

CHAPTER-VIII: NON-TAX RECEIPTS

8.1 Tax administration of Forest department

Forest department is under the control of the Principal Secretary (Forest) at Government level and the Principal Chief Conservator of Forest is the head of the department. The Kerala Forest Act, 1961 governs the laws relating to protection and management of forests in the State. The receipts of the department include receipt from the sale of timber and other forest produce, royalty on raw materials supplied, lease rent, licence fee etc.

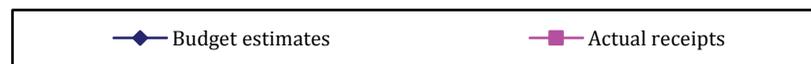
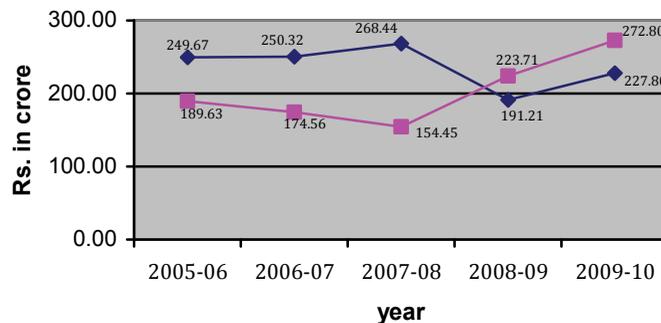
8.2 Trend of receipts

Actual receipts from Forest department during the years 2005-06 to 2009-10 along with the budget estimates during the same period is exhibited in the following table and graph.

(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non-tax receipts
2005-06	249.67	189.63	(-) 60.04	(-) 24.05	863.79	21.95
2006-07	250.32	174.56	(-) 75.76	(-) 30.27	844.51	20.67
2007-08	268.44	154.45	(-) 113.99	(-) 42.46	1,078.00	14.33
2008-09	191.21	223.71	(+) 32.50	(+) 17.00	1,390.00	16.09
2009-10	227.80	272.80	(+) 45.00	(+) 19.75	1,633.22	16.70

Budget estimates and Actual receipts



We noticed that the actual receipts was significantly less than the budget estimates during 2005-06 to 2007-08 and it was significantly higher than budget estimates during 2008-09 and 2009-10.

We recommend the department to streamline the budgeting process to prepare realistic budget estimates.

8.3 Working of internal audit wing

The Internal Audit Wing (IAW) in the Forest department functions under the general supervision of the Chief Conservator of Forest (Development). Two teams with strength of two Junior Superintendents, four Upper Division/Lower Division Clerks are functioning under the supervision of Senior Finance Officer. The department has not prepared a separate internal audit manual. The selection of staff for IAW is on the basis of experience which is fixed as five years and they are deployed after orientation training. Against a target of 342 units, the department could conduct audit of 135 offices during 2009-10 leaving 207 offices in arrears. The department attributed the shortage of staff as the reason for the shortfall.

We recommend that the IAW may be strengthened so that they are able to achieve their planned audit target. Besides, a mechanism needs to be installed for timely settlement of the audit observations raised by the IAW.

8.4 Results of audit

During 2009-10, we test checked the records of 67 units relating to Co-operative department and forest department. We noticed underassessment of tax and other irregularities involving ₹ 115.78 crore in 11 cases which fall under the following categories:

(Rupees in crore)			
Sl. No.	Categories	No. of cases	Amount
1.	Working of Co-operation Department (A review)	1	114.99
2.	Non-realisation of tree value and FDT	2	0.05
3.	Non-levy of penalty	3	0.04
4.	Other lapses	5	0.70
Total		11	115.78

The department accepted underassessment and other deficiencies of ₹ 4.96 crore in nine cases, of which two cases involving ₹ 4.60 crore was pointed out by us during the year 2009-10 and the rest in the earlier years. The department realised an amount of ₹ 25.37 lakh in eight cases during the year 2009-10.

A review on ‘Working of Co-operation Department’ with financial impact of ₹ 114.99 crore and a few illustrative cases involving ₹ 95.84 crore are mentioned in the following paragraphs.

8.5 Working of Co-operation Department

8.5.1 Highlights

- Non-recovery of interest of ₹ 47.51 crore and non-recovery of loan amount of ₹ 150.21 crore repaid to NCDC by Government.
(Paragraph 8.5.10.1)
- 45 *per cent* of the total assistance was extended to a single beneficiary, from whom nothing has been recovered so far.
(Paragraph 8.5.10.2)
- Non-recovery of dues of ₹ 2.91 crore and locking up of ₹ 6.80 crore due to lack of diligence in sanctioning loan.
(Paragraph 8.5.10.3)
- Loss of revenue of ₹ 44.06 crore by way of interest due to accumulation of plan/borrowed fund at private party's TP account.
(Paragraph 8.5.10.4)
- Non-levy of interest of ₹ 7.09 crore and penal interest of ₹ 5.96 crore.
(Paragraph 8.5.10.5)
- Non-levy of penal interest of ₹ 5.80 crore on belated repayment of share capital contribution assistance in three cases.
(Paragraph 8.5.11)
- Non-recovery of declared dividend amounting to ₹ 1.50 crore which was subsequently converted as share capital.
(Paragraph 8.5.12)
- Non-recovery of ₹ 80 lakh from a society due to lapses in finalisation of revenue recovery proceedings.
(Paragraph 8.5.15.2)
- Short levy of interest of ₹ 1.37 crore and penal interest of ₹ 29.11 lakh in two cases due to failure to appropriate payment towards interest first.
(Paragraph 8.5.20)

8.5.2 Introduction

Co-operative sector plays a significant role in the economic scene of Kerala. There are more than 10,000 societies spread throughout the State with a capital outlay of ₹ 40,000 crore. These societies are concentrated in banking, agriculture, housing, education and health sectors. Banking sector provides short, medium and long term loans to its members, agricultural sector provides assistance to societies which process agricultural produce, housing sector provides assistance for construction of houses, education sector provides assistance for running

professional colleges and health sector provides assistance for running hospitals/dispensaries. The Kerala Co-operative Societies Act 1969 and the rules made thereunder govern the functioning of the co-operative societies/banks.

As on 31 March 2009, there were 10 apex⁵⁰ societies, four federal⁵¹ societies and 14 District Co-operative Banks in the State. There are 13,351 registered societies of which 10,204 are functional.

Major receipts of the Co-operative department are audit fee, audit cost, arbitration fee, fee for appeal or revision, interest/penal interest on loan, penal interest for delay in retirement of share capital, dividend on share capital, guarantee fee and liquidation charges etc.

We reviewed the functioning of the Co-operative department for the period 2004-05 to 2008-09 which revealed a number of system and compliance deficiencies as mentioned in the succeeding paragraphs.

