

CHAPTER VI: FOREST RECEIPTS

6.1 Results of audit

Test check of the records of forest receipts during the year 2008-09 revealed non/short realisation of revenue due to non-exploitation of bamboo/timber, low yield of timber/bamboo, shortage of forest produce, loss of revenue etc, amounting to Rs. 426.09 crore in 118 cases which can be categorised as under:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1	Forest Receipts in Madhya Pradesh (A Review)	1	222.67
2.	Non-realisation of revenue due to non-exploitation of bamboo/timber coupes.	16	10.29
3.	Short realisation due to low yield of timber/bamboo against estimated yield.	17	4.48
4.	Non-realisation due to deterioration/shortage of forest produce.	09	1.37
5.	Loss of revenue due to non accounting of forest produce.	03	0.62
6.	Short realisation of revenue due to re-measurement of timber.	03	0.60
7.	Short realisation due to sale below upset price.	03	0.48
8	Other irregularities	66	185.58
Total		118	426.09

During the year 2008-09, the department accepted loss of Rs. 42.72 crore in 14 cases pointed out during 2008-09. An amount of Rs. 43,000 was recovered in one case.

A performance review of 'Forest receipts in Madhya Pradesh' involving deferment/loss of revenue of Rs. 222.67 crore is mentioned in the following paragraphs.

6.2 Forest Receipts in Madhya Pradesh

Highlights

- Due to incorrect classification of Commercial tax/VAT receipts under forest head, receipts of Forest Department were overstated by Rs. 270.67 crore.

(Paragraph 6.2.6)
- Due to absence of any system to monitor timely preparation of working plan, revenue of Rs. 185.84 crore remained deferred.

(Paragraph 6.2.7.1)
- Lack of any system to monitor timely preparation and submission of coupe records resulted in deferring and non-realisation of revenue of Rs. 143.80 crore.

(Paragraph 6.2.8.1)
- Non-exploitation of bamboo as per the working plan resulted in loss/deferring of revenue of Rs. 11.06 crore.

(Paragraph 6.2.8.3)
- Delay in communication of sanction of bids resulted in blocking of revenue of Rs. 9.38 crore.

(Paragraph 6.2.9)
- Delay in remittance of revenue in government account resulted in late accounting of Rs. 13.40 crore.

(Paragraph 6.2.10)
- Lack of uniform procedure for working out the cost of illicitly felled trees and seized material resulted in under reporting of revenue loss of Rs. 76 lakh.

(Paragraph 6.2.11.2)
- Large variation in the estimated and actual yields of forest produce resulted in loss of revenue of Rs. 4.80 crore.

(Paragraph 6.2.12)
- Sale of timber below upset price resulted in loss of revenue of Rs. 1.52 crore.

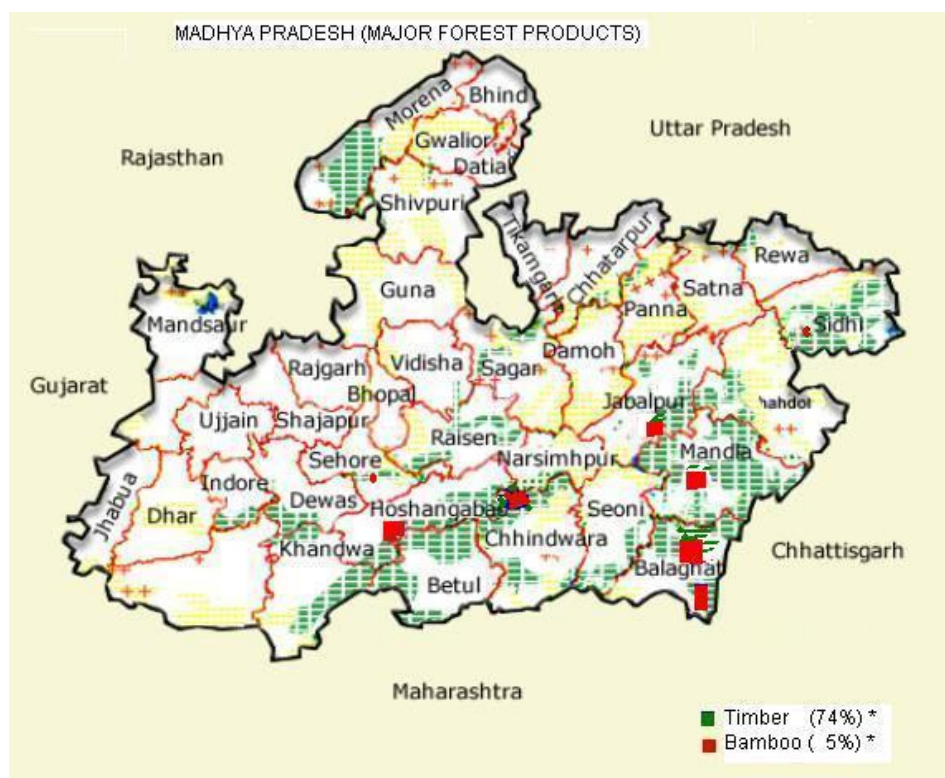
(Paragraph 6.2.13)

6.2.1 Introduction

Forests of Madhya Pradesh constitute 30.71 per cent of the geographical area of the state and 12.44 per cent of the forest area of the country. The forest cover is concentrated in the central, eastern and southern part of the state. The main forest products which generate revenue are timber, bamboo, fuel wood (wood) and *tendu patta*, sal seed, *harra*, gums, *chironji*, flowers and seeds of *mahua* etc. (non-wood). In addition, compensation including fine is imposed for unauthorised use of forestland and illicit felling of trees. Trade of non-wood produce is done by MP Minor Forest Produce Federation while trade in wood produce is done departmentally through auction and by *nistari*¹ sale to consumers.

For the purposes of harvesting of forest produce and treatment of forestland, the forest area is divided into ‘coupes’² and ‘compartments’³.

