

# COMPLIANCE AUDIT PARAGRAPHS



## CHAPTER III COMPLIANCE AUDIT PARAGRAPHS

### Fraudulent claims/ payments

#### LABOUR AND SKILLS DEPARTMENT

##### 3.1. Payment of fraudulent placement claims under PMKVY Scheme

**Failure of Kerala Academy for Skills Excellence to ensure the genuineness of placement documents submitted by the training partners resulted in undue financial benefit of ₹16.72 lakh to the training partners.**

Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is a central scheme launched (15 July 2015) by the Ministry of Skill Development and Entrepreneurship (MSDE) to encourage and promote skill development in the country by providing free short duration skill training and incentivising this by providing monetary rewards to youth for skill certification. PMKVY 2016-20 (PMKVY 2.0<sup>100</sup>) is implemented through two components (i) Centrally Sponsored Centrally Managed (CSCM) - implemented by the National Skill Development Corporation and (ii) Centrally Sponsored State Managed (CSSM) - implemented by State Government through State Skill Development Missions (SSDM). Components of PMKVY 2.0 include (i) short-term training (ii) recognition of prior learning and (iii) special projects. SSDMs which are entrusted to implement the short-term training component, empanel training partners (TPs) to undertake the trainings.

Paragraph 1.7.2 of the PMKVY 2.0 guidelines outlines the minimum milestones to be followed for payout<sup>101</sup> to the TPs. The third tranche payout is linked to the placement<sup>102</sup> of the certified candidates. Paragraph 5.7.2 of the guidelines gives the placement disbursement pattern<sup>103</sup>. These are shown in Table 3.1 below.

<sup>100</sup> The first phase was undertaken by NSDC. PMKVY 2.0 is the second phase involving the State Government and it aimed to impart skilling to 10 million youth of the country.

<sup>101</sup> The payout is calculated at the rate prescribed for job role per hour per candidate as per Gazette notification dated 31 December 2018 of MSDE. The payouts are directly transferred to the bank account of the TPs.

<sup>102</sup> Candidate should continue to be in jobs for a minimum period of three months from the date of placement.

<sup>103</sup> The TPs are eligible for placement related payment only if 50 per cent or more certified candidates get employment within three months of certification.

**Table 3.1: Payout milestones and placement disbursement pattern**

Payout milestones			Placement disbursement pattern	
Tranche	Per cent of total cost	Output parameters	Placement (in per cent)	Disbursement
1	30	On commencement of the training batch against validated candidates	< 50	Nil
2	50	On successful certification of the trainees	50-69	Pro-rata basis
3	20	Outcome based on placement	70 or more	20%

(Source: Guidelines of PMKVY 2.0)

**Kerala Academy for Skills Excellence<sup>104</sup> (KASE), the SSDM of Government of Kerala is the implementing agency of the CSSM component of PMKVY in Kerala.**

**During the Audit of KASE covering the period 2017-22, it was observed that only two TPs<sup>105</sup> (out of 31 TPs) had received the third tranche (₹16.72 lakh). Hence, Audit verified the claims made by the two TPs i.e., M/s SB Global Educational Resources Pvt. Ltd. and M/s Kavitha Pvt. ITI which received ₹1.02 lakh and ₹15.70 lakh respectively as detailed in Table 3.2 below.**

**Table 3.2: Details of claims made by the two training partners**

Name of training partner	No. of candidates certified	No. of candidates placed	Amount of final tranche disbursed (₹ in lakh)
M/s SB Global Educational Resources Pvt. Ltd., Ernakulam	42	27	1.02
M/s Kavitha Pvt. ITI, Alappuzha	428	309	15.70

(Source: Details furnished by KASE)

**Audit noticed that the two TPs claimed for payment of the third tranche from KASE by submitting documents like job offer letters, bank statements and salary slips from 28 companies which supposedly gave placement. In order to verify the genuineness of these documents, Audit randomly selected and visited three companies (employing 39 trainees) and shared the copies of the documents provided by the TPs and the following observations are made:**

- **According to the claim submitted by M/s SB Global Educational Resources Pvt. Ltd, 14 trainees trained by them were placed in Company 1. After verifying the documents pertaining to the 14 trainees, the company informed that out of the 14 trainees only five were employed by them. Also, none of the job offer letters, salary statements, etc., submitted by the TP including those of five trainees were issued by them.**

<sup>104</sup> KASE is the State Skill Development Mission under Department of Labour and Skills, Government of Kerala.

<sup>105</sup> M/s Kavitha Pvt. ITI, Alappuzha and M/s SB Global Educational Resources Pvt. Ltd.

- M/s Kavitha Pvt. ITI, Alappuzha, submitted claim for eight trainees who were placed in Company 2. The company informed that none of the trainees were employed by them, and the appointment letters and salary slips were not issued by them.
- Further, M/s Kavitha Pvt. ITI, Alappuzha submitted another claim that 17 trainees were placed in Company 3. It was informed by Company 3 that none of the trainees were employed by them during the period and that the appointment letters and salary slips were not issued by them.

Thus, the verification of the documents by Audit revealed that these two TPs furnished forged documents for claiming the third tranche from KASE.

The Government replied (February 2023) that the third tranche was paid to the two TPs by KASE after receipt of the appointment letters, salary slips and bank statements of candidates issued by the employers supplemented with telephonic verification from the trainees. However, Audit noted that KASE failed to verify the genuineness of these documents from the issuing companies which resulted in undue financial benefit of ₹16.72 lakh to the TPs. Based on the audit observations, KASE intimated that they carried out physical verification of all companies in Alappuzha district and found that all the documents submitted by the TPs purportedly from these companies were fraudulent. This has asserted the above audit findings that the TPs are indulging in malpractices by furnishing of fraudulent documents in order to obtain the third tranche of the PMKVY grant.

