

## Chapter 9 Financial Management and Internal control

**Objective 7: Whether an effective financial management and internal control mechanism existed in Tea Board.**

### Financial management

9.1 During 2002-11 funds received by Tea Board and expenditure there against was as follows:

(₹ in crore)

Year	Plan			Total Plan	Non-Plan	Total
	Subsidy	R&D	Recovery of loan & interest/loan received from MOC&I			
2002-03	46.97	9.36	11.78	68.11	16.49	84.60
2003-04	30.99	14.70	10.59	56.28	15.50	71.78
2004-05	69.17	18.00	11.83	99.00	16.00	115.00
2005-06	82.88	18.38	11.37	112.63	17.15	129.78
2006-07	116.76	15.51	40.53	172.80	17.75	190.55
2007-08	96.42	14.00	22.41	132.83	18.75	151.58
2008-09	87.02	22.97	10.14	120.13	21.86	141.99
2009-10	86.51	27.32	14.20	128.03	22.22	150.25
2010-11	100.56	28.83	11.26	140.65	26.43	167.08
<b>Total</b>	<b>717.28</b>	<b>169.07</b>	<b>144.11</b>	<b>1030.46</b>	<b>172.15</b>	<b>1202.61</b>

(₹ in crore)

Year	Plan			Total Plan	Non-Plan**	Total
	Subsidy	R&D	Loan disbursed			
2002-03	51.68	13.88	6.78	72.34	18.20	90.54
2003-04	31.68	15.81	7.01	54.50	17.67	72.17
2004-05	68.05	18.01	3.15	89.21	17.17	106.38
2005-06	76.35	17.12	0.70	94.17	19.54	113.71
2006-07	123.91	14.60	0.55	139.06	20.43	159.49
2007-08	89.06	11.83	0.25	101.14	20.16	121.30
2008-09	102.35	25.44	0.00	127.79	33.17	160.96
2009-10	85.62	27.24	0.00	112.86	43.96	156.82
2010-11	101.77***	27.98***	0.00	129.75***	40.50***	170.25
<b>Total</b>	<b>730.47</b>	<b>171.91</b>	<b>18.44</b>	<b>920.82</b>	<b>230.80</b>	<b>1151.62</b>

\*Source – Annual Accounts of Tea Board

\*\* information furnished by the Tea Board.

\*\*\*Estimated and subject to finalization of accounts

The observations on financial management, manpower management and internal audit are discussed in paragraphs given below.

## Need for review of rates of cess

**9.2** In terms of Section 25 of Tea Act, a cess is levied on all tea produced in India at rate not exceeding 50 paise per kilogram. The cess as reduced after deducting the expenses of collection would be used for development of Tea and would be made over to the Tea Board as per Section 26 of the Act. Analysis of year- wise revenue receipts on cess on tea exhibited in the Union Government Finance Accounts revealed the following:

(₹ in crore)

Year	Receipt of Cess on Tea*	Amounts transferred to Tea Fund**			
		Opening Balance	Receipt during the year	Disbursement during the year	Closing Balance
2005-06	26.43	53.00	70.00	26.58	96.42
2006-07	37.40	96.42	0.00	32.68	63.74
2007-08	30.15	63.74	0.00	49.42	14.32
2008-09	32.14	14.32	0.00	4.06	10.26
2009-10	32.68	10.26	0.00	4.06	6.20
<b>Total</b>	<b>158.80</b>		<b>70.00</b>	<b>116.80</b>	

Source: \*Statement 8 of Union Finance Accounts, \*\*Statement 13 of Union Finance Accounts

During 2005-10, a total sum of ₹158.80 crore was collected as cess on all tea produced in India. However, only ₹70 crore was transferred to the Tea Fund during 2005-06. It was observed that there were no transfers made in lieu of cess collection on tea for the financial years 2006-07 to 2009-10.