The concentration of timber and bamboo in various parts of the State is shown in the map below.



* Contribution to forest revenue

Collection of forest receipts⁴ in Madhya Pradesh for the period from 2004-05 to 2008-09 was reviewed in audit, which revealed a number of system and compliance deficiencies as discussed in the succeeding paragraphs.

¹ *Nistari* sale means forest produce i.e., poles, bamboo and fuel wood sold to farmers, forest dwellers etc. for domestic use at concessional rates.

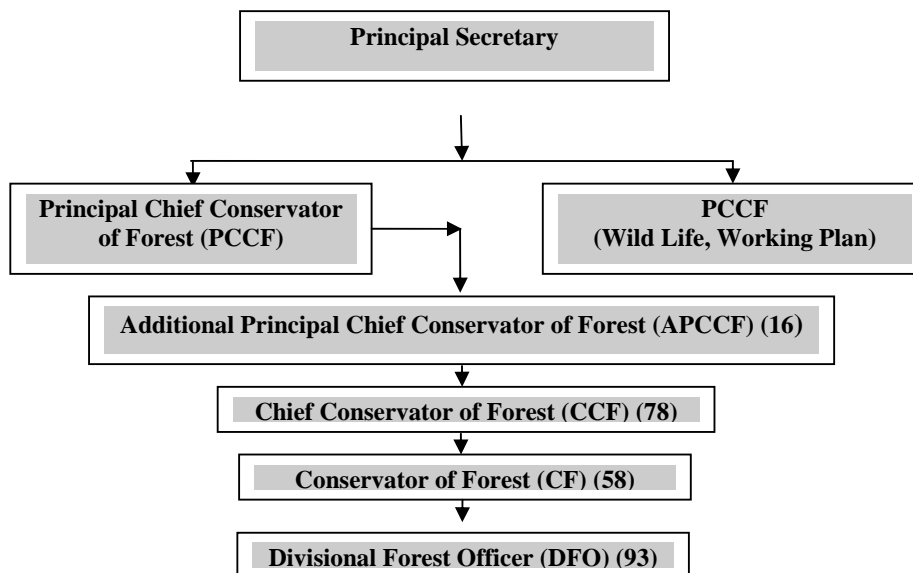
² Coupe is a demarcated forest area where the exploitation is to be carried out.

³ Compartment is the smallest unit of management of forest.

⁴ Trade in wood forest produce (Timber, fuel wood and bamboo).

6.2.2 Organisational set up

The Department functions under the overall control of the Principal Secretary at the Government level while the Principal Chief Conservator of Forests (PCCF) is responsible for the overall administration of the department. The following chart shows the organisational set up upto the divisional level.



(Out of 93 divisional forest offices mentioned above, 76 deal with revenue generating activities).

6.2.3 Audit objectives

The review was conducted to ascertain whether:

- working plans of the divisions were prepared and got approved from the Government of India in time and the activities envisaged in the working plan were executed as per schedule;
- forest produce available and due for exploitation was extracted and disposed of in time;
- internal control mechanism existed to ensure proper functioning of various wings and for optimum collection of revenue in the department.

6.2.4 Scope of audit

The review of collection of forest receipts was conducted during October 2008 and April 2009. The records of five years from 2004-05 to 2008-09 were test checked in the office of the PCCF and in 16 divisions⁵. Besides, information

⁵ Balaghat South {(General) (G)}, Balaghat West {(Production) (P)}, Chhindwara (P), Chhindwara West (G), Dewas (G), Dindori (G), Dindori (P), Harda (P), Hoshangabad (G), Indore (G), Khandwa (G), Khandwa (P), Mandla (P), Mandla West (G), Seoni North (P) and Seoni South (G).

was collected from eight divisions⁶. The divisions were selected on the basis of simple random sampling without replacement method.

6.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the Forest Department for providing information and records to audit. An entry conference to discuss the audit objectives and scope of audit was held in February 2009 in which the PCCF and Additional PCCFs along with CCF (Budget) were present. The findings of the review were communicated to the department/Government in June 2009. Replies of the department has been received and incorporated in the respective paragraphs. The department did not arrange any conference to discuss the results of audit and recommendations despite request (June 2009). Reply of the Government has not been received (October 2009).

Audit findings

6.2.6 Trend of revenue

The average contribution of forest receipts to the non tax revenue of the state during the last five years has been 18.69 *per cent*.

The annual budget estimates of the divisions are prepared by the DFOs based on the estimated yield for the year. These are submitted to the PCCF through the CF of the circle and finally sent to the Finance Department in October for approval.

The trend of revenue for the last five years ending 31 March 2009 is as shown in the table below:

(Rupees in crore)

Year	Budget estimates	Total Receipts	Surplus (+)/ shortfall (-)	Percentage of variation
2004-05	500	559.11	59.11	11.82
2005-06	422	490.40	68.40	16.21
2006-07	450	536.50	86.50	19.22
2007-08	543	608.89	65.89	12.13
2008-09	600	685.60	85.60	14.27

As a general rule, the classification of transactions in Government accounts shall have closer reference to the function, programme and activity of the Government and the object of the revenue or expenditure, rather than the department in which the revenue or expenditure occurs (Rule 308 of the MP Financial Code; Rule 29 of Government Accounting Rules, 1990).

In all the production divisions, it was noticed that commercial tax/Value Added Tax recovered from the sale of forest produce was included in the forest receipts (Major Head (MH) 0406 'Forestry and Wild life') by the department on the basis of a letter of the Finance Department

⁶ Betul (P), Jabalpur (G), Sehore (P), Shahdol North (G), Shahdol South (G), Sidhi East (G), Sidhi West (G) and Vidisha (G).

dated 28 February 1987⁷, mentioned in Madhya Pradesh Forest Financial Rule (MPFFR). Thus, the actual receipts for the five years also included Rs. 270.67 crore (9.4 per cent of the total receipts) received on account of commercial tax/VAT during these years.

