CHAPTER III: ECONOMIC SECTOR
(State Public Sector Undertakings)

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(STATE PUBLIC SECTOR UNDERTAKINGs)

3.1 Functioning of State Public Sector Undertakings

Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2015, there were 14 SPSUs in Tripura. None of these SPSUs was listed on the Stock exchange. During the year 2014-15, no SPSU was incorporated and none was closed down. The details of the State PSUs in Tripura as on 31st March 2015 are given below.

Table No. 3.1.1: Total number of PSUs as on 31 March 2015

Type of SPSUs	Working SPSUs	Non-working SPSUs[1]	Total
Government Companies[2]	12	1	13
Statutory Corporations	1	-	1
Total	**13**	**1**	**14**

The working State PSUs registered a turnover of ₹ 548.84 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 1.77 *per cent* of State Gross Domestic Product (GDP) of ₹ 30,922.12 crore[3] for 2014-15. During 2013-14, however, the contribution of the turnover (₹ 539.43 crore) of working SPSUs was marginally higher at 2.01 *per cent* of the State GDP (₹ 26,809.59 crore) for 2013-14. The working SPSUs incurred an aggregate loss of ₹ 126.63 crore as per their latest finalised accounts as of September 2015 as compared to the aggregate loss of ₹ 137.51 crore incurred by the working SPSUs during 2013-14. The overall losses of working SPSUs were mainly on account of heavy losses incurred by the lone power sector SPSU (viz.,Tripura State Electricity Corporation Limited) as discussed under **paragraph 3.1.15**. The SPSUs had employed 7,076[4] employees as at the end of March 2015.

As on 31 March 2015, there was one non-working SPSU which was existing for the last 44 years and involved State Government investment of ₹ 4 lakh. The investments in the non-working SPSUs do not contribute to the economic growth of the State.

Accountability framework

3.1.2 The audit of the financial statements of a company in respect of financial years

1 Non-working SPSUs are those which have ceased to carry on their operations.

2 Government companies include *Other Companies* referred to in Section 139(5) and 139(7) of the Companies Act 2013.

3 State GDP figures as per Quarterly Review Report of the Finance Minister, Government of Tripura for the 3rd quarter of 2014-15.

4 As per the details provided by working SPSUs.

commencing on or after 1st April, 2014 is governed by the provisions of the Companies Act, 2013. However, the audit of a company in respect of financial years that commenced earlier than 1st April, 2014 continued to be governed by the Companies Act, 1956.

According to Section 2 (45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by the Central and /or State Government(s) and includes a subsidiary of a Government Company. The process of audit of Government companies under the Act is governed by respective provisions of Section 139 and 143 of the Act.

Statutory Audit

3.1.3 The financial statements of a Government Company (as defined in Section 2 (45) of the Companies Act, 2013) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 139 (5) or (7) of the Companies Act. These financial statements are subject to supplementary audit to be conducted by the CAG under the provisions of Section 143 (6) of the Act.

Further, the Statutory Auditors of any other company (Other Company) owned or controlled, directly or indirectly, by the Central and/or State Government (s) are also appointed by CAG as per the provisions of Section 139 (5) or (7) of the Act.

As per the provisions of Section 143 (7) of the Act, the CAG, in case of any company (Government Company or Other Company) covered under sub-section (5) or sub-section (7) of Section 139 of the Act, if considers necessary, cause test audit to be conducted of the accounts of such Company (Government Company or Other Company) and the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit.

Audit of Statutory Corporations is governed by their respective legislations. The CAG of India is the sole auditor for the only Statutory Corporation in the State, viz., Tripura Road Transport Corporation.

Role of Government and Legislature

3.1.4 The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Chief Executive and Directors on the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government companies and Separate Audit Reports in case of Statutory corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Tripura

3.1.5 The State Government has huge financial stake in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans**- In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans (with interest) availed by the SPSUs from Financial Institutions.

Investment in State PSUs

3.1.6 As on 31 March 2015, the investment (capital and long-term loans) in 14 SPSUs was ₹ 1,487.65 crore[5] as per details given below.

Table No. 3.1.2: Total investment in PSUs

(₹ in crore)

Type of SPSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working SPSUs	1083.37	245.21	1328.58	158.78	0.25	159.03	1487.61
Non-working SPSUs	0.04	0.00	0.04	0.00	0.00	0.00	0.04
Total	**1083.41**	**245.21**	**1328.62**	**158.78**	**0.25**	**159.03**	**1487.65**

Out of the total investment of ₹ 1,487.65 crore in SPSUs as on 31 March 2015, 99.99 *per cent* was in working SPSUs and the remaining 0.01 *per cent* in one non-working SPSU (viz., Tripura State Bank Limited). This total investment consisted of 83.50 *per cent* towards capital and 16.50 *per cent* in long-term loans. The investment has more than doubled from ₹ 705.69 crore (2010-11) to ₹ 1,487.65 crore (2014-15) during last five years as shown in the graph below.

