CHAPTER I: INTRODUCTION

1.1 About this Report

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

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 to frame policies and issue directives that will lead to improved financial management of the organizations thereby 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 legislatures.

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, the National Capital Territory of Delhi and Puducherry. Except the National Capital Territory of Delhi and Puducherry, the remaining five UTs 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.

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. Administrators are also separately appointed for Dadra and Nagar Haveli, Daman and Diu and Lakshadweep. The 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

The budget provisions 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 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 of the Seventh Schedule to the Constitution of India insofar as they exist in regard to these territories. Thus, the DDGs also contain proposals of other ministries and departments relating to the expenditure on these UTs on activities concerning these ministries and departments. Administrators of the UTs have been delegated financial powers upto a certain limit[1] by MHA for sanction of plan schemes.

1.4.1 Provision and Expenditure

Details of budgetary allocation and expenditure in the five UTs in 2016-17 are given in **Table No. 1** below.

Table No. 1 Budgetary allocation and expenditure

(₹in crore)

Name of Union Territory	Total Grant/Appropriation		Actual Expenditure		Savings (*Per cent*)			
	Revenue	Capital	Revenue	Capital	Revenue		Capital	
					Amount	*Per cent*	Amount	*Per cent*
Andaman and Nicobar Islands	4080.87	683.68	4077.26	478.73	3.61	0.09	204.95	29.98
Chandigarh	3624.04	644.77	3524.41	644.69	99.63	2.75	0.08	0.01
Dadra and Nagar Haveli	745.37	384.49	744.33	358.57	1.04	0.14	25.92	6.74
Daman and Diu	1387.54	280.84	1154.97	280.80	232.57	16.76	0.04	0.01
Lakshadweep	1089.38	182.62	888.39	126.45	200.99	18.45	56.17	30.76
Total	**10927.20**	**2176.40**	**10389.36**	**1889.24**	**537.84**	**4.92**	**287.16**	**13.19**

Source: Union Government-Appropriation Accounts (Civil)

[1] ₹ 50 crore where Governor or Lt Governor is the Administrator and ₹ 25 crore in the remaining UTs.

Significant savings occurred under the capital section in Andaman and Nicobar Islands (ANI). This was due to delay in finalisation of ship building contracts, non-finalisation of agreement with Central Railway Information System for upgradation of Ship Ticketing Advance Reservation System, handing over of a work pertaining to National Highways to National Highways & Infrastructure Development Corporation Ltd., declaration of a stretch of State Highway as National Highway and slow progress of work. In addition, savings also occurred due to non-finalisation of tenders for purchase of High Frequency Radio Telephony equipment and delay in delivery of tugs by the construction yard.

In Chandigarh, savings occurred due to non-implementation of the recommendations of the Punjab Pay Commission, fewer foreign tours by High Court Judges**,** late finalisation of tenders for purchase of transport buses and non-filling of vacant posts in Arts and Science colleges.

In Daman and Diu, savings under revenue section were mainly due to shifting of major high tension consumers to open Access Power Purchase Scheme, reduced cost of power and cuts imposed at revised estimate stage by the Ministry of Finance.

In Dadra and Nagar Haveli, savings in the capital section was mainly due to non-clearance of a scheme for inter-connecting transmission line by Central Electricity Authority.

In Lakshadweep, savings under revenue section occurred mainly due to less requirement of funds for running and maintenance of ships, non-filling of vacant posts and reduction in provisions at revised estimate stage by the Ministry of Finance. In the Capital section, savings were due to delay in acquisition of ships and ferry vessels and reduction of provision at revised estimate stage by the Ministry of Finance.

1.4.2 Revenue

Details of tax and non-tax revenues raised by the administrations of the UTs without legislatures, in 2016-17 are given in **Table No. 2** below.

Table No. 2 Details of tax and non-tax revenues

(₹in crore)

Name of Union Territory	Tax	Non Tax	Total
Andaman and Nicobar Islands	88.26	278.58	366.84
Chandigarh	2192.35	1283.71	3476.06
Dadra and Nagar Haveli	974.80	31.10	1005.90
Daman and Diu	1028.74	112.06	1140.80
Lakshadweep	1.02	51.78	52.80
Total	**4285.17**	**1757.23**	**6042.40**

In the Andaman and Nicobar Islands (ANI), State Excise contributed 85.98 *per cent* of the total tax revenue of the UT. In the case of non-tax revenue, the largest contributor was 'Power' which contributed 48.49 *per cent* of total non-tax revenue. In Chandigarh, Sales Tax and Power contributed 70.69 *per cent* and 72.04 *per cent* of the tax revenue and non-tax revenue respectively. In Dadra and Nagar Haveli, Sales Tax contributed 88.18 *per cent* of tax revenue and power contributed 71.61 *per cent* of the non-tax revenue. In Daman and Diu, Sales Tax and Power accounted for 66.88 *per cent* and 89.91 *per cent* of the tax revenue and non-tax revenue respectively. Tax revenue in UT Lakshadweep (UTL) was meagre with stamp duty being the largest component. In the case of non-tax revenue of UTL, Power and Shipping were the largest source contributing 36.50 *per cent* and 35.53 *per cent* respectively.

1.5 Planning and conduct of audit

The audit process commences with a risk based assessment of expenditure incurred, the 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 this 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 submitted to the President of India under Article 151 of the Constitution of India.

During 2016-17, Audit covered 307 units under the control of the five UTs without legislatures as detailed in **Appendix-I**.

1.6 Responsiveness of the Government to audit

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 2017, a total of 2,133 IRs containing 8,140 audit paragraphs were outstanding for settlement in respect of various departments/institutions under the five UTs without legislatures as given in **Appendix-II**.

1.7 Follow-up on Audit Reports

In its 105th Report (10th Lok Sabha-1995-96) presented to the Parliament on 17 August 1995, the Public Accounts Committee had recommended that Action Taken Notes (ATNs) on all paragraphs of the Reports of the C&AG should be furnished to the Committee through the Ministry of Finance (Department of Expenditure) within a period of four months from the date of laying of the Audit Reports on the Table of the House starting from 31 March 1996 onwards. Subsequently, a Monitoring Cell was created under the Department of Expenditure which is entrusted with the task of coordination and collection of the ATNs on the various Audit Paragraphs from all the Ministries/Departments concerned duly vetted by Audit and sending them to the Public Accounts Committee within the stipulated period of four months from the date of presentation of the Audit Report to the Parliament.

Audit observed that 11 ATNs pertaining to the Audit Report of the C&AG for the period upto 31 December 2017 were pending as given in **Appendix-III**.

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.

Replies from the auditee departments had been received in 14[2] out of the 17 paragraphs included in this Report of the Comptroller and Auditor General of India for the year ended March 2017. However, the Ministry did not reply to any of the paragraphs.

[2] Replies to the Paragraphs No. 2.1, 2.8 and 2.9 were not received.