The practice of depositing sales tax receipts in the forest head has the effect of not only overstating the actual receipts of the department, but the amount accruing on account of commercial tax/VAT also not being reflected as receipts of Commercial Tax Department (MH 0040 'Tax on sales, trade') in Government Account, leading to understatement of its commercial tax/VAT receipts. This practice is contrary to the principles of classification of transactions in Government Accounts.

After this was pointed out, the department stated (September 2009) that this was done in accordance with the MP Forest Financial Code. It was also stated that a note had been sent (August 2009) to the State Government to consider it as a policy matter.

The Government should consider taking suitable steps to correct this anomaly in classification of transactions as per the MP Financial Code and Government Accounting Rules.

System deficiencies

6.2.7 Preparation of Working Plan

Forests are managed according to provisions of approved working plans⁸ (WP), which are generally prepared for a period of 10 years for each division and revised from time to time. The forest produce resulting from these operations generate revenue for the Forest Department. Non-existence of WP has a major impact on the growth and regeneration of the forests. It also leads to halting of all activities relating to extraction of forest produce from the forests, which affects the revenue of the department. Thus, it is imperative that the WPs should be prepared and approved well in advance in the interest of the environment as well as revenue. As per prescribed procedure, the marking of trees in due compartments as per working plan is done by the general division and handed over to the production division for exploitation with estimates of obtainable timber.

Audit scrutiny revealed a number of deficiencies in the preparation as well as implementation of the WPs, which are mentioned below:

6.2.7.1 Deferment and non-realisation of revenue due to lack of monitoring of working plan

Conservator of Forest of WP divisions are required to take up the work of revision of WP before three years of the expiry of the existing plan so as to allow sufficient time for obtaining the sanction of Government of India (GOI) through the PCCF.

⁷ Government of Madhya Pradesh, forest department letter No. 197/J/17-11/4/B-1/87 dated 28.02.1987.

⁸ Working Plan is a written scheme of management aiming at continuity of policy and action and controlling the treatment of forest.

Information collected from the PCCF office revealed that out of 62 general divisions, 18 divisions⁹ did not have continuous WP for one to eight years during 2000-01 to 2008-09, due to delay in submission of WP to the GOI. **It was, however, observed that due to the absence of any system to monitor the timely preparation of WP, substantial revenue remained deferred and unrealised as mentioned below:**

- In West Mandla Division, it was noticed that though the existing WP expired in 2002-03, the subsequent WP could be implemented from 2006-07 only due to delay in submission of WP for approval of GOI. Consequently, exploitation of 16 compartments, which was due in 2003-04, was made during 2005-06¹⁰ and 2006-07. This resulted in deferring of revenue of Rs. 31.53 crore.
- In Hoshangabad Division, 3,924.01 hectares of workable bamboo area, though included in the previous WP (1984-1999) was not included in the newly approved WP of the division for the period 2000-01 to 2009-10. After the physical visit by the CF, Hoshangabad circle, the matter was reported to the PCCF in January 2007, who permitted to exploit this area as per proposal of the CF w.e.f. 2007-08. Thus, the bamboo area remained untreated during 2000-2001 to 2006-07, resulting in non-realisation of revenue of Rs. 1.19 crore.
- In case of seven divisions¹¹, 510 compartments having 53,736.13 hectares area due for exploitation (from 2004-05 to 2008-09) were not exploited till March 2009 due to non-existence of WP, which resulted in non-extraction of estimated 99,146.299 cum timber and 95,838 fuel stacks. This resulted in non-realisation of revenue of Rs.153.12 crore.

After this was pointed out, all the DFOs stated between December 2008 and April 2009 that the coupes could not be exploited due to non-approval of WP and non-receipt of permission for exploitation from GOI. As regards non-inclusion of bamboo area in Hoshangabad division, the PCCF (WP) stated (May 2009) that final reply would be sent after receiving the report from CCF, Hoshangabad. The replies were silent regarding the reasons for delayed submission of WPs. The department stated (September 2009) that chances of delay could not be ruled out in a large state like MP where as many as 62 WP were regularly revised and implemented. It was also stated that an elaborate monthly monitoring system had recently been put in place, which regulated the process of revision and approval of WP more efficiently. The APCCF (Finance and Budget) accepted that the WP of West Mandla was delayed. In the case of Hoshangabad division, he stated that the bamboo area was not included in current WP due to insufficient bamboo stock. The reply is not correct as the result of exploitation for the year 2007-08 shows that newly approved coupes had average production of 0.581 NT per hectare, which is much higher (2.5 times) than regularly treated coupes.

⁹ Anuppur, Badwani, Balaghat South, Burhanpur, Chhindwara East, Indore, Jabalpur, Khandwa, Khargone, Mandla West, Rajgarh, Sagar South, Sendhwa, Shahdol North, Shahdol South, Sheopur, Sidhi East and Vidisha.

¹⁰ Under special permission of GOI subject to approval of WP.

¹¹ Balaghat South, Burhanpur, Indore, Jabalpur, Mandla West, Shahdol South and Sidhi East.

The Government may consider prescribing periodic report/return to be submitted by the divisions for effectively monitoring the status of WPs in the State.

6.2.8 Implementation of WP

As per the provisions of WP and instructions issued by Supreme Court (September 2000) and the department (March and June 2002), timely execution of work is mandatory. As per WP, forest area is divided into various working circles and circles are divided into coupes. Marking of the coupes due for exploitation in a particular year is to be done in the year preceding the year in which respective coupe is due for exploitation as per prescription in the WPs. Non-exploitation of coupes as per the prescription of WPs leads to deferment of revenue realisable from the extracted timber and other forest produce and also blocks regeneration activities affecting future revenue adversely.

As per the provision of WP, Coupe Control Book (CCB) should be maintained to compare the actual exploitation in the year with the prescription of the WP and to record the other regeneration activities executed in a particular coupe. Similarly, Compartment History (CH) for each compartment should be maintained and updated showing the details of rootstock, production, physical and financial details of works executed. After completion of five years of felling/treatment as per WP, the DFO and other higher authorities should inspect the compartments to assess the result of works executed and record an analytical report in the CH.