The details of rates of cess imposed from time to time are shown below:

Date	Rate of cess
From 10 June 1967	4 paise per kg
From 27 November 1975	6 paise per kg
From 11 August 1978	8 paise per kg
From 15 August 1986	8 paise for tea produced in hilly areas of Kurseong, Kalimpong and Darjeeling sub divisions 15 paise per kg on tea produced in other areas
From 1 April 1997 till date	12 paise for tea produced in hilly areas of Kurseong, Kalimpong and Darjeeling sub divisions 30 paise per kg on tea produced in other areas

As evident from the table above, the rates of cess have been revised at varying intervals ranging from nearly three years to more than 14 years. Since Tea Board had a resource constraint for the developmental activities as discussed in paragraph 4.7, rates of cess should be considered for revision by the Ministry at more regular intervals. We further observed that the ceiling of cess at rate not exceeding 50 paise

**Diversion of Plan funds for Non-Plan activities**

per kilogram was fixed way back in 1986. The Government may consider review of the ceiling so fixed.

Ministry of Commerce stated in May 2011 that a proposal to increase the cess is under active consideration of the Government. As regards increasing the ceiling of cess beyond 50 paisa per kg, it stated that since this would require amendment in the Tea Act with the approval of the Parliament, this would be considered at the time of amendments in the Act.

**9.3** As per rule 10(6) of Delegation of Financial Power Rules (DFPRs), appropriation or re-appropriation from Plan head to Non-Plan head should be made only with the prior approval of Ministry of Finance. We observed that during 2002-03 to 2007-08, Tea Board diverted a total amount of ₹48.10 crore from Plan to Non-Plan head and ₹32.18 crore from Non-Plan to Plan head. However, approval of the Ministry for such diversion was not placed on record. In the following instances, Plan funds were utilised for Non-Plan activities.

**(a)** Government of India approved creation of a Revolving Corpus by freezing the outstanding loan dues payable by Tea Board up to April 1998. In December 2001, Government accorded approval to retain a sum of ₹43.96 crore in the corpus, which was otherwise payable to them by Tea Board. We observed that during the period 2002-08, the Board transferred ₹7.50 crore from Revolving Corpus (Plan Head) to Tea Board Tea Fund Account (TBTF) (Non-plan Head) and realised back ₹4.50 crore, leaving a balance of ₹3.00 crore yet to be transferred to Revolving Corpus. Tea Board/Ministry stated in October 2009 that the same was done to meet the day to day expenditure of the office.

**(b)** During 2003-08, a total sum of ₹13.77 crore was paid by the Board from its Research and Development Account to its Non-Plan account for meeting salary and allowances of personnel other than those involved in research and development. However, the said amount was not credited back to Research and Development Scheme. The Ministry did not furnish a specific reply.

**Funds retained in current account resulting in loss of interest**

**9.4** Analysis of closing balance of Revolving Corpus fund during the period 2002-08 revealed that yearly closing balance ranging from ₹3.51 crore to ₹19.08 crore were lying in the current account. Further analysis of monthly closing balance revealed that due to retention of funds in the current account, the Board had borne loss of interest of ₹93.43 lakh<sup>55</sup> during the period from September 2005 to March 2008.

The Ministry stated in October 2009 that as government funding was stopped for new loan schemes, the available fund was retained for

<sup>55</sup> Simple interest @ 6 per cent on monthly closing balances.

### Inadequate generation of internal resources

fulfilling the committed payment of already sanctioned cases and also for repayment of government loan. However, the fact remains that retention of funds in current account resulted in loss of interest.

**9.5** Government of India has, from time to time, taken steps such as forming of Revolving Corpus, so as to reduce the dependence of Tea Board on government grants and enhance the degree of self reliance. In November 2005, Ministry of Finance issued guidelines to all Ministries wherein, as a measure to reduce dependence of autonomous bodies on government budgetary support and on greater self-reliance, the grants were reduced by 10 *per cent* for the year 2006-07.

We observed that Tea Board largely depended on the funds released from the Ministry and their revenue<sup>56</sup> generation was only 1.76 *per cent* of the total Non-Plan expenditure incurred during 2002-08. The percentage of revenue generation had reduced from 2.73 *per cent* in 2002-03 to 0.86 *per cent* in 2007-08.

