CHAPTER IV

AUDIT OF TRANSACTIONS

AUDIT OF TRANSACTIONS

This chapter presents the results of the audit of transactions of the Departments of the Government, their field formations as well as that of autonomous bodies. The instances of lapses in the management of resources and failures in the observance of the norms of regularity, propriety and economy have been presented in the succeeding paragraphs under broad headings.

4.1 Infructuous expenditure

DEPARTMENT OF ART AND CULTURE

BHARATHIAR PALKALAI KOODAM

4.1.1 Infructuous expenditure on the appointment of Officer on Special Duty

Expenditure of Rs 16.81 lakh on pay and allowances of an Officer on Special Duty without creation of a post was infructuous.

Bharathiar Palkalai Koodam (BPK), a registered society for the development of Fine Arts, is fully funded by the Union Territory Government under the Department of Art and Culture. The Principal of BPK was relieved (August 1999) of his duties pending enquiry for the alleged irregularities committed by him. With the approval of Government, the Board of Directors appointed (January 2000) him as Officer on Special Duty (OSD) to look after the works connected with the constitution of Sangeeth Natak Academy (SNA) and State Lalith Kala Academy (LKA). The work was not a function of BPK and the Officer functioned under the Director of Art and Culture but drew his pay in BPK based on a certificate given by him that he attended office. He was paid pay and allowances up to August 2005. As he made a foreign trip without permission, his salary from September 2005 was not paid.

Scrutiny of the records of Department of Art and Culture disclosed that orders specifying his duties and responsibilities were not issued and no supporting staff was provided to him. He had not initiated any activities for constituting SNA and LKA. Though the scheme was included in the annual plans for 2000-01 and 2001-02 and Rs 0.76 lakh were spent, it was dropped during 2002-03. Though charge sheet was framed on the Officer in December 2002, the enquiry initiated by BPK was not concluded (March 2006).

Thus, the Officer who was recruited by BPK was assigned work in the Government Department without creation of a post and allowed to draw salary without doing any work during January 2000 to August 2005. This resulted in an infructuous expenditure of Rs 16.81 lakh.

Government accepted (December 2006) the audit observation and stated that a systematic preliminary enquiry had been ordered into the entire matter.

4.2 Avoidable expenditure

CO-OPERATION DEPARTMENT

4.2.1 Additional expenditure on purchase of cloth

Failure of the Registrar to ensure compliance of his order on fixing of selling price of cotton clothes resulted in additional expenditure of Rs 1.87 crore to Government on cloth purchased from Pondicherry Co-operative Handloom Export Development Project Limited.

Pondicherry State Weavers' Co-operative Society Limited (PONTEX) and Pondicherry Co-operative Handloom Export Development Project Limited (PONFAB), two co-operative societies functioning under the Registrar of Co-operative Societies, produce clothes through primary co-operatives and by employment of direct labour respectively for sale to public and to Government. As PONTEX was to meet the administrative expenses of primary co-operatives, its cost price was higher than that of PONFAB. Both PONTEX and PONFAB allowed a rebate of 25 *per cent* on their selling price and the amount was reimbursed by Registrar as Market Development Assistance (MDA). To have a control over the payment of MDA, the Registrar issued instructions (January 2003 and August 2003) that the selling price of cotton and silk cloth should be fixed with a maximum profit margin of 35 *per cent* and 37 *per cent* over the cost price[1] respectively.

PONTEX supplied cotton clothes[2] to Adi-dravidar Welfare, Fisheries, Social Welfare and Women and Child Development departments to implement various schemes of free supply of cloth. PONTEX quoted the rates based on its cost price after allowing rebate on its quoted price. However, it made the supply by requesting PONFAB to deliver part of the requirement directly to the Government departments. PONTEX made payment to PONFAB at the price quoted by it to Government and also the MDA received from the Registrar for the quantities supplied by PONFAB.