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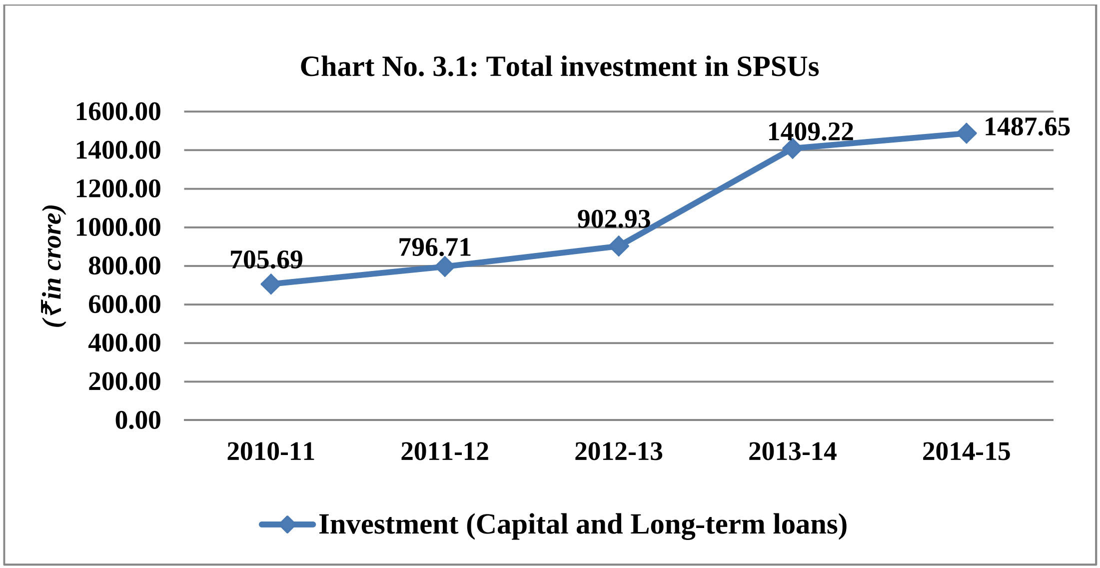
5 Information as furnished by the SPSUs excepting one SPSU (Sl. No. A 12 of **Appendix 3.1.2**) investment figures for which have been adopted from their finalised accounts for 2014-15.



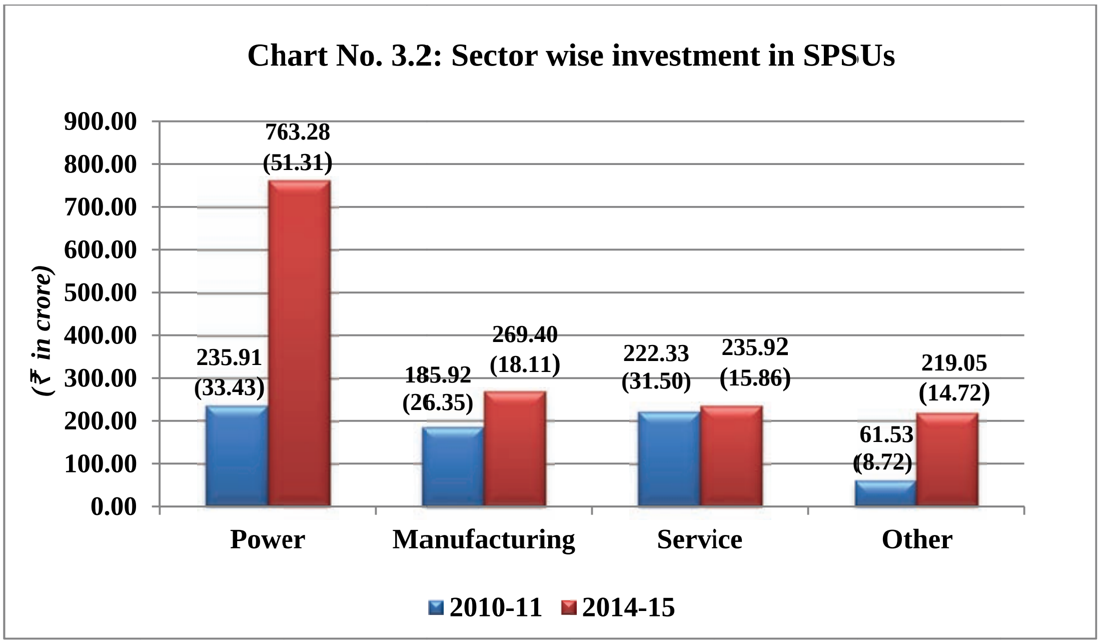
3.1.7 The sector wise summary of investments in the SPSUs as on 31 March 2015 is given below:

Table No. 3.1.3: Sector-wise investment in SPSUs

Name of Sector	Government / *Other*[6] *Companies*		Statutory corporations	Total	Investment
	Working	Non-Working	Working		*(₹in crore)*
Power	1	0	0	1	763.28
Manufacturing	2	0	0	2	269.40
Finance	1	1	0	2	144.10
Miscellaneous	1	0	0	1	17.66
Service	3	0	1	4	235.92
Agriculture & Allied	4	0	0	4	57.29
Total	**12**	**1**	**1**	**14**	**1487.65**

The investment in four significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated below in the bar chart. The thrust of SPSU-investment was mainly in power sector which increased from 33.43 *per cent* to 51.31 *per cent* of total investment in SPSUs during 2010-11 to 2014-15.