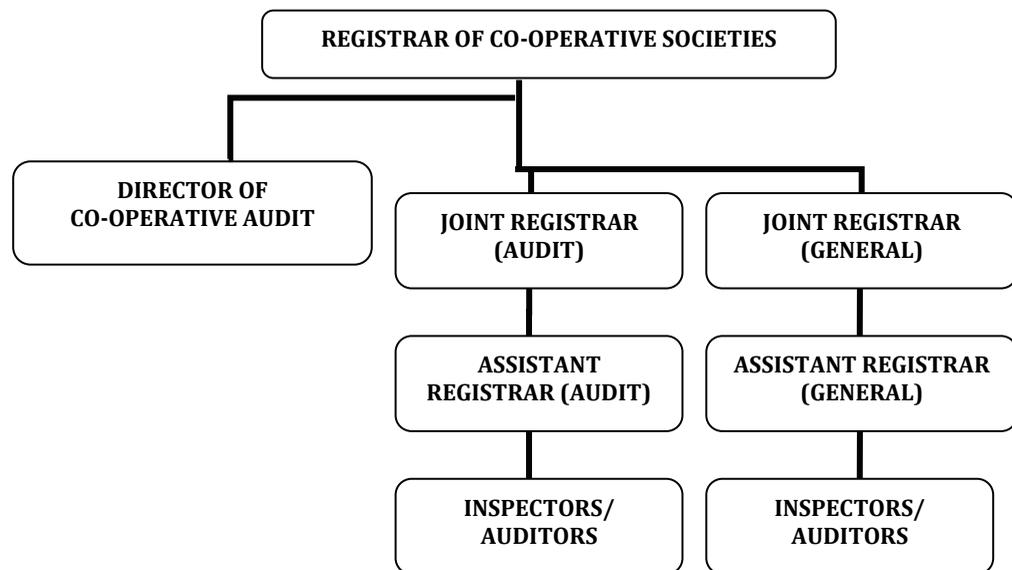
8.5.3 Organisational set up

The Principal Secretary to the Government, Co-operative department is in-charge of the department at Government level. Registrar of Co-operative Societies (RCS) is the head of the department. Five Additional Registrars (Addl. Rs), three Joint Registrars (JRs), a Law Officer, a Finance Officer, six Deputy Registrars (DRs), 13 Assistant Registrars (ARs) and one Research Officer assist the Registrar. In each district, there are two JRs. JR (General) looks after functions relating to administration, levy, recovery of principal, demand and collection of interest and penal interest and the JR (Audit) is in charge of the audit of the Co-operative societies. Two ARs are posted in each *taluk* separately for administration and audit. Inspectors and auditors working under the ARs take care of inspection, audit and other field duties. Committee on Public Accounts (2006-08) in its 49th Report directed the Government to form a separate Directorate of Co-operative audit. Accordingly the department formed a separate audit wing on 7 September 2009.

⁵⁰ Apex society means a society having the whole of the State as its area of operation and having as its members only other societies with similar objects and declared as such by the Registrar.

⁵¹ Federal society means a society having more than one district as its area of operation and having individuals and other co-operative societies as its members.

The organisational chart of the Co-operative department is given below:



8.5.4 Scope and methodology of audit

We conducted performance audit of working of the Co-operative department during October 2009 to March 2010 and covered the period 2004-05 to 2008-09. We collected data from the office of the Registrar of Co-operative Societies, offices of the Joint Registrars (General) and (Audit) and the Assistant Registrars (General). We selected six⁵² out of 14 districts (being 40 *per cent*), spread all over Kerala and functional offices in each districts based on risk parameters *inter alia* including the number of societies and arrears. For selection of samples, 14 districts were divided into two clusters. Cluster one consisting of districts where apex/federal societies are located and cluster II consisting of the remaining districts. Cent *per cent* from cluster I had been selected considering the existence of apex/federal societies and for selection of samples from cluster II due consideration was given to the arrears of audit fee and outstanding loan as on 31 March 2009. Using the software ‘Stat Trek’ available in the internet, we randomly selected Alappuzha, Kottayam and Kozhikode districts for review.

8.5.5 Audit objectives

We conducted the audit to ascertain whether

- the department demanded audit fee/audit cost, dividend, interest/penal interest on loan, penal interest on share capital contribution etc. in accordance with the provisions of the Act/Rules and took timely action for their realisation;

⁵² Alappuzha, Ernakulam, Kannur, Kottayam, Kozhikode and Thiruvananthapuram.

- the department maintained the accounts/registers like the loan registers, share capital register, audit fee register, demand collection balance (DCB) statements etc., properly;
- the department conducted audit of the institutions/societies regularly; and
- proper internal control mechanism existed for the effective control of the department.

8.5.6 Acknowledgement

We acknowledge the help extended by the Co-operative department in providing necessary information and records for audit. Before taking up audit, we held an entry conference on 1 March 2010 with the Additional Chief Secretary (Co-operation) to the Government wherein the scope and methodology of audit were explained. The draft review report was forwarded to the department on 8 June 2010 with the request for their response. We held an exit conference on 15 July 2010 with the Additional Chief Secretary to the Government, wherein we discussed the audit findings and recommendations.

The department/Government accepted most of the audit findings and recommendations and assured that steps would be taken to implement them. The specific replies received during the exit conference and at other points of time, have been appropriately included under the respective paragraphs.

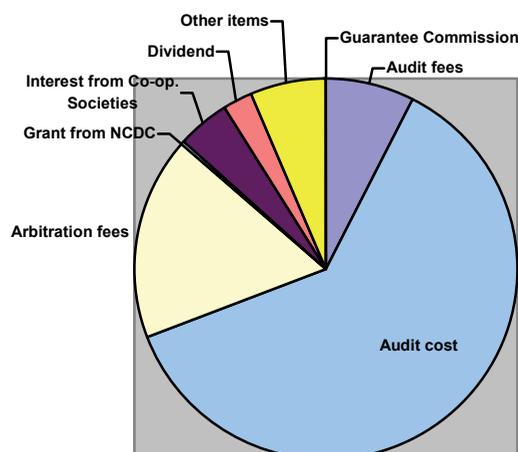
Audit findings

8.5.7 Trend of revenue

The revenue receipts for five years from 2004-05 to 2008-09 were as under.

	(Rupees in crore)				
Head of account	2004-05	2005-06	2006-07	2007-08	2008-09
Audit fees	3.50	3.40	2.92	2.97	3.39
Audit cost	16.04	17.46	20.74	21.84	27.66
Arbitration fees	7.28	11.59	8.39	8.13	7.82
Liquidation charges, appeal fee & other charges	0.25	0.07	0.24	0.49	0.08
Grant from NCDC	0.26	0.25	0.42	0.23	0.15
Interest from Co-operative Societies	2.56	3.31	1.87	1.23	1.99
Dividend	1.72	1.02	1.00	0.87	1.05
Other items	2.04	3.00	3.04	2.86	2.90
Guarantee Commission	0.26	0.02	0.00	0.16	0.01
Total	33.91	40.12	38.62	38.78	45.05

Revenue derived under various major heads during 2008-09



The revenue collection during 2004-09 after an increase in 2005-06 remained in the range of ₹ 38 crore and ₹ 39 crore and went to the highest level of ₹ 45 crore in 2008-09 due to hike in audit cost after pay revision.

The department in their reply stated (July 2010) that the revenue collection declined in the review period due to short fall in unit audit as there was a staff shortage. Further, they had conducted a special drive during January to March 2010 and collected ₹ 9.81 crore. The revenue collection from Guarantee Commission decreased consistently from 2004-05 to 2008-09 except in 2007-08.

8.5.8 Budget estimates and actuals

Under the Kerala Budget Manual, the head of the departments have to forward the proposals for the budget estimates (BEs) of receipts directly to the Finance Department with a copy to the concerned administrative departments in the Government which in turn have to forward these to the Finance Department with their remarks. The Finance Department finally frames the BEs. The BEs of revenue are to be based on the existing rates and no increase or decrease in the rates can be proposed unless approved by the Government. Officers who submit the BEs have to ensure that the BEs is neither inflated nor under pitched but are as accurate as practicable.

The budget estimates and actual receipts of the department during the years 2004-05 to 2008-09 were as follows:

(Rupees in crore)

Year	Receipt head of account in the State budget								
	0425 Co-operation			Interest receipts			Dividend and profit		
	Budget estimates	Actual	Variation	Budget estimates	Actual	Variation	Budget estimates	Actual	Variation
2004-05	30.80	29.38	- 1.42	4.00	2.56	- 1.44	1.20	1.72	+ 0.52
2005-06	33.25	35.78	+ 2.53	3.00	3.31	+ 0.31	1.70	1.02	- 0.68
2006-07	35.39	35.75	+ 0.36	3.10	1.87	- 1.23	1.70	1.00	- 0.70
2007-08	38.22	36.52	- 1.70	3.50	1.23	- 2.27	1.70	0.87	- 0.83
2008-09	43.19	42.02	- 1.17	3.50	1.99	- 1.51	1.50	1.05	-0.45

We noticed that even though the budget estimates for interest and dividends had almost remained static or declined marginally, the department could not achieve these targets and the shortfall in interest and dividend revenue varied from 39.7 per cent to 64.9 per cent and from 30 per cent to 48.8 per cent respectively during 2006-07 to 2008-09.

