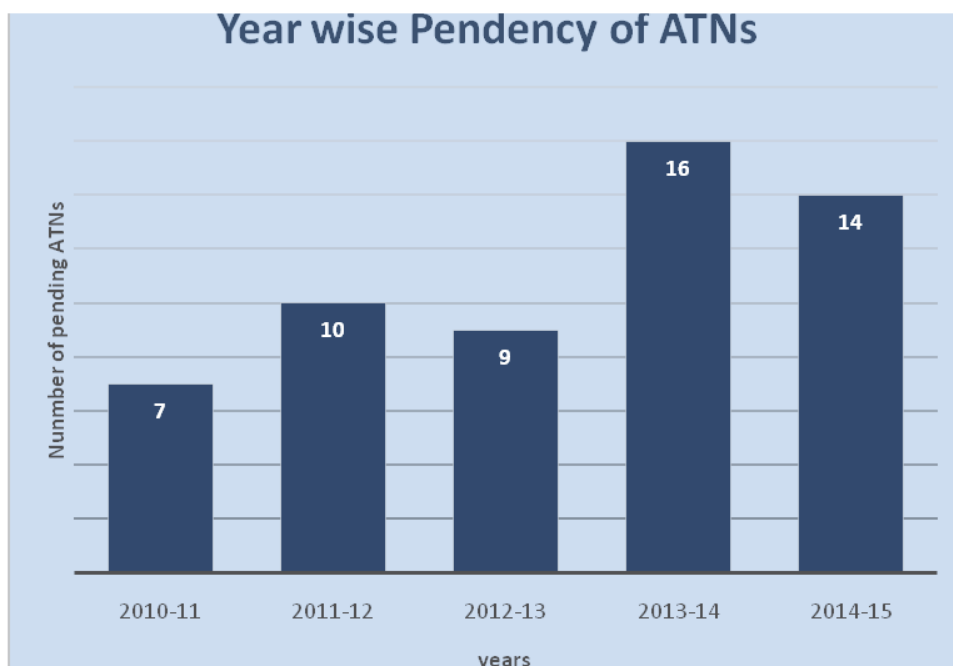
The PAC also desired that the matter relating to delays in submission of ATNs should be brought before the Committee of Secretaries (CoS) periodically, preferably at quarterly intervals so as to expedite the submission of ATNs by all the defaulting ministries/departments.

In pursuance of their recommendations, several meetings were taken by CoS in the Cabinet Secretariat in which following decisions were taken:

In their meeting held in November 2012, the CoS observed that as all ministries/departments had already set up Standing Audit Committee (SACs), they may ensure that workshops/adalats are held regularly for settlement of pending paragraphs/reports. It was also observed by them that the agreed target of 50 *per cent* reduction in old paras was not being achieved.

While it is expected that the envisaged 50 *per cent* reduction in pendency may take some time, yet the number of pending ATNs over the last five years in respect of the UTs without legislature has been increasing as reflected in the following chart:

Chart : 1



While there was no ATN pending for first reply as on 31 March 2015, 14 ATNs were pending for clearance for want of further replies from MHA. Details are given in **Appendix-II**.

1.9 Response of the Union Territories to draft paragraphs

On the recommendation of the PAC, Ministry of Finance issued directions to all Ministries in June 1960 to send their responses to the draft paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks of receipt of the paragraphs.

In 13 out of the 16 paragraphs included in this Report of the Comptroller and Auditor General of India for the year ended March 2014, replies from the Departments/Administrators/Ministry of the Union Territories had not been received. The details are indicated in **Appendix-III**.

1.10 Recommendations

This report contains specific recommendations on a number of issues involving non-observance of the prescribed internal procedures and systems, compliance of which would help in promoting good governance and better oversight of implementation of departmental programmes and objectives at large. The government is requested to take cognizance of the recommendations and take appropriate action in a time bound manner.