[6] ‘*Other Companies*’ as referred to under Section 139 (5) and 139 (7) of the Companies Act, 2013.



(Figures in brackets show the percentage of total investment)

As compared to the investment position in SPSUs during 2010-11, investments have increased in all the sectors as on 2014-15. Major increase in investment was in the Power sector by ₹ 527.37 crore (224 *per cent*) which was mainly due to conversion of capital reserve[7] amounting to ₹ 545.46 crore into equity by Tripura State Electricity Corporation Limited and issuing of share capital there against in favour of the Government of Tripura during the year 2012-13.

The increase of investment (45 *per cent*) under Manufacturing sector was mainly due to equity contribution of ₹ 83.51 crore extended by the State Government to Tripura Jute Mills Limited (₹ 74.99 crore) and Tripura Small Industries Corporation Limited (₹ 8.52 crore) during the period 2010-15.

Special support and returns during the year

3.1.8 The State Government provides financial support to SPSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of State PSUs are given below for three years ended 2014-15.

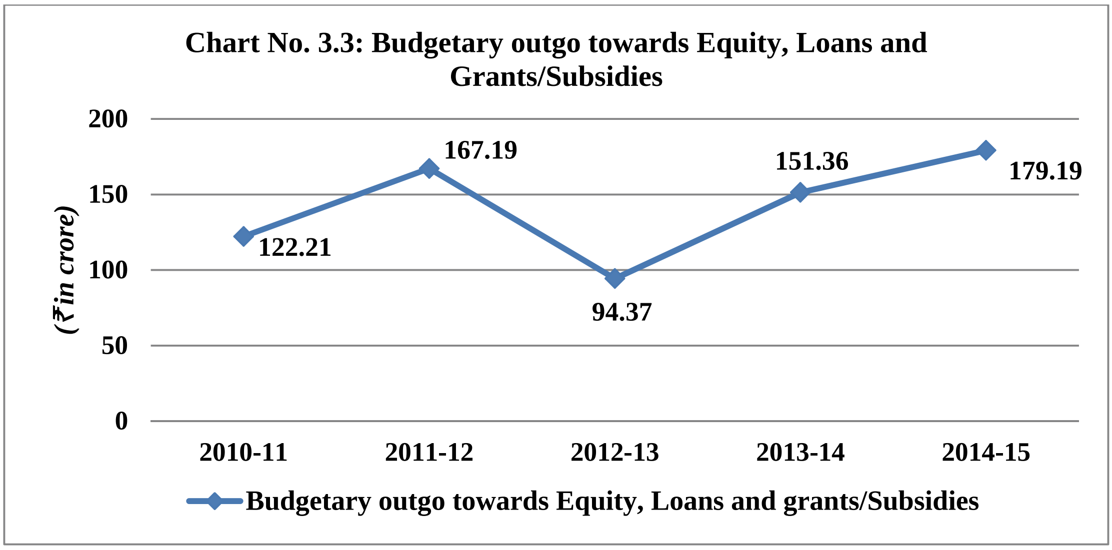
[7] This represents the value of assets transferred by State Government (Department of Power) to Tripura State Electricity Corporation Limited (Company) when the activities in power sector were transferred (2007) to the Company.

Table No. 3.1.4: Details regarding budgetary support to SPSUs

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	6	30.94	7	41.27	6	38.88
2.	Loans given from budget	-	-	-	0.00	1	12.00
3.	Grants / Subsidy from budget	4	63.43	5	110.09	6	128.31
4.	**Total Outgo (1+2+3)[8]**	**9**	**94.37**	**9**	**151.36**	**11**	**179.19**
5.	Waiver of loans and interest	-	-	-	-	-	-
6.	Guarantees issued	-	-	-	-	-	-
7.	Guarantee Commitment	-	-	1	2.63	-	-

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the past five years are given in a graph below.



It may be observed that the budgetary outgo to the SPSUs in the form of equity, loans, grants/subsidies, etc. had shown a mixed trend during 2010-11 to 2014-15. The budgetary outgo to SPSUs was at the peak in five years during 2014-15 at ₹ 179.19 crore which was higher by 18.39 *per cent* than the budgetary outgo extended during 2013-14. The budgetary outgo to SPSUs was at the lowest during 2012-13 (₹ 94.37 crore). The major beneficiaries of budgetary outgo during 2014-15 were Tripura State Electricity Corporation Limited (Equity: ₹ 6.00 crore, Grants: ₹ 44.90 crore & Subsidy: ₹ 62.00 crore), Tripura Jute Mills Limited (Equity: ₹ 21.00 crore), Tripura Road Transport Corporation (Equity: ₹ 1.18 crore, Grants: ₹ 13.72 crore) and Tripura Industrial Development Corporation Limited (Loans: ₹ 12.00 crore).