The department in their reply stated (July 2010) dividend becomes due only after the declaration of the audited Balance Sheet and distribution of profit by the General Body. Due to shortage of auditors, audit was in arrears and hence dividend was not declared.

System deficiencies

8.5.9 Improper computation of arrears

The department issued directions that all the officers should maintain loan ledger and demand, collection and balance register to watch recoveries of loans sanctioned by Government. The department should also raise demand in respect of repayment of the loan sanctioned and maintain demand collection balance details.

Arrears of revenue pending collection as per the Demand, Collection and Balance (DCB) statements of RCS under various categories against the period specified against them were as under:

(Rupees in crore)						
Sl No.	Head of account	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Interest and penal interest on loan due from					
	a) Apex societies	56.56	52.59	21.09	71.55	64.70
	b) Primary societies	5.28	6.54	24.50	12.58	11.40
2.	Penal interest on share capital due from					
	a) Apex societies	5.32	6.08	1.75	2.46	2.97
	b) Primary societies	0.88	0.89	1.85	1.30	1.37
3.	Audit Fee	3.13	3.09	5.38	6.80	7.03
4.	Audit Cost	0.36	0.34	0.43	0.32	0.46
5.	Dividend					
	a) Apex societies	0.43	0.43	0.36	0.36	0.15
	b) Primary societies	0.47	0.47	0.61	0.46	0.46
6.	Guarantee Commission	20.94	20.08	75.89	73.12	101.73

Our review of the DCB statements revealed the following:

- DCB was not prepared periodically and the preparation was in arrears.
- The opening balance under interest, penal interest and dividend varied from the closing balance of the previous year making it unreliable and exposing the department to revenue loss.
- The outstanding revenue from interest and penal interest charged on loan accounts reduced from ₹ 52.59 crore in March 2006 to ₹ 21.09 crore in March 2007 but again increased to ₹ 71.55 crore in the next year. The wide variation was due to incorrect carry forward of the closing balances.

8.5.10 Financial assistance of societies

The financial assistance to the beneficiary societies is extended mainly by way of loan and share capital. For this purpose, the department obtains funds from the Government through the plan schemes and also from National Co-operative Development Corporation (NCDC) and the National Bank for Agricultural and Rural Development (NABARD) as loan which are repayable in periodical instalments. The RCS forwards application for financial assistance received from various societies for approval by the Government. RCS releases the funds to the beneficiaries after fulfilling the terms and conditions. The Government repays the loans alongwith interest on behalf of the loanee who in turn pays the amount to the Government. The Act enables the recovery of all sums due from Co-operative Society as arrears of land revenue. JRs and ARs (General) are responsible for monitoring the recovery of loan to apex societies and ARs (General) to primary co-operative societies. Instalments of principal, interest and penal interest due from the loanees have to be worked out and demand notice issued one month in advance as required in the Kerala Financial Code. We found that the beneficiaries were not repaying the dues promptly. The principal and interest recovered by the Government was much less compared to the amount repaid by the Government to the principal bankers leading to wide mismatch and revenue losses as discussed below:

8.5.10.1 Loss due to non-recovery of interest

The following table indicates details of the financial assistance released to the beneficiaries and the amount recovered by the Government.

(Rupees in crore)								
Sl. No.	Year	Principal repaid to		Principal realised	Interest repaid to		Interest realised by Government	Difference
		NCDC	NABARD ⁵³		NCDC	NABARD ⁵³		
1	2	3	4	5	6	7	8	9
1	2004-05	22.02	5.95	2.02	13.90	2.04	2.56	11.34
2	2005-06	28.55	4.75	2.89	10.68	1.49	3.31	7.37
3	2006-07	27.73	4.45	1.69	8.19	1.21	1.87	6.32
4	2007-08	36.50	4.04	0.31 ⁵⁴	12.29	1.03	1.23	11.06
5	2008-09	42.32	3.56	Not available	13.41	0.94	1.99	11.42
	Total	157.12	22.75	6.91	58.47	6.71	10.96	47.51

During the last five years Government obtained from Plan fund (₹ 58.08 crore), borrowings from NABARD (₹ 7.98 crore) and NCDC (₹ 189.15 crore) and released ₹ 255.21 crore to various beneficiaries by way of loan, share and subsidy. The Government repaid ₹ 157.12 crore towards principal as per the terms during the last five years as compared to which actual recovery of ₹ 6.91 crore only could be made during the period. Out of the periodical borrowing from NCDC, Government had repaid interest of ₹ 58.47 crore to NCDC alone but could collect ₹ 10.96 crore only from the beneficiaries. Similarly Government had repaid ₹ 22.75 crore and ₹ 6.71 crore towards principal and interest

⁵³ Includes repayments on earlier draws also.

⁵⁴ Data on primary societies not available.

respectively to NABARD during the last five years but could not collect any amount from the beneficiaries.

It can be seen from the above table that there was short recovery of ₹ 47.51 crore as interest payment and locking up of ₹ 150.21 crore paid as principal. The recovery of loans and interest from beneficiaries was not in tune with repayment of loan and interest paid to NCDC.

Few instances in which the Government investment in the beneficiary societies did not yield any return are discussed in the succeeding paragraphs.

8.5.10.2 Extension of bulk of financial assistance to a single beneficiary - non-recovery of ₹ 115.28 crore from a single beneficiary

The department extended financial assistance of ₹ 255.21 crore during the last five years by way of loan and share capital. We noticed that a major portion comprising 45.17 *per cent* of the above sum was extended to a single beneficiary viz. RUBCO, Kannur. Year-wise details of financial assistance released to RUBCO by way of Government loan, share capital and NCDC loan⁵⁵ during the last five years were as follows:-

(Rupees in crore)

Year	Government		NCDC loan	Total
	Loan	Share		
Prior to 2004-05	0.72	12.57	24.44	37.73
2004-05				--
2005-06				--
2006-07				--
2007-08		2.00	4.34	6.34
2008-09		6.63	39.44 ⁵⁶	46.07
Total	0.72	21.20	68.22	90.14

Though the RUBCO received financial assistance amounting to ₹ 115.28 crore (₹ 90.14 crore + ₹ 25.14 crore) they had not repaid any amount till date. In addition, the Government converted outstanding loan plus interest amounting to ₹ 25.14 crore as share capital. We observed that the department had not initiated earnest effort to recover the outstanding principal/interest from the RUBCO and instead continued to release additional funds without any restriction.

RCS stated (July 2010) that demand notice was issued to Managing Director, RUBCO to pay the dues. We have not received further development in this case (December 2010).

⁵⁵ Government and NCDC loan as on March 2008 amounting to ₹ 25.14 crore plus interest has been converted to share capital vide GO dated 4.7.09.

⁵⁶ Sanctioned in 2007-08 but released in 2008-09 only.

8.5.10.3 Loss due to non-recovery of loan released to Rubbermark

Financial assistance of ₹ 6.80 crore (from NCDC) was sanctioned to the Rubbermark (Kerala Co-operative Rubber Marketing Federation) for setting up of a joint venture project with a private company (Rubek Balloons Pvt. Ltd.) for the manufacture of toy balloons. The unit was commissioned in June 2006 but commercial production has not commenced due to non-availability of raw materials, improper work environment, non-availability of skilled man power and lack of timely support of collaborator in marketing. The unit again approached the Government for a revival package of ₹ 100 crore.