(Timber)

6.2.8.1 Non-maintenance of records

Audit scrutiny revealed that, in eight¹² general divisions, the CCBs were not maintained properly. Actual exploitation and any balance thereon and other silvicultural activities were not found mentioned in the control book. Compartment history was also not found updated. It was also observed that most of the divisions did not maintain the records to monitor timely preparation and submission of CCB and CH to ensure that the exploitation activities were being carried out as per prescriptions of the WP. No analytical report was found recorded in CH after completion of five year of works executed. It was further observed that no return is prescribed by the PCCF office to monitor the timely preparation of these vital records.

- Scrutiny of records revealed that, in 10 General Divisions¹³, 1,116 compartments due as per WP during the years 2003-04 to 2008-09 were exploited after delay of one to two years resulting in deferring of revenue of Rs. 93.22 crore for one to two years.

¹² Chhindwara West, Dewas, Dindori, Jabalpur, Khandwa, Mandla West, Shahdol North and Vidisha.

¹³ Burhanpur, Chhindwara East, Dewas, Dindori, Indore, Khandwa, West Mandla, North Shahdol, South Shahdol and Vidisha.

Further, in four divisions¹⁴, 332 compartments due for exploitation between 2004-05 to 2008-09 as per their WP, were not exploited resulting in non-realisation of revenue of Rs. 44.92 crore.

After this was pointed out, the DFOs, Dindori and Chhindwara (West) stated between January and April 2009, that the coupes could not be exploited being unprofitable and inaccessible area; The DFOs, North Balaghat and Rewa stated in October 2008 and March 2009, that the coupes could not be exploited due to naxalite and dacoit problem, while the remaining DFOs stated (between October 2008 and April 2009) that coupes could not be exploited in time due to late approval of WP and delay in transfer by the General division. The reply of DFOs are not in consonance with departmental instructions issued in November 2004 which envisaged that all due work as per the WP, even though non profitable, should invariably be carried out.

- Scrutiny of records of three divisions revealed that only 33,169 trees were felled against 60,004 trees marked in 17 coupes. Non-felling of 26,835 trees resulted in non-realisation of revenue of Rs. 5.66 crore as mentioned in table given below:

Name of division	Due Year	No. of coupes	No. of trees not felled	Estimated yield		Estimated revenue (Rs. in lakh)
				Timber (cum)	Fuel (Stacks)	
Mandla (P)	2007-08	15	16,634	2,848.000	1,203	518.43
Dindori (P)	2007-08	01	473	319.520	99	44.43
South Shahdol	2005-06	01	9,728	17.291	256	2.97
Total						565.83

After this was pointed out, the DFO (P), Mandla stated (November 2008) that the remaining trees would be felled in the next year 2008-09; DFO (P), Dindori stated (December 2008) that felling could not be completed due to protest of villagers and it would be completed in the next year; DFO, South Shahdol (G) stated (April 2009) that felling could not be done due to non-availability of labour. Non-felling of trees as per prescriptions of the WP not only affects regeneration of forests but also leads to deferment of revenue.

The department accepted (September 2009) that maintenance of CCB and CH has not been done at some places. It was stated that monitoring would be done to ensure compliance in this regard and instructions have been issued to work all the coupes even if they are unprofitable. Regarding short felling of trees the department accepted (September 2009) the observation and agreed to take necessary action to ensure complete exploitation of marked trees.

6.2.8.2 Irregular exploitation in timber coupes

As per provisions of WP, any exploitation outside the prescription of WP will be treated as irregular. During the scrutiny of records of North Balaghat (P) division for the period 2007-08, it was noticed that in seven coupes of selection cum improvement working circle, 8,195 trees were marked

¹⁴ Balaghat North (G), Dindori (G), Chhindwara West (G) and Rewa (G).

by General division for exploitation as per provisions for treatment of the working circle in WP and handed over to the production division for exploitation. But as per completion report (June 2008) of the production division, 19,356 trees were felled resulting in unauthorised removal of 11,161 trees and extraction of 3,119.596 cum timber and 4,983 fuel stacks.

After this was pointed out, the DFO in his reply only accounted for a difference of 82 trees, which were exploited as they had already fallen during a storm. The reply does not account for extra removal of the remaining 11,079 trees. The department stated (September 2009) that the reported extra removal was due to clerical error and 19,274 trees were found marked instead of 8195 trees as reported by the DFO in his earlier letter dated 20th August 2009. The reply is not substantiated by the marking records of the General division. The DFO (G), Balaghat communicated 8,195 marked trees due for felling to the DFO (P) in August 2007. The same figures were furnished to audit by the DFO (G) in February 2009. The department needs to further investigate the excess removal and take appropriate action.

Similarly, in South Shahdol division, an area of 1,621.505 hectares was exploited against permission of 1,247.645 hectares. Exploitation of excess area of 373.86 hectares resulted in unauthorised removal of 700.628 cum timber and 729 fuel stacks.

After this was pointed out, the DFO stated (April 2009) that coupe no. III due in 2007-08 was exploited as per provisions of WP for the period 2005-06 to 2014-15 and permission of GOI for felling was under process. The reply is not acceptable as the permission from GOI was not received before felling.

The department accepted (September 2009) the audit observation and stated that appropriate disciplinary action would be taken against the erring staff and officials.

(Bamboo)

6.2.8.3 Loss/deferment of revenue due to non-exploitation of bamboo as per WP

In the WP, the bamboo coupes are divided into four felling series and each felling series becomes due for harvesting after every four years. Non-exploitation of bamboo coupes results in loss of revenue and also blocks regeneration of new shoots. The PCCF directed (November 2004) that no due coupe should remain unexploited/untreated even if exploitation of coupe is found to be unprofitable and various silvicultural operations should be done for further regeneration.