Reconciliation with Finance Accounts

3.1.9 The figures in respect of equity and loans as per records of SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the SPSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March

8 Actual number of SPSUs, which received equity, loans, grants/subsidies from the State Government.

2015 is stated below.

Table No. 3.1.5: Equity, loans, guarantees outstanding as per the Finance Accounts *Vis*-a-*vis* records of SPSUs

(₹ in crore)

Outstanding in respect of	Amount as *per* Finance Accounts	Amount as *per* records of SPSUs	Difference
Equity	1178.37	1233.33	54.96
Loans	43.50[9]	129.19	85.69
Guarantee	-	-	-

Audit observed that the differences occurred in respect of 11[10]SPSUs. During 2014-15, the differences in the figures of Equity and Loans were to the tune of ₹ 54.96 crore and ₹ 85.69 crore respectively. Corresponding differences in the figures of Equity and Loans during the year 2013-14 were to the tune of ₹ 99.25 crore and ₹ 73.69 crore respectively 2013-14. Thus, the unreconciled differences in investment of State Government in Equity of SPSUs had decreased by ₹ 44.29 crore while the same increased by ₹ 12.00 crore during the year 2014-15. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

3.1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96 (1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The table below provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2015.

Table No. 3.1.6: Position relating to finalisation of accounts of working SPSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of working PSUs	13	13	13	13	13
2.	Number of accounts finalised during the year	27	22	19	12	11
3.	Number of accounts in arrears	35	26	20	21	23
4.	Number of Working PSUs with arrears in accounts	13	13	10	11	12
5.	Extent of arrears (numbers in years)	1 to 10 years	1 to 6 years	1 to 3 years	1 to 5 years	1 to 6 years

From the table, it could be observed that the number of accounts in arrears has decreased from 35 (2010-11) to 23 (2014-15). As on 30 September 2015, only 1[11] out of 13 working SPSUs had prepared their up to date accounts and the accounts of

9 Loans represents State Government loan to Tripura State Electricity Corporation Limited for Power Projects.

10 SPSUs at Serial Nos.1 to 2 and 4 to 12 of **Appendix 3.1.2**

11 Tripura Natural Gas Company Limited.

remaining 12 working SPSUs had backlog of total 23 accounts for periods ranging from 1 to 6 years. The number of accounts in arrears has shown increasing trend after 2012-13 mainly due to reduction in the number of accounts finalised by working SPSUs during 2013-14 and 2014-15.The arrear of 23 accounts during 2014-15 included backlog of 6 accounts in respect of one Company[12] and 3 accounts of the only Statutory Corporation in the State namely, Tripura Road Transport Corporation as detailed in **Appendix 3.1.2**.

The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within stipulated period. During the period 2014-15 (upto September 2015), the Ministries/Departments concerned were informed (May, August & November 2014 and May 2015) regularly of the arrears in finalisation of accounts by these SPSUs. In addition, the AG had also taken up (June 2014/February 2015) the matter with the Finance Department, Government of Tripura for liquidating the arrears of accounts and drawing special attention to the importance of preparation of accounts on time. Despite all these efforts, however, the arrears of accounts of working SPSUs as of September 2015 stood at 23 accounts in respect of 12 working SPSUs.

3.1.11 The State Government had invested ₹ 237.58 crore in 12 SPSUs {equity: ₹ 51.95 crore (7 SPSUs), loans: ₹ 12 crore (1 SPSU) and grants ₹ 173.63 crore (6 SPSUs)} during the years for which these SPSUs have not been finalised their accounts as detailed in **Appendix 3.1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such SPSUs remained outside the control of State Legislature.

Placement of Separate Audit Reports

3.1.12 The position depicted below show the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

Table No. 3.1.7: Status of placement of SARs in Legislature

Sl. No.	Name of statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government/Reasons for not placing in legislature	
1.	Tripura Road Transport Corporation	2008-09	2009-10	30-09-2013	Delay in printing
			2010-11	09-04-2015	Not available

SARs issued by the CAG on the accounts of Tripura Road Transport Corporation were placed in the Legislature by the Government up to 2008-09. The SARs for the years 2009-10 and 2010-11, issued in September 2013 and April 2015 respectively are yet

12 Serial No.A-10 of **Appendix 3.1.2**

to be placed in the Legislative Assembly (November 2015). The issue was discussed (September 2014) by AG during the meeting held with the Finance Department, Government of Tripura. As per the latest correspondence received (August 2015) from the Transport Department, Government of Tripura, the SAR for 2009-10 was to be placed in the ensuing session of the Legislative Assembly. The Government should ensure prompt placement of SARs in the Legislature.