The Department in their reply stated that the RCS forwarded the request to the Government without recommending sanction of additional loan as there were misutilisation of funds granted previously, mismanagement, accumulation of dues, inefficient working etc. Thus, the investment of ₹ 6.80 crore made in 2006 was fruitless and the Government had lost interest of ₹ 2.91 crore. The office of the RCS had not evolved a system to monitor the viability of the proposal of assistance sanctioned by them.

The department in their reply had stated (July 2010) that strict instructions have been issued for the issue of demand notice and recovery of dues.

8.5.10.4 Undue financial benefit on drawal of loan

Loan and share capital sanctioned to the co-operative societies from plan fund and NCDC/NABARD borrowings are initially deposited in the Treasury Public (TP) Account No. 637 operated in the name of Kerala State Co-operative Bank (KSCB) maintained in the District Treasury, Thiruvananthapuram. The funds are finally released by the RCS to the beneficiaries after completing the necessary formalities. The condition of the loan stipulates that the amount released by the NCDC should be passed on to the beneficiaries within 30 days from the date of receipt from the NCDC. There was no such condition in the case of loan from the plan fund. The sanctioned amount was credited to the above TP account initially pending fulfillment of the conditions by the beneficiary and later transferred to the party's account. We noticed delay ranging from two months to nine years in releasing the fund to the loanee resulting in accumulation of fund in the TP Account of the KSCB on which interest at 3.5 per cent was credited, even though the money was owned by the department.

The reason for huge accumulation was due to subsequent refusal by beneficiaries to receive the loan, drawal of the amount by the Government without ascertaining the viability of the proposal for loan and non-verification of the antecedents of the beneficiaries.

We noticed that the District Treasury, Thiruvananthapuram credited ₹ 44.06 crore as interest on the amount deposited by the Government in the TP account of KSCB which represents revenue loss to the Government and extension of undue financial benefit to KSCB.

Government may evolve a system for ascertaining the eligibility of beneficiaries before sanctioning the assistance. They may take steps to avoid

retention of huge amount received as loan from NCDC on behalf of the beneficiaries in the TP account for long period.

8.5.10.5 Short recovery due to non-levy of interest/penal interest on loan

We conducted a detailed verification of the system of levy of interest and penal interest from the beneficiaries and recovery thereon. The conditions governing the sanction of loans to societies, stipulate levy of penal interest in case of default in repayment of the overdue instalments. **The department is not maintaining proper records to watch the recovery of loans sanctioned by them. Moreover, demand notices were not issued in time and interest and penal interest were not worked out.** Our scrutiny of 34 cases revealed that in six cases there was non-levy of interest amounting to ₹ 7.09 crore and penal interest amounting to ₹ 5.96 crore and short accounting of principal of ₹ 4.73 crore as on 31 March 2009 which are shown in the table below:

(Rupees in crore)

Sl. No.	Name of the beneficiary	Non-accounting of principal amount	Non-levy of		Outstanding since
			Interest	Penal interest	
1.	Kerala Co-operative Rubber Marketing Federation (RUBBERMARK), Ernakulam.	-	0.52	1.09	2001 onwards
2.	Kera Karshaka Federation (KERAFED), Thiruvananthapuram	-	-	4.55	1990-91 onwards
3.	Kerala State Agro Co-operative (AGREENCO), Kannur	3.42	4.01	0.14	2006 onwards
4.	Kerala State Co-operative Hospital Complex and Centre for advanced Medical Services (KCHC), Pariyaram, Kannur	1.12	2.40	0.05	2005 onwards
5.	Kaduthuruthy Co-operative Rubber Marketing and Processing Society (KCRMPS), Kottayam	0.19	0.16	0.01	2003 onwards
6.	Kerala State Federation of SC/ST Development Co-operatives Ltd.	-	-	0.12	1985-86 onwards
Total		4.73	7.09	5.96	

We noticed that for cases at Sl. Nos. one to three the RCS issued (July 2010) directions to issue demand notices to the beneficiaries concerned. For the remaining cases we have not received further developments from the department (December 2010).

8.5.11 Non-levy of penal interest on share capital contribution

Financial assistance given towards share capital contribution under “Direct participation” is repayable to the Government by the co-operative societies in instalments as approved by the Government. For the belated payment of the instalments the societies are liable to pay penal interest at 2.5 per cent. Our analysis of the following three (out of 39) cases revealed that the share capital

amount due to be retired to the Government have not been demanded. The non-levy of penal interest worked out to ₹ 5.80 crore.

8.5.11.1 KERAFED

KERAFED secured share capital assistance amounting to ₹ 17.96 crore from the Government during 1988-89 to 1995-96 intended for distribution as share capital assistance to the primary agricultural credit societies (PACS). We noticed that though the PACS had returned the assistance to the KERAFED as per the agreed terms, the KERAFED has not repaid the assistance to the Government as per the terms and conditions. After we pointed out the matter, the department raised a demand notice for penal interest at the rate of 2.5 *per cent per annum* on the overdue share capital assistance amounting to ₹ 3.93 crore.

The department has stated (July 2010) that directions were given to the Managing Director to remit the share capital and penal interest.

The Government also sanctioned share capital assistance amounting to ₹ 27.56 crore to KERAFED during February 1987 to March 1999 for setting up of three oil mills in south, central and north Kerala subject to the condition that the assistance was to be repaid after six years from the commencement of commercial production of the units. We noticed that the Karunagapally unit, on which ₹ 9.45 crore was invested, started commercial production during February 1993 and the other two units in which ₹ 18.11 crore was invested has not started commercial production so far. However, the federation has not started the repayment. Department failed to demand penal interest of ₹ 1.56 crore on overdue share capital of ₹ 9.45 crore.

The department stated (July 2010) that warning notice has been issued to the Federation to remit the penal interest.

8.5.11.2 AR Office, Thiruvananthapuram

We scrutinised the share capital register of AR office, Thiruvananthapuram and found that they did not charge penal interest on the overdue share capital amount of ₹ 1.26 crore, which works out to ₹ 30.71 lakh relating to 51 cases test checked. The department stated that ₹ 25,976 have been remitted by the beneficiaries and that the practice of raising demand was not followed in that office.

The department stated (July 2010) that the societies were being persuaded to remit the dues.

8.5.12 Non-realisation of declared dividend

In addition to financial assistance to the societies by way of loans, the State Government provides assistance by way of share capital contribution under various schemes as direct participation. The investments in shares are redeemable after a period of six years and the overdue payments attract penal interest at the rate of 2.5 *per cent*. As per the agreement for securing share capital, the societies which make profit have to pay dividend to the Government. The dividend due to

the Government should be remitted into treasury within a period of one month from the date of declaration of such dividend.

As compared to the budget estimate of ₹ 11.06 crore for dividend, the Government received only ₹ 5.66 crore during the last five years ending March 2009. We noticed that the department does not have a system to identify the societies which declared dividends and to watch the remittance of the dividends declared to the Government account within the stipulated time limit of one month. Our test check of records available in two selected institutions⁵⁷ revealed that dividend declared by the societies amounting to ₹ 1.58 crore was not recovered as detailed below.

- RUBBERMARK, Ernakulam declared dividend of ₹ 7.96 lakh during the year 1995-96. The society had not remitted the amount so far.
- RAIDCO, Kannur had an overdue amount of ₹ 1.50 crore towards dividend. The firm did not remit the amount to the Government and the same had been converted as share capital during September 2008.

The department had issued (July 2010) strict instructions to collect dividend due to the Government.

We recommend that the Government may evolve appropriate mechanism for watching the realisation of dividend declared by the societies and crediting it to the Government account.

8.5.13 Guarantee Commission

The revised guidelines issued by the Government in October 2004 require the administrative department to maintain a register for recording all transactions relating to the guarantee commission. The guarantee commission is required to be paid in two equal instalments on first of April and October every year. The beneficiaries are required to send half yearly report to the Finance Department with copies to the administrative department concerned and head of the departments indicating the details of guarantee amount outstanding, guarantee commission payable etc. The administrative department which provides the Government guarantee should make timely demand of the commission and ensure its payment before the due date.