In view of the above instances, it is recommended that before release of the final tranche, the veracity of the supporting documents must be checked and only genuine claims should be passed for payment. Suitable action must be taken against officials responsible for passing fraudulent claims and against the TPs concerned. Amounts paid against false claims should be recovered immediately.

### Excess payment

## FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

### 3.2. Wrong application of interest rate by Supplyco led to excess payment to a supplier

**Erroneous application of commercial interest rate instead of bank rate by Supplyco for calculating interest on delayed payment led to excess payment of ₹1.07 crore.**

Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) stipulates that where any buyer fails to make payment of the

amount to the supplier as required in the Act, the buyer shall be liable to pay compound interest with monthly rests to the supplier on that amount from the appointed day or, as the case may be, from the date immediately following the date agreed upon, at three times of the bank rate<sup>106</sup> notified by the Reserve Bank.

The Kerala State Civil Supplies Corporation Limited (Supplyco) awarded (January 2007) the contract for supplying pure coffee and blended coffee powder for two years under Sabari Brand to M/s Sans Spices and Curry Powders, Wayanad (Supplier) and executed an agreement (January 2007). As the Supplier failed to supply the quantity ordered within the delivery schedule, Supplyco terminated the contract (05 June 2008). Aggrieved by the termination of the contract, the Supplier filed (30 November 2008) application before the Micro and Small Enterprises Facilitation Council<sup>107</sup> (MSEFC) claiming ₹36 lakh as compensation. MSEFC awarded (03 July 2010) in favour of the Supplier and Supplyco was directed to pay ₹6,91,611 with interest. Supplyco filed (October 2010) Writ Petition against the award before the Hon'ble High Court which was disposed of (28 May 2013) for conciliation at MSEFC. MSEFC decided (April 2014) to constitute a committee for effecting the conciliation. The conciliation before the committee failed (April 2015) and the matter was referred back to MSEFC which in its final hearing (15 March 2016) directed Supplyco to pay ₹6,91,611 with compound interest calculated at three times the bank rate notified by RBI (from 10 August 2007) till the date of realisation of the award, as provided under Section 16 of the MSMED Act. Supplyco sought legal opinion that opined (July 2018) that there was no scope for further appeal on the award other than mediation and settlement.

Consequently, a negotiation was called for by the Chairman and Managing Director (CMD), Supplyco (06 January 2020) wherein the Supplier submitted a claim for ₹10,21,94,663 apart from other damages. The Assistant Manager computed the award amount reckoning interest at three times bank rate as well as commercial lending rate which came out to ₹94.93 lakh and ₹2.55 crore respectively.

However, the CMD, Supplyco overlooked the calculation based on Bank rate quoting<sup>108</sup> the judgement of the Hon'ble High Court of Bombay in M/s Sonali Power Equipment versus Chairman Maharashtra State Electricity Board. After negotiation the supplier agreed (06 January 2020) to settle the case for ₹ two crore and relinquish all other claims. The supplier was paid ₹ two crore on 13 January 2020. The amount Supplyco was liable to pay if the amount was paid to the supplier on the date of final judgement of MSEFC and the amount actually paid due to delay in payment is shown in the **Table 3.3** below:

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<sup>106</sup> Bank rate is the rate charged by RBI for lending funds to commercial banks.

<sup>107</sup> MSEFC - established by State Governments under provisions of MSMED Act, 2006, for settling disputes on getting references/ filing on delayed payments.

<sup>108</sup> As per the proceedings dated 06 January 2020 of CMD, the interest was to be calculated on the basis of commercial rates of Nationalised Banks in consonance with the judgement of Hon'ble High Court of Bombay

**Table 3.3: Computation of the amount as per MSEFC award**

Events	Award amount	Interest	Total amount
Amount Supplyco was liable to pay to the supplier, if the amount was paid on the date of final judgement of MSEFC (15 March 2016) with compound interest calculated at three times the bank rate notified by RBI (from 10 August 2007)	691611	3805267.85	4496878.85
The award amount computed by Supplyco reckoning compound interest calculated at three times the bank rate notified by RBI till 31 December 2019	691611	8802217.09	9493828.09
The award amount computed by Audit reckoning compound interest calculated at three times the bank rate notified by RBI till 31 December 2019	691611	8637369.75	9328980.75 <sup>109</sup>
Amount paid to supplier after negotiation	20000000		

(Source: Details received from Supplyco)

Thus, the action of CMD, Supplyco to calculate the interest payable to supplier contrary to the award of MSEFC and provisions contained in MSMED Act quoting the judgement of Hon'ble High Court of Bombay which may not be applicable in this case led to excess payment of ₹1.07 crore<sup>110</sup> to the Supplier.

Government replied (March 2023) that as per normal Government practice/proceeding, negotiated amount was to be intimated to Government and the payment was to be done only after getting clearance from Government. However, this process was not followed by the then CMD. It was a serious financial violation and irregularity on the part of the then CMD. Further, based on the Audit objection, a recovery notice was issued (October 2022) by Supplyco but the amount was yet to be paid to Supplyco.

### Non/ short collection of revenue

## REVENUE AND DISASTER MANAGEMENT DEPARTMENT

### 3.3. Non-levy of building tax due to buildings escaping assessment resulting in non/ short collection of revenue amounting to ₹31.60 crore

**The failure on the part of Revenue department officials to assess buildings liable for building tax resulted in non/ short collection of revenue amounting to ₹31.60 crore to the Government.**

Section 5(1) of the Kerala Building Tax Act, 1975 (Act) stipulates that building tax shall be charged<sup>111</sup> on every building, the construction of which is completed

<sup>109</sup> Instead of computing the interest from 10.08.2007 (MSEFC award), Supplyco computed the interest from 01.07.2007 and arrived at the amount ₹94.93 lakh. Audit computed the amount as ₹93.28 lakh by calculating the interest from 10.08.2007.