Audit scrutiny revealed that bamboo coupes available as per the approved WPs were not fully operated. Also, there was lack of monitoring on working of bamboo coupes as per the approved WPs, due to which the department/Government remained unaware about such non-working of bamboo coupes. The following irregularities were noticed as regards working of bamboo coupes.

- In six divisions¹⁵ bamboo area of 20,586.477 hectares as prescribed in the WP was not exploited/treated during the period 2005-06 to 2007-08, which could have generated revenue of Rs. 8.62 crore.

After this was pointed out, the DFOs Harda, Hoshangabad and Jabalpur stated (April, October and November 2008) that exploitation was not done due to unprofitable production; DFO, Jabalpur stated (April 2009) that reply would be sent later on and the DFO, South Balaghat stated (April 2009) that exploitation was not done due to non-receipt of haulage¹⁶ tender. The DFOs, North Balaghat (G) and Rewa (G) stated that coupes could not be exploited due to *naxalite* and dacoit problems respectively. The replies contradict the instructions issued by the department (November 2004).

- During scrutiny of records in West Balaghat (P) division, it was noticed that 1,418.130 hectares bamboo area was exploited in the year 2007-08 and 1,417.829 notional ton (NT) commercial and 2,104.964 NT industrial bamboo was extracted against 2,554.012 hectares bamboo area consisting of nine compartments to be exploited as shown in the approved 'Vidohan Yojna'¹⁷ for the year 2007-08. Non-exploitation of remaining 1,135.882 hectares bamboo area resulted in non-extraction of 998.791 NT commercial bamboos and 4,786.505 NT of industrial bamboo leading to loss of revenue of Rs 1.83 crore as well as adverse effects on regeneration of forests.

After this was pointed out, the DFO stated (March 2009) that all workable area due as per WP had been exploited in four coupes. In the progress report, less area has been mentioned due to clerical mistake. The reply is not in conformity with the approved *vidohan yojna* as the workable area of compartments mentioned by the DFO is much less than that mentioned in the approved *vidohan yojna*.

- In North Balaghat (P) Division, it was observed that five coupes due in 2005-06 and 2006-07 were exploited in 2007-08 resulting in deferment of revenue of Rs. 60.92 lakh from actual yield of 1,357.354 NT bamboos for one to two years.

After this was pointed out, the DFO stated in February 2009 that coupes could not be exploited due to late transfer by general division and lack of sufficient time. The department stated (September 2009) that the reason for non-exploitation in Balaghat and Rewa district was law and order problem; in Harda division, reasons for non-inclusion of some area in WP were being investigated; in Jabalpur division work could not be done due to non-availability of funds; in case of Balaghat division all workable area had been treated and workable area of some coupes was wrongly reported due to clerical mistake. The reply regarding Harda division is not relevant as the loss worked out by audit was for the workable bamboo area due for felling in WP and comments of the department regarding Balaghat division requires

¹⁵ North Balaghat (G), South Balaghat (P), Harda (G), Hoshangabad (G), Jabalpur (G) and Rewa (G).

¹⁶ Transportation of forest produce from coupe to depots by engaging private transporters.

¹⁷ An approved plan for exploitation and transportation of forest produce in respect of each due coupe.

further substantiation with records. In the case of Rewa and Jabalpur divisions, the aspect of law and order problem and lack of funds should have been addressed in the respective WP.

6.2.8.4 Short treatment of rehabilitation of degraded bamboo forest coupes

Test check of records revealed that in DFO (G), West Mandla, though 7,494.41 hectares of bamboo area under rehabilitation of degraded bamboo forest working circle of WP was due for treatment during the years 2006-07 to 2008-09, yet no treatment was done. Non-adherence to prescriptions in the WP adversely affected treatment of degraded bamboo forest and future receipts of revenue.

After this was pointed out, the DFO, West Mandla stated (December 2008) that the treatment could not be carried out due to paucity of funds. The department (September 2009) also reiterated the same reason.

The Government may make it mandatory for the divisions to prepare the CCBs and CHs and update them regularly. Besides, reports/returns may be prescribed to be furnished by the divisions for effective monitoring by higher authorities.

6.2.9 Blockage of revenue due to delay in communication of sanction of bids

As per clause 2(a) and (b) of *Sthapit Depot se Imarati Lakdi ke Vikray ki Sharto ka Viniyaman karne wale Niyam*, 1976 (Rules), the successful bidder in an auction is required to pay 25 per cent of the bid amount within seven days from the date of auction and the balance 75 per cent of the bid amount shall be paid by him within 45 days from the date of sanction of the bid, which is communicated to him in writing. **However, the Rules do not prescribe any time limit for communication of sanction of the bids.**

Test check of records revealed that in seven production divisions¹⁸ for the period from 2005-06 to 2008-09, the sanction of bids in 218 cases were communicated to bidders on different dates for paying the balance 75 per cent of bid amount after delay ranging from 31 to 106 days. **Non-prescription of time limit to communicate the sanction of bids resulted in blockage of revenue of Rs.9.38 crore during the aforesaid period as well as unauthorised aid to the purchasers.**

After this was pointed out, the department stated (September 2009) that delays occurred as the sanction of bids are issued at different levels. It was also stated that prescription of time limit for issue of sanction at various levels was being contemplated.

The Government may prescribe time bound mechanism for issue of sanction and communication of the sanction.

¹⁸ Chhindwara, Dewas, Dindori, Harda, Khandwa, Mandla and North Seoni.

6.2.10 Delay in remittance of revenue into government account

Rule 11.v.b of Madhya Pradesh Forest Financial Rules provides that any cheque or bank draft received from private person in lieu of government revenue should be entered in the cashbook and should be remitted into bank/treasury without any delay. As per sub rule 505 of Madhya Pradesh Treasury Code Part-I, The DFO shall ensure that money remitted in treasury is actually credited into government account.

Audit scrutiny revealed that there was substantial delay in depositing bank drafts received in the divisions on auction of forest produces resulting in deferment of revenue in Government accounts. Due to lack of monitoring, the department remained unaware about such undue delay in remittance of Government dues as mentioned below.