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1 Production cost and processing cost
2 Sarees, blouse, lungies and towels

Payment at the price quoted by PONTEX for the clothes supplied by PONFAB violated the instructions issued by the Registrar. Had the Registrar ensured compliance of his orders on fixing the selling price by PONFAB, PONTEX would have quoted lesser price in respect of supplies made by PONFAB. Besides, the Registrar had not informed the line departments regarding the restriction on selling price on clothes supplied by PONTEX and PONFAB. These failures of Registrar resulted in additional expenditure of Rs 1.87 crore to Government for the supplies made by PONFAB during 2003-06 (details vide **Appendix XXII**) towards cost of clothes supplied to Government departments and MDA received from the Registrar.

Government contended (December 2006) that there was no additional expenditure on purchase of cloth as the society was permitted to add the overhead charges and wastage while working out total production cost. This contention is not tenable as Government allowed processing cost and margin of 35 *per cent* in addition to production cost of cloth. While the wastages were considered in the production cost, the overhead charges were covered in the margin. PONTEX also fixed the selling price considering production cost, processing cost and margin of 35 *per cent.*

4.2.2 Avoidable payment of grant

The delay in processing the proposal for conversion of interest free loan and share capital paid to State Co-operative Housing Federation Limited resulted in avoidable release of grant of Rs 1.29 crore to waive the outstanding interest of primary societies.

The Pondicherry State Co-operative Housing Federation Limited (HOUSEFED) constructed 976 houses in 1988 and allotted them to members of seven Primary Co-operative Housing Societies treating the cost as loan to the primary societies. The primary societies were to recover the loan from the members and pay it to HOUSEFED, which in turn, repaid the loan taken from Housing and Urban Development Corporation Limited (HUDCO) for the construction.

As the repayments from the primary societies were poor, HOUSEFED met its repayment obligation towards HUDCO loan by obtaining interest free loan of Rs 57.57 lakh from Government during September 1990 to March 1998. Meanwhile, Government decided (April 1997) to waive the amount due from the allottees. As the waiver could be effected only after clearing the HUDCO loan, Government released (March 1999) Rs 67.92 lakh to HOUSEFED as share capital to clear outstanding HUDCO loan. HOUSEFED repaid entire dues to HUDCO. However, it had not waived the loan from primary societies as it had a liability to Government towards interest free loan and share capital.

HOUSEFED sent proposals (March 1999) to the Registrar of Co-operative Societies for conversion of the interest free loan and the share capital into grant to enable them to waive the dues from primary societies. The Registrar examined the proposal and sought clarification regarding the status of ownership of houses, dues from the members etc., and finally sought a revised proposal from HOUSEFED (September 2003) with a detailed statement on loan outstanding from the primary societies as of June 2003. As HOUSEFED continued to charge interest, the dues from the primary societies increased from Rs 1.74 crore in March 1999 to Rs 3.03 crore in June 2003. Based on this revised proposal, Government issued orders (July 2004) for releasing Rs 1.78 crore as grant to HOUSEFED. Government also ordered (January 2006) for the conversion of the interest free loan (Rs 57.57 lakh) and share capital (Rs 67.92 lakh) into grant (Rs 1.25 crore).

Thus, the delay in finalising the proposals of HOUSEFED received in March 1999 resulted in increase of dues of primary societies by Rs 1.29 crore (Rs 3.03 crore – Rs 1.74 crore) to HOUSEFED and additional expenditure of Rs 1.29 crore to Government. The HOUSEFED, on account of delay in approval of proposal, gained Rs 1.29 crore as dues of primary societies have already been agreed for entire waiver.

Government contended (December 2006) that the Department had taken up the proposals of HOUSEFED received in March 1999 continuously with Government and received the orders only in July 2004. This contention is not tenable as the Registrar delayed in finalising the proposal and approached the Government only in July 2004. Besides, the Registrar had not instructed HOUSEFED to stop charging interest from primary societies beyond March 1999 as its liability on loan was discharged by Government.