<sup>110</sup> ₹2.00 crore – ₹93.28 lakh (the amount calculated by Audit) = ₹1.07 crore

<sup>111</sup> Exemptions (Section 3 of the Act) – (a) buildings owned by the Government of Kerala or the Government of India or any local authority; and (b) buildings used principally for religious, charitable or educational purposes or as factories or workshops.

on or after 10<sup>th</sup> February 1992, based on the plinth area of the building, at the rates prescribed. As per Rule 3 of the Kerala Building Tax (Plinth Area) Rules, 1992, every Village Officer shall transmit to the assessing authority<sup>112</sup>, within five days of the expiry of each month, a monthly list of buildings liable to assessment under Section 5 of the Act, together with extracts from the building application register of the local authority within whose area the buildings included in the list are situated. As per Rule 13 of the Kerala Building Tax (Plinth Area) Rules 1992, a register of assessment shall be maintained by each assessing authority in Form A, and register of persons assessed shall be maintained in the Village Office in Form B. Besides, a register showing the details of houses reported to the assessing authority for assessment will also be maintained by the Village Officer, in Form C.

Section 5(4) of the Act states that where the plinth area of a building is subsequently increased by new extensions or major repair or improvement building tax shall be computed on the total plinth area of the building, including that of the new extension or repair or improvement and credit shall be given to the tax already levied and collected.

During the course of audit of Taluk Offices in 2019-20, Audit examined the issue of buildings escaping assessment and noticed the following.

- Buildings assessed for property tax by Local Self Government Institutions (LSGIs) were not assessed for collection of building tax in several instances. Cross verification of records of property tax assessments at LSGIs with records of building tax in 19 Taluk Offices revealed that 1,284 buildings assessed under property tax by the LSGIs were not identified by the Village Officers or reported to the Tahsildars concerned for assessment under building tax Act/ Rule. This resulted in the buildings escaping assessments and consequent non-levy of building tax amounting to ₹4.49 crore as detailed in **Appendix 3.1**.
- In 24 Taluk Offices, cross verification of registers in Form C maintained in Village Offices with the registers in Form A maintained in the respective Taluk Offices revealed that 2,676 buildings were not assessed to building tax by the Tahsildars concerned, though the Village Officers had reported these cases. Non-assessment of building tax resulted in a short levy of ₹15.83 crore as detailed in **Appendix 3.2**.
- Further, Audit conducted joint physical verification along with Deputy Tahsildar/ Revenue Inspector and staff of Village Office at various buildings. Audit noticed in 18 taluks, 149 instances of buildings/ additional constructions to existing buildings not being assessed for

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<sup>112</sup> Taluk Office



building tax. Non-assessment of building tax has resulted in short levy of ₹11.28 crore<sup>113</sup>. Taluk-wise details are given in **Appendix 3.3**.

The issue of non-levy of building tax due to buildings escaping assessment has been persisting for long and was pointed out in the previous Audit Reports<sup>114</sup> of the C&AG of India on Revenue Sector. GoK in its Action Taken Report on paragraphs of the 60<sup>th</sup> Report of Committee on Public Accounts 2019-21 informed (March 2022) that a new software Kerala Building Tax Management System (KBTMS) was developed for receiving building tax and luxury tax through online and action taken to link it with the softwares used in LSGIs for approving the plan, issuing building permit and also for receiving the property tax to facilitate the Village Officers in easy identification of the newly constructed buildings in their villages.

Government of Kerala replied (October 2022) that ₹11.55 crore out of the ₹31.60 crore has been realised so far and that earnest efforts are being carried out to realise the balance amount. Further, Revenue department stated (January 2023) that linking the software of LSGI with KBTMS and transferring of data to KBTMS were in progress.

Thus, the failure on the part of Revenue department officials to assess all eligible buildings for building tax resulted in non/ short collection of revenue amounting to ₹31.60 crore to the Government. As the Audit scrutiny was not exhaustive and limited to certain Taluks/ Village Offices, the possibility of more buildings escaping assessment cannot be ruled out.

Government should expedite linking the softwares used in LSGI for issuing building permit and for receiving the property tax with KBTMS to identify buildings remaining unassessed for building tax and also to ensure that no buildings assessed by LSGIs escape assessment by Revenue authorities.

## WATER RESOURCES DEPARTMENT

### 3.4. Short collection of water charges due to misclassification of buildings as flats

**Misclassification of buildings as flats by Kerala Water Authority resulted in short collection of water charges to the tune of ₹82.06 lakh.**

Kerala Water Supply and Sewerage (Amendment) Act, 2008 (January 2009), defines flat as buildings/ independent villas having 10 or more dwelling units or buildings having a total plinth area of 1,000 square metres or more in a premise. For calculating the water charges of a flat<sup>115</sup>, Kerala Water Authority (KWA) divides the total consumption of water by number of dwelling units to arrive at

<sup>113</sup> Wherever the date of completion was available the rates of building tax applicable on that date were applied and wherever the date of completion was not available the rates of building tax as on date of joint physical verification were applied.

<sup>114</sup> For the years ended March 2016, March 2017, March 2018 and March 2019

<sup>115</sup> Procedure described in Resolution No. 2930 of the 125<sup>th</sup> meeting of KWA dated 30 November 1993

the consumption per dwelling unit. Applying the tariff<sup>116</sup> applicable to the so arrived quantity, water charges per dwelling unit is calculated which is then multiplied by the total number of flats to arrive at the total water charges of the flat.

On verification of eABACUS<sup>117</sup> database for the period 2014-19, Audit noticed that KWA classified buildings having less than 10 dwelling units as 'flats' in violation of the criteria contained in the Act and water charge was calculated by following the method applicable to flat instead of treating them as a single consumer unit. Audit analysis revealed that if a building was considered as a single unit, the per unit rate applied for water consumed would be the slab rate applicable to the total monthly consumption and if it was considered as a flat, the total consumption is equally divided among the individual dwelling units to find out the monthly per dwelling unit consumption and the tariff rate applicable to this slab would be used to arrive at the monthly water charges for that building<sup>118</sup>.

