

Chapter 2 Scope of Audit

Our Scope 2.1 The scope of our audit was to examine whether the activities undertaken by Tea Board during 2002-03 to 2008-09, which were directed towards increasing tea production and productivity, catalysing co-operative efforts, backing up of research and development, labour welfare, market development and export promotion and regulatory functions, were adequate and effective. We studied and reviewed the regulatory, developmental, research, marketing and promotion activities undertaken by Tea Board and financial management aspects during course of the Performance Audit.

Why we took up this audit 2.2 We took up this study in view of the following:

Declining productivity of tea - The productivity of tea in India has declined over the years from 1865 kg/hectare in 1997 to 1693 kg/hectare in 2008. A tea bush is commercially productive for 40 years. Almost 42 *per cent*²³ of tea bushes in India aged more than 40 years, which has a direct impact on the productivity of tea bushes. Supporting activities of replanting/replacement planting and other related activities for enhancement of productivity is, thus, a major thrust area for Tea Board.

Decline in the prices of tea - Over the last decade there has been a steady decline in the prices fetched by the Indian tea as compared to countries like Sri Lanka and Mauritius. Tea Board has been supporting activities for quality improvement by providing subsidy to tea factories for augmentation and upgradation of machineries etc. To cater to the needs of world market, where there is a high demand for orthodox tea (44 *per cent* of the total tea market), Tea Board has been providing subsidy to tea manufacturers for diversifying production and growing more orthodox tea.

Increase in the cost of production - India has the highest cost of production amongst tea-producing countries in the world and India is the only tea producing country where cost of sales is above the auction realisation. The cost of labour within India varies from 32 *per cent* to 50 *per cent* in North India and 43 *per cent* in South India. Tea Board provides financial help by funding welfare activities in tea estates and gardens and providing professional training to persons related to tea industry, with a view to facilitate cost reduction and improve efficiency.

International Market scenario - India's production share has declined from 41 *per cent* in 1950 to 26 *per cent* in 2008. India's export share has declined from 48 *per cent* in 1950 to 12 *per cent* in 2008. Import of tea has gone up from 1.37 million kg in 1992-93 to 25 million kg in 2009.

Thus, ageing of tea bushes is leading to decline in quality and productivity which has further resulted in the cost of production of Indian tea becoming the highest among major tea producing countries in the world. Effective and

²³As of 31st December 1997.

	<p>efficient implementation of the activities aimed towards enhancing the productivity, improving the quality, reducing the cost of production and increasing the export share in the world market and achievement of scheme objectives have a direct bearing on addressing these issues. The effectiveness and efficiency with which Tea Board performs its role as a Regulator also has a direct bearing on the health and prosperity of the tea industry.</p>
<p>Objectives of the Performance Audit</p>	<p>2.3 The detailed objectives for our examination were:</p> <ol style="list-style-type: none"> 1. Whether Tea Board performed its regulatory role effectively; 2. Whether developmental activities undertaken by Tea Board had an impact on enhancing productivity of tea in India; 3. Whether developmental activities undertaken by Tea Board had an impact on improving quality of tea in India; 4. Whether developmental activities undertaken by Tea Board had an impact on reducing cost of production of tea in India; 5. Whether research activities undertaken by Tea Board or financed by Tea Board were effective in delivering results for effective tea development; 6. Whether adequate and effective steps were undertaken for marketing and promotion of Indian Tea to improve its position in world as well as domestic market; and 7. Whether an effective financial management and internal control mechanism existed in Tea Board.
<p>Audit Criteria</p>	<p>2.4 Audit criteria were mainly derived from the instructions, procedures, rules and practices put in place by the Tea Board. Apart from these, decisions and recommendations of various committees were used to arrive at appropriate criteria for various issues. The following are some of the sources of criteria used to assess the performance of Tea Board:</p> <ul style="list-style-type: none"> • Tea Act, 1953 and Rules made there under, other relevant acts and orders. • Rules and instructions issued by MOC&I, Government of India from time to time. • Recommendations of different independent agencies appointed and approved by Tea Board. • Documents and records pertaining to schemes, projects and other activities. • Tea Statistics and Tea Digest published by Tea Board and Statistics of Indian Tea Association, UPASI and TRA. • International best practices and trends.
<p>Audit Methodology</p>	<p>2.5 We discussed our audit objectives with the auditee in an Entry Conference with Tea Board in Kolkata on 2nd July 2008. Tea Board agreed with the objectives and methodology adopted in this Performance Audit. We conducted scrutiny of records relating to tea development, tea marketing and promotion, tea research, regulatory activities of Tea Board and other</p>

functions of Tea Board during June to December 2008. Our audit teams visited Tea Board Head Quarters at Kolkata, two Zonal offices at Guwahati and Coonoor, Tea Centre at Mumbai and Darjeeling Tea Research and Development Centre in Kurseong for study of records and collection of information. Preliminary audit findings were communicated to appropriate authorities for confirmation of facts. The replies of Tea Board/Ministry of Commerce have been considered while arriving at audit conclusions. The Exit Conference was held on 30 October 2009. Our audit team again visited Tea Board, Head Office at Kolkata between January and March 2010 to supplement the information collected earlier. Tea Board has accepted our audit recommendations and has proposed an action plan with timelines for implementation of these recommendations.

We issued the final report after considering the replies of the Ministry of Commerce on 24 December 2010 and held another exit meeting with the Ministry on 03 March 2011. The Ministry furnished final responses to the conclusions in Chapter 10 of this report which have been considered by us and included in that chapter.

Audit Sample

2.6 In **Regulatory Activities**, we reviewed functions of Tea Board as laid down in the Tea Act, 1953 and other orders such as Tea (Marketing) Control Order, Tea (Distribution and Export) Control Order and Tea Waste Control Order. We studied records relating to registration of growers, licenses given to exporters/distributors/ manufacturers, returns submitted by different stakeholders and scheme for rehabilitation of closed tea gardens.

Under **Developmental Activities**, we reviewed the schemes viz., Tea Plantation Development Scheme, Special Purpose Tea Fund, Orthodox Subsidy Scheme, Quality Upgradation and Product Diversification Scheme and Crash Scheme related to the elements like productivity and quality of tea for which the Board disbursed subsidy. We studied Human Resource Development Scheme from where subsidy was disbursed to meet the cost of welfare activities and to impart training to plantation workers which were related to the element 'cost of production'. We also reviewed another scheme which was introduced to provide support to small growers' viz., Price Subsidy Scheme. Different Schemes (implemented during 2002-09) wise audit samples are indicated in **Annexure I**.

In **Research Activities**, we examined subsidy disbursed for research activities and reviewed 50 per cent (₹58.53 crore of ₹116.72 crore) of the total expenditure incurred by Tea Board during the period 2002-09, including expenditure on completed research projects, grants to various research institutions and expenditure on IT Portal project.

Under **Marketing and Promotional activities**, we reviewed 46 per cent (₹62.31 crore of ₹135.53 crore) of total expenditure incurred on Marketing and Promotional Activities during 2002-09, which included expenditure on various schemes for export promotion, overseas and domestic promotion and implementation of recommendations of Medium Term Export Strategy. The total Plan Outlay for various schemes under the Tenth and Eleventh Five Year

Acknowledgement

Plan was ₹496.25 crore and ₹806.43 crore respectively.

2.7 We acknowledge the cooperation of Tea Board and its Zonal Offices during the course of audit.

Our detailed findings

2.8 Our detailed findings with regard to regulatory, developmental, marketing and promotional activities and financial management are discussed in the chapters that follow.