We noticed that the RCS did not maintain register for watching recovery of the amount guaranteed to the beneficiaries, total guarantee commission due from them and the amount of guarantee commission realised. However, the department consolidated the DCB statements from the details of the remittances furnished directly by the beneficiaries. As no supporting documents were maintained in the department, we could not verify the authenticity of the DCB statements prepared by the RCS indicating an outstanding balance of ₹ 101.73 crore as guarantee commission. Compared to the huge balances outstanding, the department could recover only ₹ 45 lakh during last five years which reflects poor monitoring and

⁵⁷ RAIDCO & RUBBERMARK.

follow up action. A test check of cases from the DCB statements revealed that the RCS failed to demand and collect an amount of ₹ 54 lakh as guarantee commission which are detailed below.

8.5.13.1 Short demand of guarantee commission

As per the DCB Statement for the period ending March 2009, the total guarantee commission due from Kerala State Co-operative Agricultural and Rural Development Bank (KSCARDB) was ₹ 100.85 crore, whereas as per the data furnished by the bank, the outstanding guarantee commission was ₹ 101 crore. This resulted in short demand of ₹ 15 lakh.

The Department had issued (July 2010) warning notice to the defaulters to pay principal of ₹ 56.14 crore and interest of ₹ 53.77 crore.

8.5.13.2 Non-levy of interest on guarantee commission

As per the revised guidelines issued by the Government in October 2004 simple interest at the rate of 12 *per cent* will be charged for the defaulted payments of guarantee commission due on 1 of April and October. Scrutiny of records of JR offices, Ernakulam and Kannur revealed that the department failed to demand and collect ₹ 3.98 lakh from Marketing Federation from April 2006 to March 2007 and ₹ 35.70 lakh from RUBCO from April 2004 onwards by way of interest against the overdue guarantee commission of ₹ 33.21 lakh and ₹ 49.58 lakh respectively.

Our scrutiny revealed that the system of collection of guarantee commission, maintenance of DCB registers, levy and collection of interest on guarantee commission are weak as evidenced from the failure of RCS in making available the supporting documents of DCB for scrutiny as well as from the failure of JRs to maintain the registers prescribed.

The department stated (July 2010) that RR proceedings were initiated against RUBCO and notice was issued to Marketing Federation in June 2010.

We recommend that the Government may strengthen the mechanism for watching the collection of guarantee commission.

8.5.14 Audit fee

Rule 65 of the Co-operative Rules prescribes the levy of audit fee in different types of societies. Section 64 (7) of the Co-operative Societies Act 1969, provides for collection of audit fee from the societies concerned within 30 days of the intimation thereof and in case of non-payment of audit fee within the period, it shall be recoverable as arrears of public revenue due on land (Section 79 of the Act). The department recovers audit cost in respect of concurrent audits and audit fee in respect of unit audits involving short duration.

During the year 2008-09, the department completed audit of 12,581 units and 1,495 concurrent audits (total 14,076) and realised audit fee amounting to ₹ 3.39 crore and audit cost worth ₹ 27.66 crore.

Pendency in audit

The Act envisages the audit of co-operative societies at least once in a year and recovery of audit fee from them.

The number of societies due for audit and number of audit conducted during the year 2004-05 to 2008-09 were as under.

Arrears in audit as on	No. of audits due	No. of audits completed	Percentage	Number of audits pending		
				Unit audit	Concurrent audit	Total
2004-05	32,146	13,009	40.47	18,455	682	19,137
2005-06	32,576	13,475	41.36	18,431	670	19,101
2006-07	33,171	12,924	38.96	19,291	956	20,247
2007-08	32,879	13,729	41.76	18,083	1,067	19,150
2008-09	32,498	14,074	43.31	17,193	1,231	18,424

As on 31 March 2009, the department was able to conduct only 14,074 audits out of 32,498 audits due. The arrears in audit were above 58 *per cent* during the last five years. The Committee on Public Accounts in its 49th Report (October 2006) directed that immediate steps be taken to constitute viable system for the audit of Co-operative societies. Accordingly the Government ordered (May 2008) setting up of a Directorate of audit for watching audit of accounts of co-operative societies. But the Directorate was formed only in September 2009, diverting four staff from the existing strength of the department.

Despite directions by the PAC, the constitution of a separate Directorate was delayed and the pendency remained at 18,424 as on March 2009. We noticed that against 14,074 units audited every year, on an average more than 12,000 units are added every year and hence the audit arrears cannot be wiped out without sustained additional efforts. The RCS stated that the pendency in audit was due to shortage of staff in the department.

The department stated (July 2010) that steps are being taken to reduce the pendency of audit.

We recommend that the Government may draw a strategy for wiping out the pendency in audit.

8.5.15 Revenue recovery

Section 79 of the Co-operative Societies Act enables recovery of all sums due from a co-operative society as arrears of land revenue on a requisition certificate issued by the RCS.

8.5.15.1 Non-inclusion of amount proposed for RR action in the DCB figures

The department shall not exclude the amount involved in cases proposed for RR action from the DCB figures until the amount is realised through RR action. We

noticed that in four offices⁵⁸ audit fee of ₹ 78.71 lakh involving RR cases were excluded from the DCB statement even though the dues were not realised.

We observed that the records relating to revenue recovery furnished by the department was incomplete and information such as year-wise and society-wise principal amount receivable, the amount recovered as well as the amount outstanding for recovery were not available with the department. Similar information in respect of interest was also not available with the department. The incomplete information on revenue recovery available with the department indicated that the department lacked effective systems to monitor revenue recovery.

The department stated (July 2010) that instructions were issued to include the amount referred for RR to be shown separately in the DCB statements.

We recommend that the department should initiate an action plan to update revenue recovery records and have them reviewed by Audit.

8.5.15.2 Lapses in recovery of arrears due to the Government

During scrutiny of records of RCS, JR and AR offices, we noticed that these offices did not initiate timely action to collect the overdue arrears pending collection. We noticed that there were serious lapses in finalisation of RR proceedings. Few instances are given below.

- A sum of ₹ 80 lakh was due from Kannur Wholesale Co-operative Society towards outstanding dues relating to the period from 1996 to 2004. RCS referred the case for RR action in September 2005 and the revenue department suspended the proceedings temporarily in December 2006 at the request of the society. In the meantime, the RCS permitted the society to dispose the landed property subject to the condition that the dues to the Government should be settled first from the sale proceeds. Society disposed off the property for ₹ 2.63 crore, but the department failed to collect the Government dues from the society. On revival of RR proceedings, Government again stayed the proceedings in March 2008.
- JR, Kottayam initiated RR action during December 1997 against the Pineapple Marketing Co-operative Society, Kottayam to recover Government dues amounting to ₹ 30 lakh. We noticed that a sum of ₹ 19 lakh was also due from the society towards share capital and penal interest, which was not included in the RR proceedings.

The department replied (July 2010) that directions were given to collect the dues through RR action.

⁵⁸ AR Offices, Kothamangalam, Muvattupuzha, Neyyattinkara and Quilandy.

8.5.16 Failure to conduct special drives/adalaths for collection of arrears

Arrears of revenue pending collection as per the DCB statement in respect of interest, penal interest and audit fee etc., as on 31 March 2009 amounted to ₹ 210.55 crore.

We noticed that during March and December 2001, the department launched special drive to recover the arrears, but thereafter it did not conduct special drive/*adalaths*⁵⁹ to recover the arrears.

We recommend that the Government may conduct special drive/*adalaths* frequently for clearing the arrears.