4.2.3 Unnecessary release of grants

Release of Rs 1.17 crore as grant to Pondicherry State Co-operative Bank Limited for waiver of interest on agricultural loans was avoidable as adequate funds were available under Agricultural Credit Relief Fund created for this purpose.

With a view to alleviate the debt burden of farmers, Government announced 'Interest Waiver Scheme' in 2004-05, which provided for waiver of interest and penal interest payable by members of various Agricultural Credit Societies/Banks on loan obtained by them prior to and have fallen overdue on or before March 2001. The Registrar of Co-operative Societies released (March 2005) Rs 1.17 crore to Pondicherry State Co-operative Bank Limited (Bank) for this purpose.

Government established (1985-86) 'Agricultural Credit (Short term) Relief Fund' (Fund) which provided for relief by way of write off of loan (principal and/or interest) to members of primary agricultural credit societies who are affected by successive natural calamities. The Bank was entrusted with operation of the Fund. The rules framed to operate the Fund stipulated that the Bank should investigate outstanding overdue loans pending at the level of primary agricultural credit societies for more than three years with reference to the financial position, repaying capacity of members – borrowers and should provide relief to farmers by way of write off of loans to small farmers and waiver of interest/penal interest or rescheduling of loan in respect of other farmers.

The Bank provided relief of Rs 34.47 lakh during 1987-88 and 1989-90 and thereafter accumulated the Fund to Rs 1.48 crore as of March 2005 mainly by way of interest. Though the huge accumulation in the Fund was kept idle, the Bank instead of providing relief to the members of credit societies through the Fund sought grant under 'Interest Waiver Scheme' for these farmers and provided relief of Rs 1.18[3] crore to 1217 farmers. The Registrar also failed to inform Government the availability of money in the Fund to implement the 'Interest Waiver Scheme'.

Thus, the failure to utilise the accumulation available in the Fund resulted in an additional burden of Rs 1.17 crore on the exchequer of UT.

Government contended (December 2006) that there was no blanket provision in the rules to waive interest and penal interest in respect of loans borrowed by small/marginal farmers who were affected by natural calamities. This contention of the Government is not factual as Agricultural Credit Relief Fund was meant for providing relief to the members of society who are affected by natural calamities.

[3] Balance of Rs one lakh was met by the bank from its own sources.

PUBLIC WORKS DEPARTMENT

4.2.4 Avoidable expenditure on escalation and idle charges

Failure of the Executive Engineer to meet contract conditions and delay in furnishing the drawings resulted in avoidable expenditure of Rs 32.71 lakh

Executive Engineer, Buildings and Roads (South) Division allotted the work of construction of Diaphragm wall, apron slab for quay, slopping hard and dredging/disposal for fishing harbour to a contractor in October 1998 at an estimated cost of Rs 2.51 crore. As per the special contract conditions, the Department has to provide requisite power connection and proper approach road to the site. The work was scheduled for completion by October 1999.

Though the Central Public Works Department Manual stipulate that arrangement for issue of drawings well in advance of actual requirement at site, as per the programme of construction, the Executive Engineer gave drawings belatedly in December 1999 and it was revised in March 2000.

Immediately on taking up the work (October 1998), the contractor claimed that there was no approach road to the site and demanded provision of power connection. The power connection was provided in December 1999 and proper approach road was provided only in January 2000. The contractor was granted (September 2000) provisional extension of time up to November 2000 and was paid escalation charges in March 2001 and September 2001. However while granting the final extension of time, the Superintending Engineer, Circle II levied penalty and ordered the contractor to remit back the escalation charges paid. Meanwhile, there was dispute between the contractor and the Department regarding payment for additional works and the contractor requested for appointment of an arbitrator (June 2000). The contractor also claimed idle charges for men and machinery deployed at site due to the delay in providing power connection, approach road and drawings. The work was completed in August 2001. The Department appointed the arbitrator in February 2003.

The Arbitrator allowed (March 2004) Rs 23.09 lakh for additional works and struck down the Department’s claim to remit back the escalation paid. He also allowed Rs 20.20 lakh towards escalation charges and Rs 12.51 lakh towards idle charges.