To qualify as a flat, a building has to satisfy either of the two conditions, i.e. buildings/ independent villas having 10 or more dwelling units or buildings having a total plinth area of 1,000 square metres or more in a premise. However, Audit observed that the database of KWA did not have column for entering the area of the building, thus making it impossible to verify whether a building with less than 10 dwelling units was a flat or not. Based on the analysis of database of KWA, Audit identified 544 number of buildings in the State which had less than 10 dwelling units but were classified as flat by KWA. The analysis revealed that there was a short collection of ₹4.07 crore towards water charges on account of wrong classification of buildings as flat during the period from October 2014 to March 2019. The details were made available to KWA for scrutiny as the area of the building was not available in database. KWA intimated (July 2021 and March 2022) Audit that based on the observations, directions were issued to 18 Divisions to verify the facts and figures through physical verification of the buildings and a separate field for incorporating plinth area of buildings in e-ABACUS software was introduced so as to ensure the correctness of category.

Audit again scrutinised (June 2022) the database for the period April 2019 to March 2022 to assess the current status which revealed that 38 buildings with less than 10 dwelling units were classified as flats. Though a new field for plinth area was incorporated in the software, the same remained blank and hence Audit

<sup>116</sup> KWA levies water charges in different slabs based on consumption. As per the tariff structure of KWA, the rate per unit of water increases as a consumer moves from one slab to a higher one. The highest water slab is 'above 50KL - ₹700.00 plus ₹40/KL in excess of 50KL'. Other slabs include above 15 to 20KL - ₹ six/KL for the entire consumption, etc.

<sup>117</sup> Enhanced Advanced Billing, Accounting and Collection Utility System (eABACUS) is a web based billing, accounting and collection system developed by NIC and put to use in KWA.

<sup>118</sup> For instance, if the total monthly water consumption of a building with seven dwelling units was 140KL and if the building is considered as a single unit, water charges reckoned would be ₹4,300 (i.e., ₹700 + (₹40 x 90)). If it is categorised as a flat, charges reckoned would be ₹1,190 (consumption per dwelling unit is 20KL (140/7), rate applicable per dwelling unit is ₹120 (i.e., ₹6 x 20) plus ₹50 (fixed charges) therefore total charges leviable for the flat would be 7 x ₹170 = ₹1,190)

could not ensure that the 38 buildings having less than 10 dwelling units were flats or not.

Government of Kerala stated (October 2022) that after excluding connections having plinth area above 1,000 square metre and connections effected prior to the amendment of the Act<sup>119</sup>, ₹82.06 lakh was found to be short levied during 2014-19 due to misclassification in respect of 166 buildings of which ₹18.27 lakh had been recovered. Further, action was taken to make the field of plinth area mandatory in eABACUS software so as to ensure that buildings were correctly classified for the purpose of collection of water charges.

However, Audit noticed that as on 29 December 2022, against the 2,450 active water connections for flats, plinth area was updated in respect of only 14 flats leaving the plinth area column of 2,436 flats blank in the database. This could result in more buildings being wrongly classified and resultant loss of revenue. Thus, failure of KWA to follow the norms for classification of flats resulted in misclassification of buildings and consequent short collection of water charges to the tune of ₹82.06 lakh.

KWA should ensure that the plinth area of buildings is necessarily incorporated in the database and no building is classified as flat unless it satisfies either of the conditions laid down in the Amendment Act of 2008.

### Regularity issue

## FISHERIES AND PORTS DEPARTMENT

### 3.5. Excess interest burden of ₹3.61 crore on beneficiaries in violation of scheme guidelines

**Violation of scheme guidelines of National Backward Classes Finance and Development Corporation for loan assistance resulted in imposition of excess interest burden of ₹3.61 crore on the beneficiaries by Government of Kerala.**

As per guidelines of National Backward Classes Finance and Development Corporation (NBCFDC)<sup>120</sup>, loan assistance under the Micro Finance Scheme<sup>121</sup> was to be released to State Channelling Agencies (SCA)<sup>122</sup> at an interest of two *per cent* and the SCA may charge maximum interest rate of five *per cent* from the beneficiaries. Similarly, as per guidelines of NBCFDC, loan assistance

<sup>119</sup> The definition of “Flat” was provided vide the Amendment Act of 2008

<sup>120</sup> A Government of India undertaking under the aegis of Ministry of Social Justice and Empowerment which provides concessional financial assistance to eligible members of backward classes for upliftment of economic status of the target group.

<sup>121</sup> Loan assistance available to Self Help Groups (SHG) to provide credit facilities for the target group especially for mixed group beneficiaries.

<sup>122</sup> NBCFDC implements its various financial assistance schemes through the State Channelling Agencies. The SCAs are to disburse loans for viable projects as per needs and choice of beneficiaries.

under the Mahila Samridhhi Yojana<sup>123</sup> was to be released to SCA at an interest of one *per cent* and the SCA may charge maximum interest rate of four *per cent*.

The Kerala State Co-operative Federation for Fisheries Development Limited (Matsyafed)<sup>124</sup>, an SCA, disbursed loans to the beneficiaries under the Micro Finance scheme and Mahila Samridhhi Yojana at an interest rate of six *per cent*, thereby imposing excess interest burden at the rate of one *per cent* and two *per cent* respectively on the beneficiaries. This resulted in excess interest burden of ₹3.61 crore (**Appendix 3.4**) on beneficiaries during the period 2013-14 to 2020-21 due to violation of the scheme guidelines.

Audit observed that Matsyafed did not seek approval of NBCFDC for the deviation from the prescribed norms while charging the arbitrary, higher rate of interest from the beneficiaries even though the higher rates went against the interests of the beneficiaries. As the reports to be submitted by Matsyafed, in format prescribed by the NBCFDC, did not require inclusion of details of the rate of interest levied from beneficiaries, Matsyafed did not even report the same to NBCFDC. Audit also observed that Matsyafed did not obtain approval from the Government while imposing the higher rate of interest.

