CHAPTER I: INTRODUCTION

1.1 About this Report

This Report contains compliance audit observations of the five Union Territories without legislatures. Compliance audit refers to the examination of transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain compliance to provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities.

The Comptroller and Auditor General (C&AG) performs audits in terms of the Auditing Standards 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 issue directives that will lead to improved financial management of the organizations, contributing to better governance.

This Report includes audit findings based on the compliance audit of the Government Departments/Offices/Institutions under the administrative control of the UTs without legislature.

1.2 Union Territories in India

There are seven Union Territories (UTs) specified under Part-II of the First Schedule to the Constitution of India, viz., the Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman & Diu, Lakshadweep, National Capital Territory of Delhi and Puducherry. Excepting the National Capital Territory of Delhi and Puducherry, the remaining five do not have their own legislatures, councils of ministers or consolidated funds. Instead they function under the authority of Parliament and the Government of India. The demographic details are given below:

Demographic details[1] of UTs without legislature

Name of UTs	Population		Area (In km^2)
	Male	Female	
Andaman and Nicobar Islands	2,02,313	1,77,631	8,249
Chandigarh	5,80,135	4,74,551	114
Dadra and Nagar Haveli	1,93,157	1,49,696	491
Daman and Diu	1,50,130	92,781	112
Lakshadweep Islands	33,108	31,321	32

1.3 Administrative arrangements

Under the Government of India (Allocation of Business) Rules, 1961, the Ministry of Home Affairs (MHA) is the nodal ministry for legislative matters, finance and budget and services for the UTs. Each UT functions under an Administrator appointed by the President under Article 239 of the Constitution of India. In the Andaman and Nicobar Islands, the Lt. Governor is designated as the Administrator while the Governor of Punjab is the administrator of Chandigarh. In Dadra and Nagar Haveli, Daman and Diu and Lakshadweep, senior Indian Administrative Service (IAS) officers of the AGMUT cadre are appointed as Administrators. Administrator's Advisory Councils in these UTs advise the administrators. The Home Minister's 'Advisory Committees' in these UTs address general issues relating to the social and economic development of the UTs. The Island Development Authority (IDA) under the Prime Minister facilitates the integration of high level decisions concerning the island UTs of the Andaman and Nicobar Islands and Lakshadweep.

1.4 Financial arrangements

Budgetary matters in respect of UTs are under the administrative control of the Ministry of Home Affairs (MHA). The MHA prepares the Demands for Grants and Detailed Demand for Grants (DDGs) relating to these UTs for the approval of Parliament. While the general administration of the UTs is the responsibility of the MHA, other Ministries/Departments of the Union Government administer funds on the subjects mentioned in Lists I and II, so far as they exist in regard to these territories, of the Seventh Schedule to the Constitution of India. Thus the DDGs also contain the proposals of other ministries and departments regarding the expenditure on these UTs on activities concerning these ministries and departments. Administrators of the

[1] As per Census 2011.

UTs have been delegated financial powers upto a certain limit[2] by MHA for sanction of plan schemes.

1.4.1 Provision and Expenditure

Details of Budgetary allocation and expenditure in the six UTs in 2015-16 are given below:

(₹ in crore)

Name of Union Territory	Total Grant/Appropriation		Actual Expenditure		Savings (per cent)	
	Revenue	Capital	Revenue	Capital	Revenue	Capital
Andaman and Nicobar Islands	3,357.13	792.87	3,348.42	767.81	8.71 (0.26%)	25.06 (3.16%)
Chandigarh	3,260.61	571.01	3,192.79	403.32	67.82 (2.07%)	167,69 (29.36%)
Dadra and Nagar Haveli	688.12	389.49	686.87	359.31	1.25 (0.18 %)	30.18 (7.75%)
Daman and Diu	1,377.54	403.93	1,098.52	306.21	279.02 (20.26%)	97.72 (24.19 %)
Lakshadweep	1,063.75	180.03	1,049.56	137.19	14.19 (1.33(%)	42.84 (23.80%)
Total	**9,747.15**	**2,337.33**	**9,376.16**	**1,973.84**	**370.99 (3.80%)**	**363.49 (15.55 %)**

Source: Union Government-Appropriation Accounts (Civil)

Significant savings occurred under the revenue section in Daman and Diu due to failure of the Administration to finalise purchase of catamarans and finalise tenders for construction of government residential quarters. Savings under the capital section occurred due to HT power consumers shifting to cheaper purchases from the open market under the Open Access Power Purchase Scheme. Since such consumers had opted for open market purchases in the previous year also, the Daman and Diu Administration could have anticipated the lesser power demand in the current year and taken appropriate action at the time of requisitioning annual grants/ appropriations. In the case of Chandigarh, there were significant savings in the capital section under the category relating to transmission and distribution of power, and due to lesser purchase of vehicles than budgeted for, and non-completion of building works relating to elementary and higher education.

[2] ₹ 50 crore where Governor or Lt Governor is the Administrator and ₹ 25 crore in the remaining UTs.

1.4.2 Revenue

Details of tax and non-tax revenues raised by the administrations of the UTs without legislatures in 2015-16 are given below:

(₹ in crore)

Union Territory	Tax	Non-Tax	Total
Andaman &Nicobar Islands	101.15	259.20	360.35
Chandigarh	2,111.52	967.10	3,078.62
Dadra and Nagar Haveli	853.97	21.95	875.92
Daman and Diu	924.58	82.87	1,007.45
Lakshadweep Islands	0.84	85.85	86.69
Total	**3,992.06**	**1,416.97**	**5,409.03**

Source: Statements of Central Transactions (SCT) furnished by UTs to Ministry of Finance

In the Andaman and Nicobar Islands and Dadra and Nagar Haveli, land revenue and state excise were significant contributors to revenue. Dadra and Nagar Haveli witnessed increase in tax collection in 2015-16 due to revision of excise duty, renewal of excise licences and increase in the rate of VAT, while non-tax revenue showed increase under all receipt heads. Sales Tax was the major constituent of tax revenues in Chandigarh. In Lakshadweep, education, sports, art, culture and fisheries were the major contributors to revenue.

1.5 Planning and conduct of audit

The audit process starts with of risks based assessment of expenditure incurred, criticality/complexity of activities, delegated financial powers, overall position of internal controls, concerns of the stakeholders, and previous audit findings. The frequency and extent of audit are decided on the basis of such risk assessment. On completion of audit, Inspection Reports (IRs) containing audit findings are issued to the heads of the departments of the audited entity. 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, and submitted to the President of India under Article 151 of the Constitution of India.

During 2015-16, Audit covered 260 units under the control of the five UTs without legislatures.

1.6 Responsiveness of the Government to audit

Intelligent, prompt and vigorous pursuance of objections and timely reporting of important irregularities to Government are essential for ensuring 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, who are required to comply with the observations contained in the 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 departments requesting them to furnish the replies expeditiously. As of 31 March 2016, 2,012 IRs containing 8,112 audit paragraphs were outstanding for settlement in respect of various departments/institutions under the five UTs without legislature.

1.7 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 taken 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 Action Taken Notes (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.

Audit observed that 24 ATNs pertaining to the Audit Report of the C&AG for the period 31 March 2015 were pending. Details are given in **Appendix-I.**

1.8 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.

However, replies from the Department had been received in only six[3] out of the 18 paragraphs included in this Report of the Comptroller and Auditor General of India for the year ended March 2016. The reply from the Ministry was received only on one paragraph i.e. ALHW.

[3] Paragraphs No. 2.1, 2.2, 2.3, 2.4, 2.5 & 2.7