

## CHAPTER-VI : FOREST RECEIPTS

### EXECUTIVE SUMMARY

<b>Substantial increase in tax collection</b>	In 2010-11 the collection from the forestry and wildlife sector increased by 75.20 <i>per cent</i> as compared to the Budget Estimates which was attributed by the Department to the deposit of arrear dues by the Orissa Forest Development Corporation Limited (OFDC).
<b>Very low recovery by the Department against the observations pointed out by us in earlier years</b>	During the period 2005-06 to 2009-10 we had pointed out non / short levy, non / short realisation of royalty, interest and other irregularities etc., with revenue implication of ₹ 61.91 crore in 16,448 cases. Of these, the Department / Government accepted audit observations in 12,540 cases involving ₹ 31.55 crore but recovered only ₹ 2.57 crore in 337 cases. The average recovery position, being 8.15 <i>per cent</i> , as compared to acceptance of objections was very low and it ranged between 0.08 <i>per cent</i> and 63.95 <i>per cent</i> .
<b>Results of audit conducted by us in 2010-11</b>	<p>In 2010-11 we test checked the records of 59 units relating to forest receipts and found non / short levy of interest, non-disposal of timber seized in undetected forest offence cases, non-realisation of royalty and other irregularities involving ₹ 8.93 crore in 2,617 cases.</p> <p>The Department accepted non / short levy of interest, non-realisation of royalty, non-disposal of timber seized in undetected forest offence cases and other deficiencies of ₹ 3.79 crore in 1,218 cases pointed out by us during the year 2010-11. An amount of ₹ 6.39 crore was recovered in 506 cases during the year 2010-11 relating to earlier years.</p>
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter we present an illustrative case of ₹ 0.95 crore<sup>1</sup> selected from the observations noticed during our test check of records maintained in the offices of the Principal Chief Conservators of Forests (PCCFs), Regional Conservators of Forests (RCFs) and Divisional Forest officers (DFOs), where we found that the provisions of the Acts / Rules / Orders / instructions were not adequately adhered to.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Reports of the CAG for the past several years; but the Department has not taken adequate corrective action. We are also concerned that though these omissions were apparent from the records which were made available to us, the above authorities were unable to detect these mistakes.</p>

1 This does not include one paragraph on blocking of revenue.

**Our conclusion**

The Department needs to issue instructions for strict compliance to the codal provisions read with their orders / instructions including strengthening of internal audit so that weaknesses in the system are addressed and omissions of the nature detected by us are avoided in future.

It also needs to initiate immediate action to recover the royalty and interest on belated payment of royalty and dispose of the timbers seized in undetected (UD) cases pointed out by us and more so in those cases where it has accepted our contention.

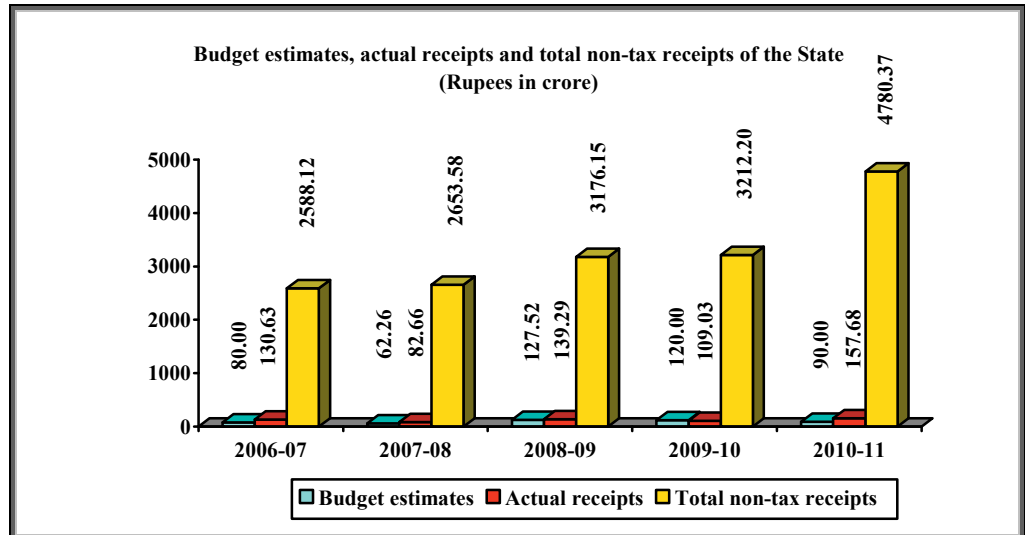
**6.1.1 Non-tax revenue administration**

Demand and collection of receipts under forestry and wildlife sector is regulated by the Indian Forest Act, 1927, the Orissa Forest Contract (OFC) Rules, 1966, the Orissa Forest (OF) Act, 1972, the Orissa Forest Department (OFD) Code, 1979 read with Government orders and instructions issued from time to time. The above Act, Code and Rules are administered by the Principal Chief Conservators of Forests (PCCF) under the overall control of the Principal Secretary, Forest and Environment Department. They are assisted by the circle and divisional level officers like Regional Chief Conservators of Forests (RCCFs), Divisional Forest Officers (DFOs) and their field level staff under the territorial, wildlife and kendu leaf wings of the Department. The forest receipts mainly comprise of royalty from sale of kendu leaf, timber and other forest produce and environmental forestry receipts from zoological parks.