The Ministry stated that generation of external resources also included sale of tea by their own counters, miscellaneous receipt, and interest on advances etc. All taken together, Tea Board generates revenue more than the fixed target for Internal and Extra-budgetary Resources. However, the fact remains that sale price of tea cannot be reflected without taking into account the purchase cost of the tea sold. Further, the interest earned by Tea Board was on grants given by the government.

### Weaknesses in Internal Audit

**9.6** Internal Audit is conducted to ascertain how far the rules and regulations, systems and procedures and instructions issued by the top management in accounting, financial and administrative matters are being followed in the organisation. It is the primary responsibility of the management to install an effective internal audit system and take prompt corrective action in respect of the deficiencies in its working as pointed out by such audit. In this regard, we observed that:

- Eight personnel were engaged for conducting Internal Audit in 2004-05, which was reduced to six in the year 2007-08.
- In spite of staff available for conducting Internal Audit, no Internal Audit was conducted in Tea Board during 2005-06, 2006-07 and 2007-08. Further, only two units were audited in the year 2004-05 out of 15 units.
- Adequate attention was not paid to the findings of Internal Audit as Tea Board, Coonoor did not comply with the observations raised by the Internal Audit during 2004-05 and did not furnish replies to observations issued earlier.
- Tea Board could not furnish the number of old audit objections and

<sup>56</sup> License/registration fee earned from various regulatory activities

also the number of audit objections added/settled during the period 2003-08.

- Tea Board did not prepare any manual detailing procedure for preparation of audit plan based on the risk assessment, prioritisation and fixing of periodicity for audit and processing of audit objections for guidance of the members of the staff conducting Internal Audit.

The Ministry stated that Chairman Tea Board had already approved revamping of Internal Audit and that Internal Audit of units would start covering every due office once in two years to begin with and shift to annual audit in due course. It stated that Chairman had approved preparation of an inventory of all Internal Audit objections and monitoring of their clearance through quarterly meetings. It also stated that approval has also been taken for preparation of Internal Audit Manual.

#### Manpower Management

**9.7** On the request of MOC&I, the Staff Inspection Unit (SIU), Ministry of Finance, conducted detailed study over the staff strength of Tea Board during April 2003 and assessed the manpower requirement of Tea Board in different categories of posts, on the existing level of workload. SIU, in its report of July 2003, recommended abolition of 355 posts and creation of 24 new posts, thereby reducing the staff strength of Tea Board to 623. Subsequently, in September 2009, Tea Board assessed requirement of 116 new posts (Technical 83 and Non-Technical 33) for Development Directorate and requested the Ministry for approval. Another proposal for creation of 22 posts of Factory Advisory Officers was sent by the Board in October 2009 to the Ministry.

In this regard, we observed that, against 116 new posts, the Ministry approved only one post. The Ministry was yet to approve creation of posts of Factory Advisory Officers.

#### Inadequate monitoring

**9.8** During February 2002 to December 2007, Board meetings were conducted on 24 occasions as required. In this regard, we observed that in thirteen meetings (48 *per cent*) the presence of members was less than 50 *per cent* of the total 31 members comprising the Board. The status of presence of the members in Board meeting indicated not only the lack of interest and commitment by Board members but also resulted in inadequate monitoring of activities of Tea Board by its Board.

The Ministry stated in October 2009 that the Administration has no scope to ensure presence of Board Members. It further stated that one probable reason of less percentage of attendance may be the late constitution of the Board. The Board, during the period April 2005 to March 2008 was constituted fully only after two and half years.

**Our  
Recommendations  
and response of  
Tea Board**

**9.9** We recommended in November 2009 that internal audit may be strengthened commensurate to the level of activities of the organisation. We also recommended that Tea Board address the issue of providing adequate and professionally qualified manpower to undertake its functions and responsibilities efficiently and effectively. *Tea Board accepted these recommendations in December 2009 and stated that they have taken steps to strengthen its Internal Audit.*

**Conclusion**

**9.10** Financial management and Internal controls in Tea Board were weak as Tea Board diverted funds from Plan to Non-Plan from time to time for meeting Non-Plan expenditure. Internal generation of funds was not adequate and Tea Board was fully dependent on the Government for support in respect of every activity despite its role of regulation and development of tea. Internal Audit was also not commensurate with the extent of activities undertaken by the Board.