8.5.17 Liquidation of societies

The Act provides that where the RCS has made an order for winding up a co-operative society, he may appoint a liquidator from among the subordinate officers for the purpose. Liquidators appointed under Sub-Section (1) of Section 72 of the Kerala Co-operative Societies Act shall complete the liquidation proceedings within a period of three years from the date of appointment as per Section 73 (2A). In computing the period of three years, the period during which an appeal, if any, preferred against an order of winding up of a society under Section 71 pending shall be excluded. The RCS in June 2000 had reiterated⁶⁰ that liquidation of the societies that had completed three years should be finalised within one year from the date of Amendment of Co-operative Rules in 1999.

We verified records of six JR offices and found that out of 383 liquidated societies, 254 were pending for more than three years. Of this 254 cases, 109 cases (43 *per cent*) were pending for more than 10 years. The Government dues involved in the liquidated societies was ₹ 2.38 crore.

Districts	Liquidating societies					Government dues (Rs. in crore)
	Below 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	
Thiruvananthapuram	22	39	26	34	121	0.22
Kozhikode	5	5	12	0	22	0.49
Kottayam	4	6	9	25	44	0.14
Alappuzha	10	5	10	15	40	1.13
Ernakulam	5	4	7	27	43	0.09
Kannur	83	3	19	8	113	0.31
Total	129	62	83	109	383	2.38

Inordinate delay in finalisation of the liquidation process in disposing off the assets of the society under liquidation resulted in locking up of the Government investment in these societies and this may adversely affect the realisation of Government dues.

⁵⁹ Courts.

⁶⁰ Circular No. 33/2000 dated 20 June 2000.

The department stated (July 2010) that necessary directions were issued to the officials concerned to settle the cases pending for more than three years.

8.5.18 Internal control

Paragraph 7.5.8 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Revenue Receipts) mentioned about the non-maintenance of records by the RCS. During examination of the said paragraph, the Government informed the Committee on Public Accounts that basic records had been made upto date. Scrutiny of the records of RCS, JR and AR offices in the selected districts⁶¹ revealed that these offices did not maintain basic records and where the offices maintained the basic records, they were not properly updated. These have been mentioned in the relevant paragraph of this review. The details regarding the total amount of audit cost, records on loans, share capital, audit fee, interest, and penal interest were not recorded properly. We observed few instances of improper record maintenance as discussed below:

- (i) Recovery of Audit cost from 2004-05 to 2008-09 was ₹ 87.71 crore as per the DCB of RCS whereas, the audit cost recovered as per the finance accounts prepared by the Accountant General was ₹ 103.75 crore.
- (ii) AR offices Karthikappally, Nedumangad, Neyyattinkara and Vaikom, did not properly maintain basic records such as register for loan, share capital and DCB statements. AR offices Cherthala, Kanayannur, Karthikappally and Vadakara did not update the loan register and share capital register periodically.
- (iii) In the DCB statements prepared by the AR offices, the DCB figures did not have the support of the records like loan, share capital, audit fee registers and AR offices Chengannur, Kanayannur, Kochi, Kuttanadu, Muvattupuzha, Thalassery and Vaikom did not demand interest/penal interest properly.

We could not ascertain the genuineness of the figures in the DCB statement in the absence of proper maintenance of the records.

We recommend that the department may strengthen internal control mechanism to watch recovery of audit cost and ensure proper maintenance of records and DCB in the field offices.

8.5.19 Internal audit

Internal audit is intended to examine and evaluate the level of compliance with the rules and procedures so as to provide a reasonable assurance on the adequacy of the internal control. Effective internal audit system both in the manual as well as computerised environments is a pre-requisite for the efficient functioning of any department.

⁶¹ Alappuzha, Ernakulam, Kannur, Kottayam, Kozhikode and Thiruvananthapuram.

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Revenue Receipts) recommended issuing directions for the conduct of internal audit to ensure the compliance with various provisions in the Act/Rules for effective internal control.

Despite the recommendations of the PAC, the department had not strengthened the internal audit wing. We noticed the following deficiencies in the working of internal audit.

- Audit plan was not prepared
- Sanctioned strength was not fixed for internal audit wing
- Target was not fixed for number of units to be audited.

We received (July 2010) the reply that the annual audit plan has been prepared and two Deputy Registrars were entrusted with the work.

We recommend that the Government may consider issuing guidelines to improve the quality and functioning of internal audit wing.

Compliance deficiencies

8.5.20 Revenue loss due to non-appropriation of payment towards interest first

Article 234 (3) (c) of the Kerala Financial Code provides that, any amount paid by the loanee shall be adjusted towards interest dues if any, and the balance available if any shall be adjusted towards principal amount. In the following two cases the department did not follow this principle which resulted in an understatement of loan balance to the extent of ₹ 2.23 crore and consequent interest loss amounting to ₹ 1.37 crore and penal interest of ₹ 29.11 lakh.

8.5.20.1 Pala Marketing Co-operative Society (PMCS), Kottayam

The Government had sanctioned an amount of ₹ 1 crore to the PMCS in May 2003. The rate of interest was 10 *per cent per annum* with an additional penal interest of 2.5 *per cent* for any default. The society had to repay the loan amount in 10 equal annual instalments as per the terms and conditions.

We observed that the Society had remitted ₹ 40 lakh as principal and ₹ 14.45 lakh as interest. However, the department did not observe the principle of adjusting the amount paid first to interest due, resulting in understatement of the outstanding loan position by ₹ 35.54 lakh (₹ 40, 00,000 – ₹ 3,45,685) as detailed below:

Date of Repayment	Total repayments		Interest due on the date of repayment	Interest deductible from repayment	Balance after deducting interest	Penal interest (PI) due	PI deductible from repayment	Balance deductible from Principal
	Principal	Interest						
1.	2.	3.	4.	5.	6.	7.	8.	9.
30.3.2006	20,00,000	8,50,000	28,95,890	28,50,000	Nil	75,000	--	--
17.5.2007	10,00,000	Nil	11,77,397	10,00,000	Nil	1,50,000	--	--
17.3.2008	10,00,000	5,95,000	10,13,014	10,13,014	5,81,986	2,36,301	2,36,301	3,45,685
	40,00,000	14,45,000						

Erroneous adjustment of principal resulted in loss of interest of ₹ 8.70 lakh and penal interest of ₹ 2.15 lakh for the period upto March 2009.

It was stated (July 2010) that at the instance of audit, the loanee has remitted the outstanding dues.

8.5.20.2 Kerala State Co-op. Consumer Federation Ltd. (CONSUMERFED)

The RCS had released a loan amount of ₹ 27.62 crore to the CONSUMERFED during the period from 1977 to 2009 (23 Government loans & 10 NCDC loans).

Out of this, the society had repaid the principal amount of ₹ 1.96 crore in 59 instalments starting from March 1999 to March 2009. We noticed that out of the repayment amount of ₹ 1.96 crore, the Federation adjusted an amount of ₹ 1.86 crore (56 instalments) against the principal amount even when there was overdue interest. This resulted in incorrect adjustment of loan by ₹ 1.86 crore and also resulted in loss of interest of ₹ 1.28 crore and penal interest of ₹ 26.96 lakh leviable on the outstanding principal amount of loan.

In their reply (March 2010), the department informed that directions were given to collect the arrears and to issue timely demand notices.

The department stated (July 2010) that notice has been issued to the Managing Director to remit the dues.

We recommend that the Government may devise suitable measures for monitoring the demand and levy of interest and penal interest including independent review of the same by internal audit.

8.5.21 Unauthorised withdrawal of amount by loanee from TP account

The loans sanctioned by the NCDC to various beneficiaries are routed through the RCS who deposits the amount in TP account pending finalisation of formalities of loans. NCDC sanctioned an amount of ₹ 15 crore to RAIDCO as share capital under rehabilitation package during November 2007. The RCS had drawn the loan amount and transfer credited to TP account of the federation during March 2008 subject to the condition that prior approval of the former must be obtained before the final withdrawal. But RAIDCO had withdrawn the amount during March and April 2008 without obtaining the concurrence of the RCS. Similarly, the beneficiary had also withdrawn an amount of ₹ 35.33 lakh and transfer credited to the federation's TP account during March 2009 without the concurrence of the RCS. This indicates that the RCS was not having proper control over release of loan amounts to the beneficiaries.