**6.1.2 Trend of receipts**

Actual receipts from the forestry and wildlife sector during the years 2006-07 to 2010-11 along with the total non-tax receipts 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
2006-07	80.00	130.63	(+) 50.63	(+) 63.29	2,588.12	5.05
2007-08	62.26	82.66	(+) 20.40	(+) 32.77	2,653.58	3.12
2008-09	127.52	139.29	(+) 11.77	(+) 9.23	3,176.15	4.39
2009-10	120.00	109.03	(-) 10.97	(-) 9.14	3,212.20	3.39
2010-11	90.00	157.68	(+) 67.68	(+) 75.20	4,780.37	3.30



The trend of receipts showed that it fluctuated from year to year. The contribution of forest receipts to total non-tax receipts of the State has been declining since 2008-09 and it accounted for only 3.30 per cent of the non-tax receipts in 2010-11.

The reasons for wide fluctuations in budget estimates and actuals were attributed to excess deposit of royalty towards kendu leaf, timber and other forest produce during 2006-07 and 2007-08, whereas no reason were stated for the year 2008-09 and 2009-10. The reasons for increase in collection during 2010-11 as compared to 2009-10 was attributed to deposit of ₹ 119.17 crore by the OFDC.

The huge variation between the budget estimates and the actuals indicates that the budget estimates are not realistic. **We recommend that the Government may consider issuing instructions to the Department for framing the budget estimates on a realistic basis to ensure that the actuals are close to the budget estimates.**

### 6.1.3 Impact of audit

#### Revenue impact

During the last five years i.e. 2005-06 to 2009-10, we pointed out loss, non / short levy, non / short realisation of royalty, interest and other irregularities etc., with revenue implication of ₹ 61.91 crore in 16,448 cases. Of these, the Department accepted audit observations in 12,540 cases involving ₹ 31.55 crore and recovered ₹ 2.57 crore in 337 cases. The details are given in the following table.

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered		Percentage of recovery to amount accepted
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	
2005-06	46	2,806	22.52	2,545	12.94	17	0.01	0.08
2006-07	45	3,946	25.93	3,933	11.24	101	1.99	17.70
2007-08	45	1,895	3.07	1,377	1.05	36	0.01	0.95
2008-09	45	3,314	3.69	1,856	0.86	181	0.55	63.95
2009-10	51	4,487	6.70	2,829	5.46	2	0.01	0.18
<b>Total</b>	<b>232</b>	<b>16,448</b>	<b>61.91</b>	<b>12,540</b>	<b>31.55</b>	<b>337</b>	<b>2.57</b>	<b>8.15</b>

The recovery position as compared to acceptance of objections was very low, accounting for only 8.15 *per cent* of the accepted amounts. **We recommend that the Department take appropriate steps to ensure that they could recover at least the amount involved in the accepted cases immediately.**

#### **6.1.4 Results of audit**

We test checked the records of 59 units relating to forest receipts in 2010-11 and found non / short levy of interest, non-disposal of timber seized in undetected forest offence cases, non-realisation of royalty and other irregularities involving ₹ 8.93 crore in 2,617 cases which fall under the following categories.

(Rupees in crore)			
Sl. No.	Categories	No of cases	Amount
1.	Non / short levy of interest on belated payment of royalty.	494	3.27
2.	Non-disposal of timber seized in undetected forest offence cases	758	0.31
3.	Non-realisation of royalty	20	4.24
4.	Other irregularities	1,345	1.11
<b>Total</b>		<b>2,617</b>	<b>8.93</b>

During the year, the Department accepted non / short levy of interest, non-realisation of royalty, non-disposal of timber seized in undetected forest offence cases and other deficiencies of ₹ 3.79 crore in 1,218 cases pointed out in 2010-11. An amount of ₹ 6.39 crore was recovered in 506 cases during 2010-11 relating to earlier years.

A few illustrative cases involving ₹ 0.95 crore are mentioned in the following paragraphs.

#### **6.2 Audit observations**

We scrutinised the records maintained in the offices of the PCCFs, RCFs and DFOs and found several cases of non-compliance to the provisions of the Act and Rules read with the orders issued by the Department from time to time which resulted in non-raising of demand and blocking of Government revenue as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. We point out these omissions repeatedly; but not only do the irregularities persist, these remain undetected till an audit is conducted. The Government may consider issuing instructions for strict compliance to the codal provisions read with their orders / instructions and to improve the internal control mechanism so as to avoid recurrence of such omissions.