Government of Kerala replied (August 2022) that as on 31 March 2022 there were dues of ₹6.75 crore under the schemes out of which recovery of ₹4.75 crore was doubtful and that the overdue to be collected from the beneficiaries had exceeded the excess interest collected from the beneficiaries. However, based on audit observations, interest rates were reduced<sup>125</sup> from 2021-22 and that the rate of interest would be as per the norms of the funding agencies. Further, GoK informed (January 2023) Audit that MD, Matsyafed has been directed to refund the excess amount collected as interest to the beneficiaries immediately and to fix the responsibility and initiate action against those responsible for the lapse.

The reply was not tenable as lack of oversight on the part of GoK resulted in excess interest burden being imposed on a particularly vulnerable community. Further, though the Government directed Matsyafed to refund the excess amount collected immediately, this cannot be implemented as at least 51 societies (and the SHGs attached) are currently non-functional. Besides, Matsyafed has informed Audit that the excess one *per cent* collected has already been released to primary cooperative societies as interest margin.

Government should ensure that the SCA does not impose interest rate higher than those prescribed by the lending agencies.

<sup>123</sup> Loan assistance available to SHGs to provide credit facilities for the target group of women beneficiaries.

<sup>124</sup> A co-operative society registered under the Kerala Co-operative Societies Act, 1969. It is an apex federation of 652 primary level co-operative societies created with the objective of economic and social development of fishermen community in Kerala.

<sup>125</sup> The interest rate for Micro Finance Scheme of NBCFDC was reduced (February 2021) from six *per cent* to five *per cent* and that of Mahila Samridhhi Yojana was reduced (September 2021) to four *per cent* from 2021-22 onwards in compliance with scheme guidelines.

## Unfruitful expenditure

### AGRICULTURE DEVELOPMENT AND FARMERS' WELFARE DEPARTMENT

#### 3.6. Plantation activities of Plantation Corporation of Kerala Limited

The Plantation Corporation of Kerala Limited (PCKL), the largest plantation company in public sector was formed in 1962, by the Government of Kerala (GoK). PCKL accounts for 47.09 per cent of the total plantations owned by all PSUs in the State. Rubber and cashew are the major crops undertaken by PCKL. PCKL constitutes two per cent of total rubber plantation and 5.68 per cent of total cashew plantation in the State. Review of plantation activities of PCKL from 2017-18 to 2021-22 revealed the following.

##### 3.6.1. Poor financial performance of PCKL

As of March 2023, the financial statements of PCKL have been finalised only up to 2020-21<sup>126</sup>. As per the finalised accounts, PCKL incurred losses during the four-year period 2017-18 to 2020-21 as detailed in **Table 3.4**.

**Table 3.4: Financial performance of PCKL**

Particulars	(₹ in lakh)			
	2017-18	2018-19	2019-20	2020-21
Sale of products	9388.77	6370.39	7528.18	7067.83
Services and other operating income	97.84	77.50	114.62	81.20
Other Income	443.66	322.08	163.37	108.80
Prior period adjustments	16.06	-	11.27	-
<b>Total Income</b>	<b>9946.33</b>	<b>6769.97</b>	<b>7817.44</b>	<b>7257.83</b>
Cost of materials consumed and direct expenses	4096.90	4332.07	4471.66	4494.73
Changes in Inventory	969.73	(141.14)	925.69	77.81
Employee benefit expenses	3851.23	2284.56	3921.67	4041.81
Depreciation and amortisation expenses	196.66	151.01	119.91	96.98
Administration and other expenses	979.95	967.32	989.66	891.54
Prior period expenses	0.69	22.09	4.91	-
<b>Total expenses</b>	<b>10095.16</b>	<b>7615.91</b>	<b>10433.50</b>	<b>9602.87</b>
<b>Loss for the year</b>	<b>148.83</b>	<b>845.94</b>	<b>2616.06</b>	<b>2345.04</b>

(Source: Annual Accounts of PCKL)

Audit analysed the reasons for increase in loss of PCKL during the Audit period. Audit noticed that there was a steady decrease in 'other income'<sup>127</sup> of PCKL from ₹443.66 lakh in 2017-18 to ₹108.80 lakh in 2020-21 attributable to decrease in interest earnings from deposits. Further, the receipts from sale of products exhibited a decrease during the period of Audit as shown in **Table 3.5**. The decrease was mainly on account of reduction in earnings from rubber and cashew plantation. In monetary terms the reduction in receipts in 2020-21 from

<sup>126</sup> Finalisation of accounts for 2021-22 is in progress.

<sup>127</sup> Other income includes interest income, rent of building, dividend and other miscellaneous income.

rubber and cashew plantations when compared with 2017-18 was ₹1,646.86 lakh and ₹516.31 lakh respectively. The reasons for reduction in earnings from rubber plantations are explained in paragraphs 3.6.2 and 3.6.3 of this Report. Whereas the reduction in receipts from cashew plantations was attributed to reasons like replanting of cashew trees, non-application of fertilizers, non-participation of contractors in e-tenders, unseasonal rain, high temperature etc. During the period of Audit, the expenditure of PCKL remained more or less steady except during the year 2018-19, when there was a fall in expenditure relating to employee benefit on account of adjustment of excess provision for gratuity. Thus, financial loss of PCKL which was ₹148.83 lakh in 2017-18 increased to ₹2,345.04 lakh in 2020-21 largely on account of reduction in income from sale of products as well as decline in interest from deposit which was main constituent of head 'other income'.