Scrutiny of records revealed that in 1,120 cases of 12 Divisions¹⁹ bank draft of Rs. 13.35 crore received as a result of auction of timber, registration fee of purchasers etc. during the period from 2004-05 to 2008-09 was remitted/ accounted for in Government account after the delay of 7 to 128 days as detailed below:

Period	No. of cases	Amount (Rs. in lakh)
7 to 30 days	543	696.61
31 to 90 days	218	199.88
91 to 128 days	359	438.95
Total	1,120	1,335.44

Besides, in Jabalpur Division, 708 bank drafts of Rs 5.07 lakh were not remitted even within the validity period (six months). It was also observed that in most of the cases work orders for lifting the purchased material from depot were issued before adjustment of bank drafts.

After this was pointed out, DFO Harda (P) stated (October 2008) that bank had been requested to adjust the draft in time in future; DFO, Jabalpur stated (April 2009) that disciplinary action against responsible person had been taken, while the rest of the DFOs stated (between October 2008 and March 2009) that delay was due to completion of necessary formalities after auction and recording the entries in the bank draft register. The department stated (September 2009) that instructions were being issued by the PCCF office to deposit the bank drafts within the stipulated time.

The Government may consider prescribing periodic report/return to be submitted by the divisions for monitoring the status of receipt and remittance of bank drafts and other revenues into Government accounts to avoid possible fraud and temporary misappropriation.

¹⁹ Balaghat West (P), Chhindwara (P), Dewas (G), Dewas (P), Dindori (P), Harda (P), Indore (G), Jabalpur (G), Khandwa (G), Sehore (P), North Seoni (P) and Vidisha (G).

6.2.11 Weaknesses in reporting and accountability

6.2.11.1 Non-preparation of Timber Account

Rule 217 of the MP Forest Financial Rules (FFR) prescribes that monthly timber account in Form 20A is to be prepared in the ranges and sale depots to be submitted to the DFOs. It contains information such as the opening balance of forest produce, time when it was received, quantity disposed during the month, balance quantity pending etc., which is vital for monitoring the receipt and disposal of harvested as well as confiscated forest produce by the DFO.

This would also enable detection of any shortage of timber between the coupe and the depot. The DFO submits a monthly report on timely preparation of this account to the CF by 25th of the next month and the report of the circle is further submitted to the CCF.

Audit scrutiny revealed severe deficiencies in preparation of timber account by the divisions. It was observed that in 15 divisions²⁰, timber account was not prepared for various periods between January 1984 and March 2008. Indore and Khandwa general divisions did not mention the period up to which timber account had been prepared. In Mandla (G) Division timber account was not prepared since 1984. Despite non-preparation of timber account for such a considerable period, no effective steps were taken either by the CFs or the CCFs to ensure timely preparation and submission of timber accounts. Thus, due to lack of monitoring on timely preparation of timber account, the department remained unaware of the periodic position of timber felled/seized, disposed of and stock remaining undisposed.

After this was pointed out, DFO, Mandla (P) stated (November 2008) that preparation of timber account was under process while other DFOs stated (between October 2008 to April 2009) that accounts could not be prepared due to non-receipt of account from the ranges. The replies are not acceptable as no control mechanism was in existence at various levels regarding timely submission of timber account. The department accepted (September 2009) that the work of preparation of timber accounts has been lagging behind and concerned DFOs have been instructed to expedite the preparation of timber account.

The Government may consider making it mandatory for the ranges/divisions to prepare the timber accounts and submit them within the prescribed timeframe. They may also take steps to ensure monitoring by the CFs and CCFs over timely preparation and submission of the timber accounts.

6.2.11.2 Under reporting of revenue loss in cases of illicit felling

The MP Forest Manual does not prescribe the procedure for working out the loss on account of illicit felling. As per the practice followed by the Forest Department, the loss of revenue due to illicit felling is worked out by deducting the value of seized material from estimated value of

²⁰ Betul (P), Chhindwara (P), Dewas (G), Dewas (P), Dindori (G), Harda (G), Hoshangabad (G), Indore (G), Jabalpur (G), Khandwa (G), Mandla (P), Mandla West (G), North Shahdol (G), South Shahdol (G) and Vidisha (G).

illicitly felled trees. The cost of illicitly felled trees is based on the schedule of rate (SOR), approved by the CCF/CF for each year, while value of seized material is worked out at sale depot rate (SDR). The SDR is always higher than the SOR as transportation and other departmental expenditure is included in SDR.

It was observed that in five general divisions,²¹ 4,660.113 cum of estimated timber was illicitly extracted during 2004-05 to 2008-09 and was valued as Rs. 1.92 crore on the basis of SOR approved by the CCF/CF. During the same period, the divisions seized 2,582.349 cum timber valued as Rs. 2.03 crore on the basis of SDR, which was adjusted from the loss due to illicitly cut trees, calculated as per the SOR and thus net loss worked out to nil. The actual loss should have been worked out by considering SOR in respect of both seized and other material. Considering the SOR in seized timber, the actual loss of revenue worked out to Rs. 76 lakh instead of nil as reported. DFOs, General Division Dewas and Khandwa did not furnish the required information.

After this was pointed out, the DFOs, East and West Mandla, Indore and East Chhindwara stated (December 2008 and March 2009) that value was worked out on the basis of girth class of illicitly cut trees, while in the seized material the value was worked out at SDR. The DFO (G), Dindori stated (January 2009) that the information would be updated after receiving the same from the ranges. The replies are not acceptable, as same rates should have been applied in both cases for correct reporting of losses due to illicit felling. The department stated (September 2009) that calculation of value of illicitly felled trees was based upon "*Vriksha Mulya*" for that girth class while calculation of seized timber was based on sale rate obtained in depot sale. The reply does not explain why uniform rates are not applied for illicit removal and seized timber. Application of uniform rates would enable the department to assess the actual loss due to illicit felling.