Impact of non-finalisation of accounts

3.1.13 As pointed out above (**paragraph 3.1.10** to **3.1.11**), the delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of SPSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **Government may ensure that existing vacancies in the accounts department of Companies are timely filled up with persons having expertise and experience.**

Performance of SPSUs as per their latest finalised accounts

3.1.14 The financial position and working results of working Government companies and Statutory Corporations are detailed in **Appendix 3.1.2**. A ratio of SPSU - turnover to State GDP shows the extent of SPSU - activities in the State economy. Table below provides the details of working SPSU turnover and State GDP for a period of five years ending 2014-15.

Table No. 3.1.8: Details of working SPSUs turnover *vis-à-vis* State GDP

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover[13]	331.33	419.52	466.52	539.43	548.84
State GDP[14]	17867.73	19973.91	22697.07	26809.59 (P)	30922.12 (A)
Percentage of Turnover to State GDP	1.85	2.10	2.06	2.01	1.77

Though the turnover of the working SPSUs showed a continuous increase during 2010-11 to 2014-15, the overall contribution of SPSU turnover to State GDP in terms of year-wise percentage of turnover to the State GDP showed decreasing trend after 2011-12. As against the growth of 73.06 *per cent* in the State GDP during the period 2010-11 to 2014-15 the growth in the turnover of the SPSUs had been only 65.65 *per*

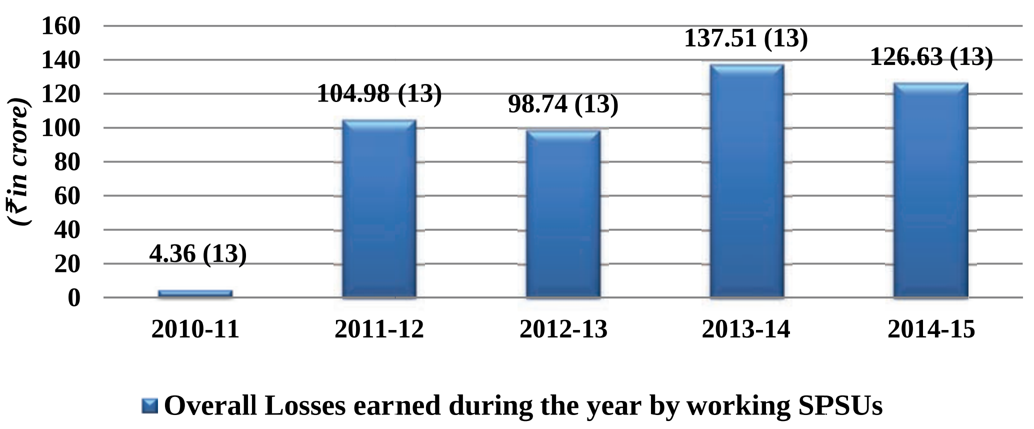
[13] Turnover as per the latest finalised accounts of SPSUs as on September 2015.
[14] GSDP figures as per Quarterly Review Report of the Finance Minister for the 3rd quarter of 2014-15; (P)=Provisional, (A)=Advance.

cent which was indicative of the fact that the growth in the turnover of the SPSUs was not very encouraging as compared to the year wise growth in the State GDP figures.

The power and transport sectors are considered to be the drivers of State economy. Analysis of the turnover of power and transport sector SPSUs revealed that the power sector had been the major contributor (above 50 *per cent*) of the total SPSUs turnover during 2010-11 to 2014-15 while the contribution to turnover by the transport sector SPSUs was negligible (less than 1 *per cent).* During 2010-11 to 2014-15, the turnover of power sector SPSU had increased by 53.14 *per cent* only in comparison to the growth of (73.06 *per cent*) recorded by the State GDP. Thus, the slow pace of growth in power and transport sectors of SPSUs was a major factor contributing towards the downward trend of the percentage of SPSU turnover to State GDP.

3.1.15 Overall losses[15] incurred by 13 working SPSUs during 2010-11 to 2014-15 are given below in a bar **Chart No. 3.4**

Chart No. 3.4: Losses of working SPSUs (No. of working PSUs)



(Figures in brackets show the number of working SPSUs in respective years)

From the Chart above, it could be seen that the working SPSUs incurred losses in all the five years during 2010-11 to 2014-15. Significant overall losses incurred by working SPSUs during 2011-12 to 2014-15 were mainly due to heavy losses incurred by the power sector SPSU namely, Tripura State Electricity Corporation Limited.

During the year 2014-15, out of 13 working SPSUs, 3 SPSUs earned aggregate profit of ₹ 29.94 crore while 9 SPSUs incurred loss of ₹ 156.57 crore. One working SPSU (viz., Tripura Urban Transport Company Limited incorporated in the year 2009-10), however, had not finalised its first accounts. Major contributors to profit of SPSUs were Tripura Forest Development & Plantation Corporation Limited (₹ 16.25 crore) and Tripura Natural Gas Company Limited (₹ 12.43 crore). Heavy losses were incurred by Tripura State Electricity Corporation Limited (₹ 107.44 crore), Tripura Jute Mills Limited (₹ 17.12 crore), Tripura Road Transport Corporation (₹ 15.00 crore) and Tripura Handloom and Handicrafts Development Corporation Limited (₹ 10.39 crore).