**Table 3.5: Revenue from operations**

Particulars	(₹ in lakh)			
	2017-18	2018-19	2019-20	2020-21
Rubber	7,721.44	5,536.63	6,654.90	6,074.58
Cashew	1,100.98	294.06	584.65	584.67
Oil Palm	389.72	372.56	248.25	348.11
Others	255.61	232.93	147.66	121.08
<b>Total</b>	<b>9,467.75</b>	<b>6,436.18</b>	<b>7,635.46</b>	<b>7,128.44</b>

(Source: Annual Accounts of PCKL)

### 3.6.2. Physical performance of PCKL in rubber production

On analysis of the production details, it was noticed that there was reduction in yield in rubber over the years adversely affecting the revenues of PCKL resulting in recurring loss over the years as shown in **Table 3.6**.

**Table 3.6: Target and achievement – rubber**

Year	Target (in MT)	Production (in MT)	Achievement (in per cent)
2017-18	6210	4834	77.84
2018-19	5512	3884	70.46
2019-20	6000	3966	66.10
2020-21	5672	4055	71.49
2021-22	5373	3684	68.57

(Source: Data furnished by PCKL)

PCKL fixes the annual production target of rubber based on the Rubber Board guidelines as well as the yield performance of the previous years. From the above it could be seen that though the production targets were being reduced from year to year except in 2019-20, PCKL could not achieve even the reduced targets over the years. The achievement of the production targets over the five-year period ranged from 66.10 per cent to 77.84 per cent.

Government of Kerala replied (March 2023) that climate change, pests and diseases have impact on production. The only possible way is to reduce the

frequency of tapping to weekly tapping as recommended by Rubber Board and discussions with trade unions are progressing on the same.

On analysis of the reasons for the reduced achievement of production, Audit observed the following.

### 3.6.2.1. Increase in vacant tasks due to high absenteeism

Latex is obtained from the bark of the rubber tree by tapping. The number of trees allotted to a tapper for a day is called tapping task. Task size is fixed on the basis of number of trees standing per hectare and topography of land. Normal tapping task in India varies from 300 to 400 trees<sup>128</sup>. Every year PCKL fixes the possible number of tasks for each estate. The total possible task arrived at by PCKL, the actual task executed and the vacant task<sup>129</sup> during the audit period were as given in **Table 3.7**.

**Table 3.7: Details of possible task, actual task and vacant task**

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Possible task	444842	418736	423812	333833	338665	<b>1959888</b>
Actual Task	418185	386931	390961	314244	305810	<b>1816131</b>
Vacant Task	26657	31805	32851	19589	32855	<b>143757</b>

(Source: Data obtained from PCKL)

The number of vacant tasks in PCKL has been gradually rising during the last five years from six *per cent* to 10 *per cent*. It is also observed that during 2017-18 to 2021-22 though the possible tapping tasks reduced by 1.06 lakh, the number of vacant tasks increased from 26,657 to 32,855. The main reason for continuous occurrence of vacant tasks was due to high absenteeism.

Audit observed that PCKL changed the tapping system from D3 to D4<sup>130</sup> in January 2020, which in turn reduced the number of possible tasks. However, the same did not yield the desired results as the number of vacant tasks in 2021-22 was 32,855.

In this regard, the Rubber Board in their Handbook for rubber farmers, advocates a practice of low frequency tapping with stimulation, wherein the tapping frequency could be reduced up to D7<sup>131</sup>. The Rubber Board states that this system can be practised from the first year of tapping to reduce the cost of production and also increase productive life of trees. Under D4 system, there need to be approximately 90 tapping days per year whereas under D7 tapping system the number of tapping days could be reduced to 52 days per year without any loss in production. Thus, the PCKL could have overcome the issue of labour shortage also.

As the productivity and profitability of rubber plantations depend on labour intensive skilled tapping, high absenteeism was a major issue that needs to be addressed on priority basis. Thus, lack of timely action on the part of PCKL

<sup>128</sup> As per Rubber Board of India

<sup>129</sup> tapping task left unattended

<sup>130</sup> D3 – tapping of trees once in every three days; D4 – tapping of trees once in every four days

<sup>131</sup> tapping of trees occurs only once in seven days

resulted in persistent vacant tasks during the last five years and resultant decline in production of rubber as can be seen in **Table 3.6**. Had the PCKL resorted to low frequency tapping as prescribed by the Rubber Board, occurrence of vacant tasks could have been minimised and consequent loss of yield could also have been avoided.

Government of Kerala while accepting the audit observations stated (March 2023) that implementing the D6 system is a long-term strategy for reducing task vacancies and it would be possible to switch to a long-term tapping system only after discussions and reaching consensus at the political and trade union level. It was further stated that tappers were being redeployed from areas awarded for slaughter tapping to other potential areas with more task vacancies.

In view of the rising percentage of vacant tasks, PCKL should expedite the implementation of low frequency tapping as prescribed by the Rubber Board to minimise vacant tasks and consequent loss of yield.

### 3.6.2.2. Delay in initiating replanting activities

The Rubber Board of India on their website states that the economic life period in plantations, on general considerations is, only around 32 years including seven years of immature phase and 25 years of productive phase. To ensure continuous financial viability of the plantation, stagewise replanting needs to be carried out considering the fund flow at different stages. PCKL decided, only in July 2022 to carry out replanting in 2,906.46 Ha in the next nine years. The area and life span of PCKL rubber plantations as on 31 March 2022 are as given in **Table 3.8**.