The RCS stated (July 2010) that RAIDCO was asked to execute a mortgage deed of the loan amount of ₹ 35.33 lakh and produce share certificate for ₹ 15 crore and society had complied with the directions.

Conclusion

Our review revealed a number of deficiencies in the maintenance of DCB which led to improper computation of arrears. The recovery of loans and interest from beneficiaries was not in tune with repayment of loans and interests paid to NCDC. The system for watching the realisation of dividend declared and crediting it to Government account was not proper. RCS retained huge amount received as loans from the NCDC on behalf of the beneficiaries in the TP account for long period. The information on revenue recovery of outstanding balance of principal and interest was unreliable. There was huge pendency in audit as well as arrears of audit fee. There was no system for ascertaining the eligibility of beneficiary before sanctioning the assistance.

Recommendations

The Government may consider implementing the following recommendations for effective collection of co-operation receipts

- devising suitable measures for monitoring the demand and levy of interest and penal interest;
- evolving appropriate mechanism for watching the realisation of dividend declared by the societies and crediting the dividend to the Government account;
- strengthening the mechanism for watching the collection of guarantee commission;
- evolving a system for ascertaining the eligibility of beneficiaries before sanctioning the assistance;
- taking steps to avoid retention of huge amount received as loan from NCDC on behalf of beneficiaries in TP account for long period;
- taking effective steps for the realisation of amount under revenue recovery; and
- issuing guidelines to improve the quality and functioning of internal audit wing.

8.6 Other audit observations

Scrutiny of the records of Forest Department, Legal Metrology Department, Education Department and Police Department revealed several cases of non-compliance of the provisions and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of the departmental officers are pointed out in audit each year but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for Government to improve the internal control system including strengthening of the internal audit.

A. FOREST RECEIPTS

Due to lack of co-ordination of Forest Department, non-execution/non-payment/non-revision of lease agreement/lease rent, non-collection of entry fee and non-realisation of tree value, the forest department had incurred a revenue loss of ₹ 58.53 crore.

8.7 Non-payment of lease rent to Government

(DFO, Chalakudy; November 2009)

Lease rent payable for forest land leased out to Public Sector Undertakings was ₹ 1,300 per hectare *per annum* with effect from 18 December 1987.

We noticed that the department leased out an extent of 4,261.04 ha of forest land in Chalakudy Division to M/s Plantation Corporation of Kerala Ltd. and lease rent due as on 31 March 2008

was ₹ 27.95 crore. Even though the company was providing in its books of accounts lease rent at ₹ 1,300 per ha, payment was made at the rate of ₹ 475 per ha till 1998-99 and from 1998-99 onwards no amount was paid towards lease. Besides, the company was debiting lease rent payable under the Profit and Loss Accounts and claiming deductions under the AIT Act, at the full rate. The Government declared a moratorium on payment of lease rent till repayment of a loan from Canara Bank was over. We found that the company had a net profit of ₹ 2.62 crore in 2005-06 and ₹ 11.41 crore in 2006-07, whereas the loan outstanding was only ₹ 9,653. The schedule forming part of the final accounts for 2008 showed that there was no loan outstanding in the above bank. This indicates that the company maintained a negligible balance of secured loan account in order to retain moratorium on repayment of lease rent. Thus, the grant of moratorium to the company having net profit which was very huge compared to loan outstanding has enabled the company to avoid payment of lease rent of ₹ 27.95 crore. This resulted in non-realisation of lease rent of ₹ 27.95 crore.

After we pointed out the case to the department, the department stated (November 2009) that it took up the matter with the higher authorities. We have not received information of further developments from them (December 2010).

We reported the matter to the Government in February 2008. We have not received information on further developments from them (December 2010).

8.8 Non-execution of lease agreement with Kerala State Electricity Board (KSEB)

(Divisional Forest Office, Malayattoor; May 2009)

The Government allotted KSEB 3,105.65 Ha of forest land under Chalakudy and Malayattoor divisions in March 1974. An agreement between KSEB and the Government was to be executed before the land was handed over. The lease rent was ₹ 1,300 per ha *per annum* from December 1987 onwards.

We scrutinised the records of Divisional Forest Office, Malayattoor and noticed that KSEB took possession of 3,105.65 ha. of forest land on lease without executing the lease agreement. The Government approved in March 2006 the draft lease deed specifying the terms and

conditions of lease as well as the rate of lease rent and authorising the DFO, Malayattoor division to sign the lease deed on behalf of the Government. Non-execution of lease agreement resulted in non-levy of lease rent. The lease rent leviable from the KSEB for the period from 1974 to 2009 worked out to ₹ 23.28 crore. The KSEB is also liable to pay ₹ 24.22 lakh towards stamp duty and registration fee had the document been registered as required under the Stamp Act.

After we pointed out this case in May 2009, the Divisional Forest Officer, Malayattoor stated (May 2009) that the matter was reported to the Conservator of Forest (Thrissur) and Chief Conservator of Forest (P) in July 2006. The department had, however issued countersigned *challan* to KSEB for ₹ 23.28 crore for the period from 1973-74 to 2009-10.

We reported the matter to the Government in March 2010; we have not received their reply (December 2010).

8.9 Loss of revenue due to non-revision of lease rent of forest land leased to private parties

(Forest Divisions, Nemmara and Chalakkudy; November 2009)

The Kerala Grants and Leases (Modification of Rights) Act, 1980 governs the rights under grants and lease of land made for cultivation. The Act empowers the Collector to revise the lease rent periodically as per Section 5 of the Act. However, the department did not frame the Rules for implementation of the Act. The rate of lease rent applicable to forest land leased out to private parties was fixed during pre-independence period and ranged from ₹ 2.47 per ha to ₹ 12.35 per ha. The Government revised the rates of lease rent applicable for PSUs with effect from 18 December 1987, fixing the rent at ₹ 1,300 per ha. Even when the rates levied on PSUs were enhanced to ₹ 1,300 per ha, lease rent collected from private parties continued to remain at the pre-independence rate.

We noticed that the department collected lease rent of ₹ 1.87 lakh for 4,553.257 ha of forest land leased out to private parties⁶² by applying the pre-independence period rates. Adopting the lease rent fixed for forest land leased to the PSUs, the short realisation of lease rent worked out to ₹ 11.95 crore for the period from December 1987 to December 2008.

After we pointed out the matter in November 2009 to the department, the department stated (November 2009) that even though the Kerala Grants and Leases (Modification of Rights) Act

came into force with effect from 23 June 1980, the Government did not approve the rules for the implementation of the Act and hence the lease rent of private holdings could not be revised. The reply tantamount to admission of laxity on the part of the Government in revising the lease rent realisable from the private parties. Further, had the rates been fixed while fixing the rates applicable to the PSUs, additional resources could have been generated.

We reported the matter to the Government in March 2010. We have not received information on further developments from them (December 2010).

⁶² Alexandria, Beatrice, Chandramala, East Pullala, Manalaru, Meerafloras, Monkad, Oriental Valavachal and Victoria.

8.10 Loss of revenue due to lack of co-ordination between Forest Department and PSU

(Divisional Forest Office, Palakkad; October 2008)

The Forest Department by a notification issued in August 2006 sold in auction 2 lakh cu.m. of residue sand obtained from lime stone mines leased to a Government undertaking (M/s. Malabar Cements Ltd.) in Walayar Range in Palakkad Division. The highest bid amount of sand was ₹ 350 per cu.m. The contractor was required to remove the sand within nine months of the contract. The contractor could use the forest road within the company premises with the prior permission of Forest Department for transportation of sand. The contractor was responsible for making new approach road, if any, needed for extraction of sand with the approval of the department.