15 As per the latest finalised accounts of working SPSUs as on 30 September of the respective year.

3.1.16 Some other key parameters pertaining to SPSUs based on their latest finalised accounts as at the end of September of the respective year are given below.

Table No. 3.1.9: Key parameters of State PSUs

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Return on total Capital Employed (*per cent*)	0.50	Negative	Negative	Negative	Negative
Debt	128.28	203.77	276.20	205.91	245.46
Turnover[16]	331.33	419.52	466.52	539.43	548.84
Debt/ Turnover Ratio	0.39:1	0.49:1	0.59:1	0.38:1	0.45:1
Interest Payments	9.37	9.37	10.33	10.50	10.54
Accumulated losses	320.31	348.01	348.03	489.43	634.48

From the **Table 3.1.9** above, it may be noticed that during 2010-15 (excepting 2013-14) the overall debt position of the SPSUs showed an increasing trend. The increase in SPSU debts was mainly on account of overall increase of ₹ 230.42 crore in the borrowings of two SPSUs viz., Tripura Industrial Development Corporation Limited (₹ 127.89 crore) and Tripura State Electricity Corporation Limited (₹ 102.53 crore) during the five years. The accumulated losses of SPSUs had almost doubled during 2010-15 from ₹ 320.31 crore (2010-11) to ₹ 634.48 crore (2014-15). The accumulated losses of SPSUs had increased significantly by ₹ 286.45 crore (82 *per cent* after 2012-13 mainly due to the losses of ₹ 227.77 crore incurred by the power sector SPSU (Tripura State electricity Corporation Limited) as per its accounts finalised during 2013-14 and 2014-15. The return on total capital employed during last four years from 2011-15 had been negative due to high losses incurred by the SPSUs.

3.1.17 The State Government had not formulated any dividend policy regarding payment of minimum dividend by the SPSUs. As per their latest finalised accounts as on 30 September 2015, three SPSUs earned an aggregate profit of ₹ 29.94 crore. None of these SPSUs however, had declared any dividend during the year 2014-15.

Winding up of non-working SPSUs

3.1.18 There was one non-working SPSU (viz., Tripura State Bank Limited), as on 31 March 2015, which had been non-functional since 1971. The said SPSU was in the process of liquidation under Section 560 of the Companies Act, 1956. The Government may expedite the process of winding up of the non-working SPSU.

Accounts Comments

3.1.19 Ten working Companies had forwarded 10 accounts to the Accountant General during the year 2014-15 (October 2014 to September 2015). Out of these 10 accounts, 7 accounts of 7 Companies were selected for Supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors are given below.

[16] Turnover of working SPSUs as per their latest finalised accounts as of 30 September of the respective year.

Table No. 3.1.10: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	3	12.80	1	1.93	2	1.13
2.	Increase in loss	5	11.45	7	8.39	2	6.98
3.	Non-disclosure of material facts	3	0.61	2	102.61	-	-
4.	Errors of classification	-	-	1	0.95	-	-

During the year, the statutory auditors had given qualified certificates on all 10 accounts. The compliance of companies with the Accounting Standards remained poor as there were 13 instances of non-compliance in 7 accounts during the year. The audit comments were based mainly on the non-compliance with the Accounting Standards namely AS-2 (Valuation of Inventories), AS-12 (Accounting for grants), AS-15 (Employee Benefits) and AS-22 (Accounting for Taxes on Income).

Similarly, the only working Statutory Corporation (viz., Tripura Road Transport Corporation) for which CAG is the sole auditor, had forwarded one year accounts to Accountant General, Tripura during the year 2014-15. The audit of the accounts forwarded by the Corporation had been completed and a qualified audit certificate was issued.

Response of the Government to Audit

Performance Audits and Paragraphs

3.1.20 For the Economic Sector (PSUs) Chapter of the Report of CAG for the year ended 31 March 2015, one performance audit and two audit paragraphs involving Forest Department and Power Department were issued to the State Chief Secretary/Principal Secretaries of the respective Departments/Ministry with request to furnish replies within six weeks. The replies in respect of the Performance Audit and two compliance audit paragraphs were, however, awaited from the State Government (November 2015).

Follow up action on Audit Reports

Replies outstanding

3.1.21 The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Tripura issued (July 1993) instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The position of replies/explanatory notes to paragraphs/performance audits pending to be received from the State Government/Administrative Departments concerned is given below:

Table No. 3.1.11: Explanatory notes not received (as on 30 September 2015)

Year of the Audit Report (Commercial/ SPSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2010-11	06-03-2012	1	2	Nil	2
2011-12	27-09-2013	1	3	Nil	3
2012-13	02-09-2014	1	3	1	2
Total		**3**	**8**	**1**	**7**

From the above, it could be seen that out of 11 paragraphs/ performance audits, explanatory notes to 8 paragraphs/performance audits in respect of 4 departments, which were commented upon, were awaited (September 2015).

Discussion of Audit Reports by COPU

3.1.22 The status as on 30 September 2015 of Performance Audits and paragraphs relating to SPSUs that appeared in the State Audit Reports and discussed by the Committee on Public Undertakings (COPU) was as under.