**Table 3.8: Age-wise distribution of rubber plantation of PCKL as on 31.03.2022**

Age	Area in Ha	Percentage to total area	Number of trees	Percentage to total trees
0 to 7	138.90	1.95	37980	2.12
8 to 25	3194.86	44.87	794549	44.45
26 to 32	3327.78	46.73	880671	49.26
33 and above	459.42	6.45	74459	4.17
<b>Total</b>	<b>7120.96</b>	<b>100.00</b>	<b>1787659</b>	<b>100.00</b>

(Source: Data obtained from PCKL)

Audit observed that PCKL did not have an approved long term replanting schedule for rubber plantations. The immature area of rubber plantation was only 1.95 per cent covering 2.12 per cent of the total number of trees, while the old and senile plantation area (age 26 and above) included 53.18 per cent of total area and 53.43 per cent of the total number of trees. As there would be no yield from immature plants and comparatively less yield from old/ senile plants, the fact that around 55 per cent of total trees were either immature or old/ senile had adverse effects on the rubber production of PCKL. Though details of old and senile trees were already available with PCKL through their annual census report, PCKL has not initiated replanting activities in a timely manner.



The above indicates that there was serious lapse on the part of PCKL to implement an optimal replanting schedule to ensure financial viability of rubber plantations.

Government of Kerala replied (March 2023) that PCKL is in the process of awarding low-yielding rubber areas of old and senile plantations for slaughter tapping, followed by replanting with high-yielding rubber clones. During 2022-23, 87.07 Ha rubber areas were awarded for slaughter tapping and 1,441.66 Ha areas were proposed for commencing the procedure for awarding the slaughter tapping. An area of 1,529 Ha. would be replanted in the coming years.

The reply of the Government points to laxity on the part of PCKL in strategising and implementing an optimal replanting schedule, given the fact that despite 3,787.20 Ha being old and senile plantation area as of March 2022, replanting would commence only for 1529 Ha in the coming years.

### 3.6.2.3. High incidence of non-tapping trees

PCKL prepares an annual census report of its plantations every year. The details of area and number of rubber plants are given in **Table 3.9**.

**Table 3.9: Details of area and number of rubber plants**

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
Mature area (Ha)	5,573.82	5,866.43	6,279.89	6,190.07	6,297.77
Tapping trees	11,33,205	11,03,523	10,77,860	10,58,431	10,54,515
Non-tapping trees	4,40,814	5,19,811	5,18,347	5,69,457	5,64,094
Slaughter trees	38,026	33,526	53,911	56,430	49,675
<b>Total</b>	<b>16,12,045</b>	<b>16,56,860</b>	<b>16,50,118</b>	<b>16,84,318</b>	<b>16,68,284</b>
Trees/Ha	289	282	263	272	265
Immature area (Ha)	1,644.25	1,357.04	943.64	750.87	659.94
No. of trees	3,74,890	2,84,744	1,45,030	1,31,274	1,19,375
<b>Total</b>	<b>3,74,890</b>	<b>2,84,744</b>	<b>1,45,030</b>	<b>1,31,274</b>	<b>1,19,375</b>
Immature trees/Ha	228	210	154	175	181
<b>Total trees</b>	<b>19,86,935</b>	<b>19,41,604</b>	<b>17,95,148</b>	<b>18,15,592</b>	<b>17,87,659</b>

(Source: Data obtained from PCKL)

On analysis of the number of tapping trees, non-tapping trees and the immature trees over the period 2017-18 to 2021-22, it was noticed that although there was a reduction of 2.55 lakh immature trees, yet there was reduction of 0.67 lakh trees in the tapping group including slaughter trees. Further, there was increase in non-tapping trees by 1.23 lakh during the same period. From the above compiled data of rubber trees in PCKL, it was seen that the number of non-tapping trees are on an increase. The percentage of non-tapping mature trees increased from 27.35 to 33.81 *per cent* from 2017-18 to 2021-22. This indicates that there is no production from almost one-third of the trees in the rubber estates of PCKL.

Government of Kerala replied (March 2023) that currently PCKL is replanting the old and senile rubber plants with high-yielding clones to ensure long-term production.

The reply was not tenable as Audit observed that the replanting activities are yet to commence as during 2022-23, only 87.07 Ha of low yielding and old and senile plantations were awarded for slaughter tapping and more such areas have been identified but not yet awarded. Thus, the incidence of non-tapping trees is only bound to increase in the coming years pointing to laxity on the part of PCKL in taking proactive steps to maintain optimum ratio of tapping and non-tapping trees.

#### **3.6.2.4. Low density of plantation**

As per the Handbook for rubber farmers published by Rubber Board of India, it is stated that the number of rubber trees that can be cultivated in a hectare of land is between 420 and 500. The standing crop density of tapping and non-tapping rubber trees in the plantations of PCKL was only 274 per hectare on an average during the five-year period 2017-18 to 2021-22. The very low density of trees invariably affects the yield of rubber and revenue earnings of PCKL. It is further observed that even while replanting the existing plantations, PCKL is not adhering to the norms advised by Rubber Board as the density of immature trees is only 181 which is less than half of what is advised by the Rubber Board and is even lesser than the existing standing crop density. This would adversely affect the future productivity and profitability of the plantations.

#### **3.6.3. Loss of plantation**

One of the issues faced by PCKL during the audit period was damage of plantations by elephants. They can damage the plants by feeding on plant parts or simply by running over the field and trampling over the plants. PCKL identified that elephant menace as a serious concern in Kalady group, Perambra, Nilambur, Rajapuram, Thannithode and Mannarkkad estates. Audit observed that PCKL lost immature rubber plantations in 280 Ha after replantation due to wild animal attack. PCKL decided to do electric fencing of the entire estates to address the wild animal menace only in January 2023.

Further, Audit observed that PCKL lost 1,46,183 mature plants during the three-year period from 2017-18 to 2019-20 due to fire hazards, natural calamities and wild animal attacks. Though PCKL was insuring the immature rubber trees against the risk that may occur from fire, lightning, storm, flood, land slide, etc, the insurance scheme availed by PCKL did not cover mature trees and loss due to wild animal attacks. In January 2021 PCKL came to know that Kerala State Insurance Department (KSID) is providing insurance coverage to mature plantations for wild animal attacks also. However, efforts taken by the PCKL for insuring the mature trees and getting coverage for wild animal attacks were not fruitful till date (February 2023).