We noticed that the sand was not lifted due to objection by the company although the terms of agreement contemplated transport of materials through the road constructed by M/s MCL Ltd., in the leased forest land. Lack of co-ordination between Forest department and PSU and failure of the department to facilitate transportation of sand had led to loss of revenue to the tune of ₹ seven crore.

After we reported the matter to the Government in December 2009, the Government stated (January 2010) that it was decided to undertake extraction of silt from the very same deposit located in the mining area of the company. We have not received further report (December 2010).

8.11 Non-collection of entry fee from forest development agency

(Office of Wildlife Warden, Wildlife Division, Munnar; February 2010)

By a notification dated 11 November 2005, the Government revised the rates of entry fee for tourists, vehicles etc. to National Parks, Wildlife Sanctuaries and Tiger reserves. The rate of entry fee for light vehicle is ₹ 50 per day.

We noticed that during August 2009, 6,480 vehicles have entered inside the Eravikulam national park for transporting tourists. However, the department did not collect the entry fee as prescribed. Non-collection of the entry fee works

out to ₹ 3.24 lakh.

After we pointed out the case in February 2010, the department stated (February 2010) that the arrangement for transportation of tourist by the Forest Development Agency (FDA) was a reciprocal commitment from the part of park management to tackle the visitor management problem. The reply was not

tenable as the Government had fixed the fees for entry of vehicles to national parks.

We reported the matter to the Government in March 2010. We have not received information of further developments from them (December 2010).

8.12 Non-realisation of tree value

(Office of ACF (SF), Malappuram; May 2009)

Cutting and removal of trees on public land requires permission of the Forest Department. In the case of trees planted by social forestry wing, 20 *per cent* of tree value and forest development tax on the total sale value had to be remitted to the Forest Department.

We noticed cutting of trees planted by the Social Forestry Wing in the premises of six institutions/departments⁶³ valued at ₹ 12.31 lakh, for the improvement of roads. However, the department did not levy and collect the tree value and forest development tax

amounting to ₹ 3.08 lakh.

After we pointed out the matter in May 2009 to the department, the department stated (May 2009) that the tree value and forest development tax had been remitted in one case. We have not received information of further development in other cases (December 2010).

We reported the matter to the Government in March 2010. We have not received further developments from them (December 2010).

⁶³ Asst. Executive Engineer (PWD) Tirur, (Roads) Manjeri, (NH) Malappuram, (Irrigation wing) Parappanangadi at Malappuram, Calicut University Botanical Garden Park, Edavanna Government *Ayurvedic* Dispensary Otheri.

B. Legal Metrology

The laxity on the part of legal metrology department to verify fare meters of auto rickshaws and tourist taxis as well as the water meters resulted in non-realisation of revenue to the extent of ₹29.92 crore.

8.13 Loss of revenue due to non-conducting of verification and stamping of auto/taxi meters

(Department of Legal Metrology, Thiruvananthapuram; April 2010)

All auto rickshaws and motor cabs except all India tourist taxis are required to fix fare meters as per Rule 207 and 296 of Kerala Motor Vehicle Rules, 1989. Legal Metrology department (LMD) should ensure that all auto/taxi fare meters are subjected to annual verification and stamping so as to ensure that the fare collected from the passengers is as per prescribed rates. The fee leviable for verification is ₹ 50 per fare meter upto 2005-06 and ₹ 100 thereafter.

We conducted a test check of the data collected from the department of Motor Vehicles with the LMD for the period 2004-09. We found that the verification conducted by the LMD ranged from 8.4 per cent to 13.2 per cent. The laxity on the part of the LMD in verifying fare meters had resulted in loss of revenue of ₹ 16.68 crore during 2004-05

to 2008-09. This has also allowed the commercial vehicle owners to manipulate the meters and over charge the public. The LMD should take initiative so that meters could be verified at prescribed intervals.

We reported the matter to the department in April 2010 and the Government in June 2010. We have not received their replies (December 2010).

8.14 Non-registration and stamping of water meters

(Department of Legal Metrology, Thiruvananthapuram; April 2010)

Legal Metrology Department is engaged in verifying the correctness of the calibration of the weighing and measuring instruments. Section 24 of the Standards of Weights and Measures (Enforcement) Act, 1985 and Rules made thereunder insists that every weight or measure used or intended to be used in any transaction shall be verified/re-verified and stamped at least once in a year. The fee payable for the verification is ₹ 25 per piece.

We test checked the data collected from the LMD, Thiruvananthapuram for the period 2004-09 and found that the fee realisable for 52,96,116 water meters during the said period was ₹ 13.24 crore which was not realised due to non-verification of meters. This resulted in non-realisation of ₹ 13.24 crore, besides allowing scope of tampering the meters leading to further recurring loss

to the Government.

We reported the matter to the department in April 2010 and the Government in June 2010. We have not received their replies (December 2010).

C. Education Department

Due to non-revision of lease rent based on the market value of land and building allotted to KBPS, the Government was deprived of revenue of ₹ 4.19 crore.

8.15 Non-levy of lease rent on land allotted to KBPS

(The Kerala Books and Publication Society (KBPS), Kochi; March and April 2010)

The Kerala Books and Publication Society (KBPS), Kochi is a Kerala Government undertaking registered under the Travancore-Cochin Literary, Scientific and Charitable Societies, Registration Act, 1955 to undertake printing of text books for schools and colleges.

The KBPS was set up in August 1978 in a Government building in a plot of 3.97 hectares in Triakara *Panchayat* in Ernakulam district. We conducted verification of the records relating to lease of land and buildings to KBPS in March and April 2004. We had already mentioned about non-levy of

lease rent from KBPS for the period ending 31 March 1997 in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Revenue Receipts). The Government stated (October 1997) that they were considering the feasibility of converting the lease rent as capital grant. We noticed that the value of land and building was estimated by the competent authority in March 2004 as ₹ 8.80 crore. Even though the market value of holding was available with the Revenue department, they failed to levy lease rent on land and building allotted to KBPS. The lease rent due for the period 1 April 1997 to 31 March 2010 amounted to ₹ 4.19 crore.

We reported the matter to the Director of Higher Education and Commissioner of Land Revenue in May 2010 and the Government in June 2010. We have not received their replies (December 2010).

D. Police

The cost for providing police escort was not revised based on the revised average cost which resulted in short realisation of fee of ₹ 3.20 crore.

8.16 Short levy of fees for service rendered by police personnel

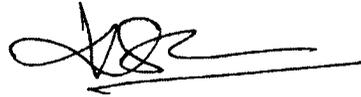
(Office of the DGP, Thiruvananthapuram; April 2010)

The Police Department collects fees/charges for various services rendered by the department which was based on the pay of the police officials. The pay of the Government servants were revised with effect from 1 April 2005 and consequently the Police Department revised the average cost in tune with the pay revision effected from April 2005. Police headquarters had (July 2008) given directions to unit officers who had provided police guards/escorts to various institutions, to raise arrear bill of cost from 1 April 2005.

We verified the cost collected for providing police escort to various institutions. We found from the records of the office of the Director General of Police, Thiruvananthapuram that fees realised from 28 institutions for the period 1 April 2005 to 31 March 2007 was not revised resulting in short realisation of fee by ₹ 3.20 crore.

We pointed out the case to the police headquarters in May 2010. We have not received their reply (December 2010).

We reported the matter to the Government in June 2010. We have not received their reply (December 2010).



**Thiruvananthapuram,
The**

**(K.S. SUBRAMANIAN)
Accountant General (WF&RA)
Kerala**

Countersigned



**New Delhi,
The**

**(VINOD RAI)
Comptroller and Auditor General of India**