The failure of the Department to provide proper approach road, power connection as per the special contract conditions agreed upon and to give the drawings in time resulted in avoidable expenditure of Rs 32.71 lakh towards escalation and idle charges.

The matter was referred to the Government in August 2006; reply had not been received (December 2006).

4.2.5 Additional liability due to incorrect estimate

Finalisation of tender without verifying the estimate with structural design resulted in additional liability of Rs 24.70 lakh.

Superintending Engineer, Circle II (SE) approved the proposal for preparation of (a) structural design, (b) the detailed estimate and (c) tender schedule for the work of construction of Block Development Office at Villianur in Puducherry by a consultant and the work was allotted in April 2003. While the design work was in progress, the Department requested the consultant to prepare abstract and detailed estimate based on architectural drawings then available. Based on this estimate, the work was allotted (July 2003) to a contractor for completion in 14 months. The work commenced in August 2003.

The consultant gave the structural design for the work in August 2003, but the Department failed to examine the detailed estimate based on this design and execute supplemental agreement with the contractor for the additional quantities of work required to be executed. The design was approved and given to the contractor only in January 2004. As the cost of steel increased in the market and the actual requirement of steel as per the design was also increased by 60,000 kg provided in the agreement, the contractor sought (September 2004) increased rate for steel to be used in the work. However, rate offered by the SE was not accepted by the contractor and the work was terminated in April 2005. The SE revised the estimate based on the design and entrusted (November 2005) the balance work to another contractor. The work, taken up in January 2006, was in progress (July 2006).

Thus, the Department acted in haste in calling for tender in May 2003 even before the structural design was completed. Besides, the Department had failed to examine the structural design received in August 2003 when the work was taken up, and also, to execute supplementary agreement with the contractor for the additional requirement of steel. These failures resulted in the termination of the work. Entrustment of the work to another contractor at higher rates resulted in an additional liability of Rs 24.70[4] lakh.

The matter was referred to the Government in August 2006; reply had not been received (December 2006).

[4] Based on the quantity provided in the revised estimate finally for various items of work and the difference in rates between the first and second contracts

4.2.6 Additional liability / expenditure in finalisation of tenders

Refund of earnest money deposits of tenderers even before finalising the tender in one work and avoidable delay in awarding another work before the expiry of validity of tender resulted in additional liability/ expenditure of Rs 16.25 lakh.

Deficiencies in finalising tenders by two divisions resulted in additional liability / expenditure in the following cases:

Additional expenditure due to non-awarding the work before the validity of tender

The lowest offer of Rs 86.84 lakh for the work of 'Construction of pucca building for Government Primary School at Thattanchavady' was recommended (8 April 2004) by the Executive Engineer, Special Buildings Division-II (EE II) and the CE communicated his acceptance on 13 May 2004. The EE II, however, informed the tenderer only on 21 May 2004 after the expiry of the validity of tender (17 May 2004). As the tenderer refused to extend the validity, retender was called for in July 2004. But the successful tenderer had withdrawn the offer and tender for the third time was called for in August 2004. However, the successful tenderer failed to deposit performance guarantee. Finally, the work was allotted (December 2004) for Rs 98.67 lakh in the fourth call for retender and completed in March 2006 at a cost of Rs 91.74 lakh. Based on the rates quoted in the first and fourth call, the actual quantity of work executed, and the Earnest Money Deposit (EMD) of Rs 2.67 lakh forfeited in the second and third call, the extra expenditure worked out to Rs 3.74 lakh.

When pointed out, the Government stated (June 2006) that the Chief Engineer has been ordered to issue instruction for strict adherence to the time limit in future.