The above indicates that there is delay/ failure on the part of the PCKL to address the wild animal menace.

Government of Kerala replied (March 2023) that the matter of plants being destroyed due to the attack of wild animals has been brought to the notice of Board of Directors of PCKL and it is proposed to construct power fence line

and also to fence the replanting areas separately to protect the plants from wild animals.

#### 3.6.4. Failure to apply fertilizers in cashew plantations

The Ministry of Agriculture and Farmers Welfare, Government of India, issued (2010-11) a 'Model Profile for 1.0 Ha Cashew Cultivation' wherein a model project for cultivating cashew crop in a technically feasible and financially viable manner has been detailed. It advises that in order to get better yield, it is essential to maintain adequate N:P:K ratio<sup>132</sup> in the soil and recommends usage of fertilizers for maintaining the same.

Audit observed that PCKL did not resort to use of any sort of fertilizers as prescribed. As against target of minimum eight kg yield per tree per year, the average yield for the five years from 2017-18 to 2021-22 was 5.61 kg per tree. Application of fertilizer would have assisted PCKL in getting better yield.

Government of Kerala accepted (March 2023) the audit observation and cited that non-application of fertilizers is one of the causes of cashew production depletion and that application of fertilizers in accordance with standard recommendations were being undertaken in areas where replanting has begun.

#### 3.6.5. Conclusion

PCKL was consistently incurring loss in its operation and returns from its main plantations i.e., rubber and cashew were decreasing. PCKL failed to adopt the good practices advocated by the Rubber Board to reduce the cost of production, increase productive life of trees and to manage tapping labour absenteeism. Failure of PCKL to utilise annual census details to carry out replantation of rubber trees in a scientific manner resulted in increase in area with old and senile trees. PCKL also failed to maintain the recommended density of rubber trees in its estates.

#### 3.6.6. Recommendations

- PCKL should consider taking action in line with recommendations of Rubber Board and other good practices prevalent in the sector to enhance output from its plantations and thereby increase the earnings.
- PCKL should prepare a long-term action plan for replantation of rubber trees, so that the plantations of PCKL at any stage contains substantial percentage of mature rubber yielding trees.

<sup>132</sup> Nitrogen:Phosphorous:Pottasium ratio represents the essential nutrients for plant growth.

### 3.7. Unfruitful expenditure on a dairy farm by the Plantation Corporation of Kerala Limited

**Non-purchase of cows for the dairy farm project by Plantation Corporation of Kerala Limited resulted in unfruitful expenditure of ₹5.54 crore.**

Plantation Corporation of Kerala Limited<sup>133</sup> (PCKL), sought sanction (May 2013) from Government of Kerala (GoK) for setting up a dairy farm in its cashew estates, at an estimated cost of ₹ five crore<sup>134</sup>. The main objective of the project was to produce and market 1200 to 1500 litres of farm fresh chilled packed milk per day. The project envisaged purchase of 100 cows in two phases<sup>135</sup> and establishment of plant for processing the milk. The dairy farm was expected to generate a net profit of ₹66.45 lakh in the first year and achieve break even in the seventh year of operation. GoK accorded sanction (October 2013) to the proposal and *inter alia* included the condition that the quality of milk supplied from the pasteurization unit was to be maintained.

As the Government approval was for selling pasteurized milk in place of farm fresh chilled milk, Board of Directors of PCKL decided to take steps for establishing a pasteurization unit. Despite this change, PCKL neither submitted a revised project report for Government approval of a pasteurization unit nor did it ensure the availability of additional fund for setting up the pasteurization unit before commencing the project. Excess expenditure of setting up a pasteurization unit as against the proposed chilling unit was met by reducing the number of cows from 100 to 14. After completing the works of the project, the farm was inaugurated on 29 February 2016. As a result, the total production of milk (December 2022) in the dairy farm was approximately 60 litres/day against the envisaged 1200 to 1500 litres/day.

Audit observed that the non-purchase of cows had resulted in non-production of envisaged quantity of milk which in turn led the dairy farm to incur a loss of ₹1.69 crore during the period from 2015-16 to 2021-22.

Since the farm was operating at a financial loss for years, to avoid further losses, the Board decided (June 2022) to lease the farm machinery and existing infrastructure for five years to any other Government/ public/ private institutions through e-tender, as it was not practical to set up a full-fledged farm. Though, GoK accorded sanction for the proposal (November 2022) no bidders participated in the e-tender process (January 2023).

The non-purchase of cows to produce sufficient milk even after a lapse of more than six years indicates lack of priority and prudence in incurring expenditure by the Board of Directors of PCKL. Thus, the project meant to increase the revenue of the cashew plantations of PCKL through production and supply of

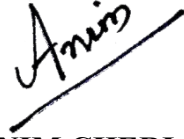
<sup>133</sup> Plantation corporation of Kerala Ltd. is the largest plantation company in the public sector owned by Government of Kerala

<sup>134</sup> General works - ₹55 lakh, Civil works - ₹3.70 crore, Mechanical and electrical works - ₹11 lakh and variable cost - ₹56 lakh

<sup>135</sup> Fifty cows each in phase I and II within six months gap

milk failed to achieve its objective despite incurring an expenditure of ₹5.54 crore. PCKL also incurred an operational loss of ₹1.69 crore.

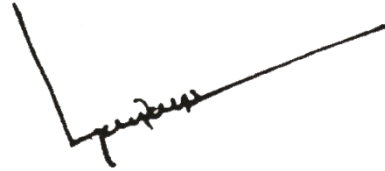
The matter was referred to Government (January 2023) and reply is awaited.



(ANIM CHERIAN)  
Principal Accountant General  
(Audit I), Kerala

Thiruvananthapuram,  
The 07 September 2023

Countersigned



(GIRISH CHANDRA MURMU)  
Comptroller and Auditor General of India

New Delhi,  
The 18 October 2023