Table No. 3.1.12: Performance Audits/Paras appeared in State Audit Reports *vis-a-vis* discussed by COPU as on 30 September 2015

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2007-08	2	4	2	4
2008-09	1	4	1	4
2009-10	1	2	1	2
2010-11	1	2	Nil	Nil
2011-12	1	3	Nil	Nil
2012-13	1	3	Nil	Nil
Total	**7**	**18**	**4**	**10**

Compliance to Reports of the COPU

3.1.23 Action Taken Notes (ATNs) to 43 recommendations pertaining to 8 Reports of the COPU presented to the State Legislature between November 2010 and March 2015 had not been received (September 2015) as indicated below:

Table No. 3.1.13: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2010-11	3	22	13
2011-12	3	14	14
2013-14	1	10	10
2014-15	1	6	6
Total	**8**	**52**	**43**

The above Reports of COPU contained recommendations in respect of paragraphs pertaining to five departments of the State Government, which appeared in the Reports of the CAG of India for the years 1989-90 to 2008-09.

It is recommended that the Government may ensure: (a) sending of replies to inspection reports/ draft paragraphs/ performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/ outstanding advances/ overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

Disinvestment, Restructuring and Privatisation of SPSUs

3.1.24 No disinvestment, privatisation or restructuring of SPSUs occurred during 2014-15.

FOREST DEPARTMENT

(Tripura Forest Development and Plantation Corporation Ltd.)

3.2 Tripura Forest Development and Plantation Corporation Limited

The Company was incorporated (March 1976) as a State Government Company with the intention of rehabilitating degraded forest lands, settling of tribal shifting cultivators and generation of employment in the rural areas by raising commercial plantations and dealing in products there from. At present, activities of the Company are restricted to raising of commercial rubber plantations; extraction and processing of rubber latex sourced from own plantations as well as outside sources; extraction, treatment and processing of rubber wood into value added products like timber, furniture and doors. The Company was one of the few State PSUs which recorded profits and paid dividend. The present Report reviewed the performance of the Company covering the period 2010-11 to 2014-15 with focus on economy, efficiency and effectiveness of its operations and brought out the following main points:

Highlights:

As of March 2014, the Company managed 17.68 *per cent* of the total matured area of rubber plantations in the State. Its contribution to the total production (2013-14) in the State was, however, only 5.90 *per cent.*

(Paragraph 3.2.10)

The per hectare yield of the plantations managed by the Company during 2010-11 to 2013-14 owned and operated plantation was less than half of the State average yield for the respective year.

(Paragraph 3.2.10)

Out of the total Rubber Plantation area managed by the Company, 318.60 hectares of plantation area was under encroachment resulting in production loss valuing ₹ 6.13 crore till March 2015.

(Paragraph 3.2.9.1)

Forest land to the extent of 354.882 hectares handed over to the Company by the GoI/GoT for raising beneficiary plantations was encroached due to delayed implementation of the programme.

(Paragraph 3.2.9.2)

Out of the forest land area (2374.62 ha.) handed over by GoI for the benefit of tribals, 581.60 ha.(24.49 *per cent*) of forest land was utilised by the Company for raising its own plantation without the sanction of GoI thereby attracting the risk of payment of compensation of ₹ 42.46 crore.

{Paragraph 3.2.9.2(b)}

Under-utilisation of capacity and absence of effective marketing resulted in cumulative losses amounting to ₹ 6.31 crore at the Wood processing and manufacturing facilities of the Company during the period 2010-11 to 2014-15.

{Paragraphs 3.2.11.1 and 3.2.11.1 (e)}

Inefficiencies in manufacturing of value added products from rubber resulted in a loss of ₹ 2.73 crore during the review period.

{Paragraphs 3.2.11.2 (a) and 3.2.11.3}

Monitoring activities and internal control systems were found to be deficient.

{Paragraphs 3.2.12.1 to 3.2.12.2(b)}

3.2.1 Introduction

Tripura Forest Development and Plantation Corporation Limited (Company) was incorporated (March 1976) in the State Sector[17] with the intention of rehabilitating degraded forest lands, settling of tribal shifting cultivators and generation of employment in the rural areas by raising commercial plantations and dealing in products there from. Following are the main objectives of the Company as per its Memorandum of Association:

- To acquire on lease or otherwise, rubber and other plantations owned by Government of Tripura and continue the plantation business;
- To develop plantations of economically viable species like teak, coffee, etc. on land acquired by the Company;
- To deal in various forest trees and forest produce including timber; and
- To carry on the business of manufacturing and dealing in wood and processed wood products.

At present, activities of the Company are restricted to raising of commercial rubber plantations; extraction and processing of rubber latex sourced from own plantations as well as outside sources; extraction, treatment and processing of rubber wood into value added products like timber, furniture and doors.