The Government may consider prescribing uniform basis for reporting loss in cases of illicitly felled timber.

6.2.11.3 Internal audit

Internal audit is a vital component of the internal control mechanism which enables an organisation to assure itself that the prescribed systems are functioning reasonably well.

Information furnished by the department revealed that though there was no short fall in its manpower; the Internal Audit Wing (IAW) had inspected 147 out of 180 units (68 *per cent*) due for inspection during the year 2006-07 to 2008-09. Year wise details of Inspection Reports (IRs) issued and cleared revealed that at the end of August 2008, 157 IRs with 1,651 audit objections were pending for settlement due to non-pursuance with the respective divisions. It was also observed that the percentage of clearance of IRs and audit objections remained nil.

After this was pointed out, the department stated (September 2009) that special efforts would be made for settlement of pending paragraphs. Besides, a roster for IA had also been approved.

²¹ Chhindwara East, Dindori, Indore, Mandla East and Mandla West.

The Government may consider putting in place a strict monitoring mechanism for the functioning of the IAW and also prescribing a time frame for taking remedial measures on its observations.

Compliance issues

6.2.12 Loss of revenue due to low yield of forest produces

Low yield of timber

Marking of coupes due for exploitation and estimation of timber/fuel wood to be obtained is done by the general division. As per instructions issued by the CCF (P) in January 1984, 10 per cent variation between estimated and actual yield of timber and fuel wood is permissible. The PCCF further clarified (March 2004) that the reason for high variation might be investigated and reconciled by joint inspection during exploitation by the authorities of both divisions.

Scrutiny of records revealed that in five divisions,²² though there was shortfall in the yield of forest produce which ranged between 19 to 100 per cent against the estimated yield, no joint inspection was carried out by the general and production divisions. Such huge variation resulted in loss of revenue of Rs. 91.68 lakh (after deducting 10 per cent permissible variation) as detailed below.

Name of Division	Year	No. of Coupes	Timber/ fuel wood	Estimated yield (In cum)	Actual yield (In cum)	Short fall	Per cent- age of shortfall	Loss of Revenue (Rs. in Lakh)
Hoshangabad (G)	2007-08	16	Timber	1,542.835	1,197.613	345.222	22	36.62
Mandla (P)	2006-07	09	Timber	1,115.000	751.641	363.359	39	19.93
			Fuel wood	1,344.000	1,094.000	250.000	19	
	2007-08	02	Timber	516.000	414.943	101.057	20	9.69
			Fuel wood	270.000	146.000	124.000	46	
Chhindwara (P)	2006-07	02	Timber	310.966	168.249	142.717	46	16.87
			Fuel wood	190.000	-----	190.000	100	
South Shahdol (G)	2007-08	02	Timber	175.000	98.301	76.699	45	7.38
			Fuel wood	575.000	436.000	139.000	24	
Indore (G)	2007-08	01	Timber	58.124	38.050	20.074	35	1.19
			Fuel wood	86.000	86.000	---	---	
Total								91.68

After this was pointed out, all the DFOs stated between November 2008 to April 2009, that action was in progress to prepare a revised estimate. As a matter of fact, revised estimate can not be prepared prospectively after exploitation and disposal of the timber. As specified in the PCCF's order

²² Chhindwara (P), Hoshangabad (G), Indore (G), Mandla (P) and South Shahdol (G).

referred to above, this should have been done at the time of exploitation. The department stated that (September 2009) the instructions of APCCF (P) had been reiterated to the DFOs and suitable disciplinary action would be initiated against the staff and officials for such lapses. The SFRI, Jabalpur had also been instructed to examine and revise the form factors for every site quality in different forest divisions.

Low yield of bamboo

The CCF (P) clarified (June 1995) that no variation is permissible between estimated and actual yield in case of bamboo exploitation.

Scrutiny of records revealed that in eight divisions, the shortfall in the actual yield of bamboo ranged between 16 to 100 *per cent* against the estimated yield, which resulted in loss of revenue of Rs. 3.88 crore as detailed below:

Name of Division	Year	No. of compts.	Area in Hectare	Estimated yield (NT)	Actual yield (NT)	Short fall (NT)	Per centage of shortfall	Loss of Revenue (Rs. in lakh)
North Balaghat (P)	2007-08 (Arrear coupes)	05	1,115.00	4,400.000	1,357.354	3,042.646	50 to 100	181.74
	2007-08	09	1,256.45	1,718.000	625.133	1,092.867	34 to 96	39.40
West Balaghat (P)	2007-08	08	2,147.970	2,686.000	1,726.163	959.837	20 to 100	56.11
Betul (P)	2007-08	11	3,210.166	1,833.342	943.275	890.067	16 to 97	37.58
Sehore (P)	2006-07	05	795.036	1,498.000	407.745	1,090.255	63 to 84	26.91
	2007-08	05	841.083	136.42	67.011	69.409	46 to 69	3.33
Harda (P)	2007-08	04	1,639.80	279.986	79.402	200.584	67 to 80	17.68
Dewas (G)	2005-06	05	1,015.53	464.780	194.270	270.510	44 to 92	13.53
West Sidhi (G)	2007-08	03	1,204.611	619.293	441.015	178.278	15 to 84	6.68
Khandwa (G)	2007-08	16	2,707.73	548.000	166.350	381.650	34 to 93	4.97
Total								387.93

After this was pointed out, all the DFOs stated (between October 2008 to March 2009) that estimation was done on the basis of sample plots, therefore variation could not be ruled out. However, the fact remains that no variation is permissible as per departmental instructions (June 1995). The department agreed (September 2009) to initiate appropriate disciplinary action against erring staff and officials after conducting thorough scrutiny.

6.2.13 Auction of timber

Loss of revenue due to sale of timber below upset price

As per instructions issued by the Government of MP, Forest Department (September 2003), the upset price of timber is fixed on the basis of average rate of sale of last six months. Optimum receipt from sale depends upon proper logging of timber, correct fixation of upset price and timely disposal of the timber.