#### **6.3 Non-compliance to legal provisions and Government orders**

*The OFC Rules, 1966 and departmental orders of February 1977, August 2005 and October 2008 require:-*

- *levy of interest on the OFDC for belated payment of royalty at prescribed rates; and*
- *timely disposal of forest produce seized in undetected (UD) forest offence cases.*

*Non-compliance of some of the above provisions in the cases mentioned in the succeeding paragraphs 6.3.1 to 6.3.2 by the DFOs resulted in non-levy and non-realisation of Government revenue of ₹ 0.95 crore<sup>2</sup>.*

### **6.3.1 Non-demand of interest on belated payment of royalty**

As per the OFC Rules, 1966, if a contractor fails to pay any instalment of royalty for sale of forest produce by the due date, i.e., 31 March each year, he is liable to pay interest at the rate of 6.25 *per cent* per annum on the amount of default for the period of delay in payment. The Government, in February 1977, instructed that the OFDC being a contractor, was also liable to pay interest for default in payment of royalty.

During test check of the Delivery Lot (DL) register, Demand register, Royalty statements and Challan guard files of nine<sup>3</sup> DFOs, between June and October 2010, we noticed that the OFDC paid royalty of ₹ 4.39 crore on 840 lots for the period from 1999-2000 to 2008-09 belatedly, between February 2009 and March 2010, with delays ranging between one to 111

months. However, interest of ₹ 95.18 lakh for belated payment was not demanded by the DFOs against the OFDC. Despite our comments in the past in several Reports of the CAG, the DFOs did not put in place a mechanism to compute and issue demand notices for payment of interest at the time of accepting the belated payment of royalty and record the same in the demand register. Moreover, OFDC has also not provided for the interest liability in their accounts on the ground that the proposal of waiver of interest, as sought for by them, was pending for decision at the Government level.

After we pointed out these cases, the Government stated (August 2011) that the DFOs had raised demands against the OFDC for delayed payment of royalty. However, the OFDC had requested to waive the payment of interest on belated payment of royalty on certain grounds especially in view of its present financial condition. The opinion of the PCCF, Odisha in the matter had been received in the Department and the case was being further examined at Government level. The outcome would be intimated shortly. Further reply is yet to be received (January 2012).

<sup>2</sup> This does not include one paragraph on blocking of revenue.

<sup>3</sup> Angul, Athamallik, Balasore (WL), Cuttack, Dhenkanal, Karanjia, Keonjhar, Keonjhar (WL) at Anandpur and Nayagarh.

### **6.3.2 Blocking of revenue due to non-disposal of timber and poles**

The Government in their order of August 2005 issued instructions for early disposal of timber and poles seized in UD forest offence cases either by public auction or by prompt delivery to the OFDC within two months from the date of the seizure. The Chief Conservator of Forests (Forest Utilisation) directed (October 2008) that the DFOs shall be held responsible in case of delay in disposal without valid reasons.

We test checked the UD forest offence case register, proceedings of authorised officers confiscating the material and offer letters to the OFDC of 14 forest divisions<sup>4</sup> between April and December 2010 and

found that 5923.115 cft. of timber and 220 poles valued at ₹ 9.82 lakh seized in 375 UD forest offence cases during 2009-10 were lying undisposed. Of these, 116 UD cases involving 1599.39 cft. of timber and 116 poles valuing ₹ 2.72 lakh were left undisposed for more than six months as on 31 March 2010. Despite our comments in the past in several Reports of the CAG and displeasure expressed by the Hon'ble PAC on the delay in disposal of timber in their 23<sup>rd</sup> Report dated 13 July 2007 pertaining to the Report of the CAG for the year 2002-03, action was not taken by the DFOs for prompt disposal as per the above orders issued by the Department. This resulted in blocking of revenue of ₹ 9.82 lakh.

After we pointed out these cases, the Government stated (August 2011) that on the basis of the information obtained from the DFOs, 5987.885 cft. of timber and 220 poles were seized in 392 UD cases during 2009-10 involving royalty of ₹ 9.92 lakh, but not disposed of as of December 2010. However, 251 cases involving 4089.884 cft. of timber had been disposed of as of June 2011 involving royalty of ₹ 5.01 lakh and steps are being taken to dispose of the balance forest materials seized in UD cases. Further reply is yet to be received (January 2012).

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<sup>4</sup> Angul, Athamallik, Balasore(W/L), Bamra (W/L), Berhampur, Boudh, Cuttack, Deogarh, Ghumsur (N), Ghumsur (S), Phulbani, Rairakhol, Rairangpur and Subarnapur.