Additional liability due to refund of Earnest Money Deposit (EMD) before finalising the tender

Five contractors quoted for the tender, called for in December 2004, for the work 'Construction of female yard and toilet, hospital and stores blocks for central jail at Kalapet'. The lowest tender (Rs 1.24 crore) became invalid as the tenderer did not quote rate for one item. Even before sending the tenders to the Chief Engineer (CE), the competent authority to finalise the tender, the Executive Engineer, Buildings and Roads (South) Division (EE I) refunded the EMD of all tenderers except that of lowest tenderer. CE approved the offer of the second lowest tenderer (Rs 1.30 crore) in March 2005, but the work order could not be issued to him as the EMD had already been refunded. After issuing a warning, the CE instructed (May 2005) the EE to call for retender and the work was finally allotted (October 2005) for Rs 1.43 crore.

This resulted in additional liability of Rs 12.51 lakh being the difference between the second lowest tender in the first call and the final agreed rate.

The matter was referred to the Government in July 2006; reply had not been received (December 2006).

4.3 Idle investments

LOCAL ADMINISTRATION DEPARTMENT

OULGARET MUNICIPALITY

4.3.1 Avoidable delay in commissioning electric cremator

Failure to follow the prescribed procedure while finalising the tender and to take advance action to provide power supply delayed the commissioning of the cremator.

To provide a pollution free cremation facility, Oulgaret Municipality decided to set up an electric crematorium and completed the civil works in November 2000 at a cost of Rs 25.19 lakh. The contract for the supply, erection and commissioning of the electrical cremator was entered into with a firm in October 2000. The work to be completed by May 2001, was not taken up by the firm due to financial and labour problems but the Municipality extended (September 2001) the contract till March 2002 and finally terminated it in May 2002.

In the retender, called for in July 2002, four quotations were received. The Tender Selection Committee, after verifying the performance of the cremators erected by the tenderers, shortlisted two of them and conducted negotiations with them. The tender recommended (May 2003) by the Committee was, however, rejected (September 2003) by the State Works Advisory Board, the competent authority to accept the tender, on the ground that the credibility of tenderers was checked after opening the tenders and negotiation was conducted with the tenderer other than the lowest.

The third call was made following two bid system (technical and financial offer separately) and the single tender received (February 2004) was accepted in July 2004. The firm was paid Rs 38.13 lakh (September 2004) against bank guarantee. The firm supplied the equipment in February 2005 and completed the erection work.

Though, the Commissioner initiated action for electrical service connection in January 2005, the power supply was obtained only in July 2006 due to delay in taking up external electrification works. The Commissioner requested (August 2006) the contractor who erected the cremator to commission the crematorium. The crematorium was not commissioned as of September 2006.

Thus, the delay in erection and commissioning of cremator was mainly due to delay in terminating the first contract, non-following of the prescribed tender procedure and delay in providing power supply by the Municipality. Consequently, Rs 25.19 lakh spent on civil works during September 1998 to December 2000 and Rs 38.13 lakh paid for the supply of cremator in September 2004, remained unfruitful. As the existing cremation ground is in the heart of the city, the delay in commissioning the electric cremator defeated the objective of providing pollution free cremation facility.

Government accepted (December 2006) the delay in erection and commissioning of the cremator and stated that the commissioning work has been started in November 2006 and the crematorium would be ready for inauguration by 1 January 2007.

4.4 General

4.4.1 Follow up action on earlier Audit Reports

The Committee on Public Accounts (PAC) accepted the recommendations of the Shakdher Committee which recommended (i) that Departments were to furnish replies to the audit observations included in the Audit Reports indicating the corrective/remedial action taken or proposed to be taken by them, within a period of three months of the presentation of the Reports to the Union Territory Legislature and (ii) a time limit of three months for submission of Action Taken Notes on the recommendations of the PAC by the Departments. The pendency position of paragraphs/ recommendations for which replies/action taken notes were not received were as follows:

(a) Out of 46 paragraphs/reviews included in the Audit Reports relating to 2002-03, 2003-04 and 2004-05, Departmental replies were not received for 38 paragraphs/reviews as of August 2006.

(b) Government Departments had not taken any action as of August 2006 on 517 recommendations made by the PAC in respect of Audit Reports of 1977-78 to 2000-01 (details *vide* **Appendix XXIII**).