Scrutiny of records in seven divisions²³ for the period 2007-08 and 2008-09, revealed that 1,515 lots of timber were auctioned below upset price, resulting in loss of revenue of Rs. 1.52 crore.

Further scrutiny revealed that in Chhindwara (P) division 649 lots (52 per cent) out of 1,248 lots (between June and September 2008), in Indore division 429 lots (57 per cent) out of 749 lots (between February and December 2008) and in Dewas (P) division 675 lots (55 per cent) out of 1,222 lots (between January and September 2008) were sold below upset price ranging from 11 to 81 per cent.

After this was pointed out, all the DFOs stated (between October 2008 to March 2009) that timber was auctioned in government interest under the sanction of the competent authority to avoid deterioration in the quality of timber. However, audit observed that no investigation was made for the failure to sell the timber at least on the upset price. The question of deterioration does not arise as the timber was disposed of in first year itself after felling. The department stated (September 2009) that sale below upset price was done within the powers of competent authorities which were exercised as per their discretion in good faith and Government interest. Various reasons such as extraordinary high rates in previous auctions, dispute between the depot authorities and buyers regarding grading of lots etc., were offered to explain rates below the upset price.

Bidding on Power of Attorney

It was observed that in Khandwa (P) and Betul (P) divisions during the period 2006-07 to 2008-09, the bids of two bidders in 583 lots were accepted for Rs. 10.48 crore on behalf of 54 firms on the basis of Power of Attorney. This practice encourages collusive bidding and does not serve the purpose of fair competition.

After this was pointed out, both the DFOs stated (February and March 2009) that bids were accepted on the basis of Power of Attorney of purchasers.

Further, scrutiny of records revealed that in West Balaghat (P) Division, bid sheets of 58 lots for sale of timber through auction during 2008-09 involving sale price of Rs. 66.83 lakh, upset price and signature of second bidder was not found recorded for confirmation of the accepted bid amount.

After this was pointed out, the DFO stated (March 2009) that upset price was not mentioned to increase the chances of obtaining higher sale price and second bidders refused to record their signature. The reply is not in conformity with the instructions of Additional PCCF (Production) (May 2003) regarding recording of signature of second bidder on the bid sheets. The department stated (September 2009) that there was no restriction at present for bidding on behalf of third party on the basis of power of attorney. However, a suitable amendment in the sale conditions would be considered in future. It was also stated that fresh instructions were being issued for strict compliance to the order for recording signature of the second bidder on bid sheets.

²³ Chhindwara (P), Dewas (P), Dindori (P), Harda (P), Indore (G), Khandwa (P) and North Seoni (P).

6.2.14 Loss of revenue due to non-disposal of forest produce on time

As per Section 114A of the Forest Manual, useful life of cut timber and bamboo is five years and two years respectively. Therefore, timber and bamboo stored in depots should be disposed of in time to avoid deterioration in quality and to obtain optimum sale value.

Scrutiny of records revealed that in six divisions²⁴ for the period 2006-07 to 2008-09, forest produce was lying undisposed for more than one to five years, thereby reducing the value of these forest produce by Rs. 19.76 lakh due to deterioration in the quality.

After this was pointed out, the DFO, Hoshangabad stated (November 2008) that auction would be done after seeking permission of the Court and for other lots auction would be done shortly while rest of the DFOs stated (between December 2008 and February 2009) that the forest produce would be disposed of shortly. The department stated (September 2009) that action was in progress to dispose the forest produce. Further development has not been received (October 2009).

6.2.15 Loss due to shortage of forest produce found in physical verification

As per Rule 22 (1) of the Madhya Pradesh Financial Code, any loss should be reported to the Head of the Department (HOD) as well as the Accountant General (AG) and after enquiry, action for recovery should be initiated.

During the scrutiny of records, it was observed that in five general divisions²⁵, for the period 2005-06 to 2007-08 shortage of forest produce of Rs. 7.35 lakh was noticed during physical verification of depots conducted by the forest authorities. Except Khandwa Division, no action for recovery of the loss was initiated. Cases were also not found reported to the HOD/AG.

After this was pointed out, all the DFOs stated (between November 2008 to March 2009) that action for recovery was under process. The department stated (September 2009) that accounts would be corrected in depot verification and in case of any shortage, recovery would be ensured from the concerned staff. Further development has not been reported (October 2009).

6.2.16 Conclusion

The review revealed that the systems instituted by the department for realisation of forest receipts in the state were deficient. The WP of some divisions were not in continuous existence while there were delays in approval of the WP, the activities prescribed in the WP were not carried out as per schedule leading to deferment and non-realisation of revenue. The receipts of the department were inflated due to incorrect classification of commercial tax/VAT receipts under the departmental head. Substantial revenue remained blocked due to lack of any provision in the Rules to prescribe time limit

²⁴ Hoshangabad (G), Mandla (P), West Mandla (G), Dindori (G), Dewas (G) and North Seoni (P)

²⁵ Hoshangabad, West Mandla, Dindori, Dewas and Khandwa.

for communication of sanctions to successful bidders. Vital control records like CCB, CH and timber accounts were either not maintained or not updated. There was substantial loss of revenue due to huge variation between the estimated and actual yield.

6.2.17 Recommendations

The Government may consider implementation of the following recommendations to rectify the system and compliance deficiencies.

- Issue necessary orders for depositing sales tax/VAT under proper head of account;
- prescribe monthly returns to monitor timely preparation of WP and its implementation;
- make it mandatory to prepare and update the CCBs, CHs and timber accounts and submit to the competent authority within the prescribed timeframe;
- prescribe time limit for sanction and communication of sanctions;
- adopt uniform basis for reporting loss in cases of illicit felling;
- prescribe time bound mechanism for timely remittance of Government revenue;
- consider range wise form factor for estimation of forest produce to obviate inordinate variation between estimated and actual produce; and
- strengthen internal audit and pursuance of its observations.