3.2.2 Organisational setup

The Company functions under the administrative control of Forest Department, Government of Tripura (GoT). The Management of the Company is vested with the Board of Directors consisting of fifteen Directors. The Company is headed by the Chairman and the day-to-day operations are managed by the Managing Director of the Company.

For effective management and supervision, plantations spread throughout the State have been geographically grouped under five Divisions[18]. While all the five Divisions are engaged in management of plantations, the Factory Division located at

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[17] While the State Government has a shareholding of 96.79 *per cent*, Central Government holds the remaining 3.21 *per cent* of the paid up share capital.

[18] North, South-I, South-II, Factory and Sadar

Takmacherra additionally manages manufacturing facilities for Cenex[19] and ISNR[20]. Rubber Production Centres (RPCs) under each Division are responsible for day-to-day management of plantation activities like extraction of latex and its processing into sheets, payment to workers, silviculture activities, etc.

In addition to above, the Company also operates a rubber wood processing facility at its Industrial Estate in Anandnagar, near Agartala. Rubber wood extracted from the Company's own plantations are seasoned and processed into boards, doors and furniture in this manufacturing facility.

3.2.3 Financial Position and Working Results

The summarised details of the financial position and working results of the Company during the years from 2010-11 to 2014-15 are given in **Appendix - 3.2.1** and **3.2.2)**. The highlights of the operational results of the Company during the years 2010-11 to 2014-15 are given below in **Table No. 3.2.1.**

Table No. 3.2.1

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15 (Provisional)
Income	49.12	49.68	53.16	52.45	52.81
Expenses	23.91	26.73	36.71	39.02	42.33
Stock Adjustment	(1.05)	(1.59)	(0.43)	(2.82)	2.73
Profit before tax	**26.26**	**24.54**	**16.88**	**16.25**	**7.75**
Tax	4.47	4.55	4.42	4.50	3.26
Net Profit after Tax	**21.79**	**19.99**	**12.46**	**11.75**	**4.49**
Operating profit	**20.25**	**16.17**	**4.37**	**4.99**	**(4.19)**

From the **Table 3.2.1** above it could be noticed that the profits of the Company had shown a downward trend during the period of five years from 2010-11 to 2014-15 and the Company had incurred operational loss of ₹ 4.19 crore during 2014-15. As could be noticed from **Appendix 3.2.2**, the deterioration in the performance of the Company was mainly on account of significant increase in the operational expenses of production units, employee related expenses (wages and salaries) coupled with declining trend of rubber prices and poor operational performance of the rubber wood processing-cum-manufacturing activities of the Company as discussed under **paragraph 3.2.11.1** *infra*. Further, the net surplus recorded by the Company during the years 2012-13 and 2014-15 was mainly on account of the interest income ranging from ₹ 5.52 crore (2010-11) to ₹ 10.40 crore (2014-15) earned by the Company against investment of surplus funds. The Company had also paid the dividend aggregating ₹ 1.07 crore to the shareholders during the years 2010-11 and 2012-13.

Fund Management

Deficiencies in management of surplus funds by the Company were highlighted under **paragraph 5.4** of the Audit Report for the year 2010-11, Government of Tripura. A review of the follow up action taken by the Company on the observations appeared in

[19] Concentrated latex with 60 *per cent* dry rubber content
[20] Indian Standard Natural Rubber, a value added product manufactured from scrap rubber.

the said Report revealed that the Company had formulated (October 2012) an investment policy detailing the manner and tenure for deployment of the surplus funds. It was also noticed that the Company had been adhering to the said investment policy. During the five years from 2010-11 to 2014-15, the surplus funds of the Company ranged between ₹ 77.96 crore (2010-11) to ₹ 108.66 crore (2014-15). It was further observed that during the period 2010-15, the Company had paid substantial amount of income tax aggregating ₹ 21.20 crore mainly towards the interest income earned against investment of said surplus funds.

The Government of India (GoI) introduced (2004-05) the Rubber Development Account Scheme (RDAS) for promotion of rubber cultivation in the Country. As per the scheme guidelines, if an income tax assesse engaged in rubber cultivation deposited any amount with National Bank for Agriculture and Rural Development (NABARD), the assesse was eligible for a deduction of an equivalent amount (subject to a maximum of 40 *per cent* of the business income) from the taxable income of the year concerned under section 33AB of the Income Tax Act. The amount so deposited with NABARD also attracted simple interest at 6.5 *per cent* and the said deposit was available for withdrawal after a period of 6 months for meeting capital expenditure requirement of the depositor relating to raising, extracting and such other expenses in respect of rubber plantations.

Despite the fact that the above scheme was beneficial even after taking into account the interest loss due to diversion of higher interest bearing term deposits, the Company did not take advantage of the scheme during any of the years under review. Failure to avail the benefits of the scheme specially designed for the benefit of rubber cultivators resulted in avoidable tax payment of ₹ 3.08 crore by the Company during the assessment years 2010-11 to 2015-16.

After being pointed out by Audit, the Company obtained confirmation from NABARD regarding existence and availability of the Scheme for Corporate assesses. No action, was, however, taken by the Company to avail the benefits of the Scheme.

3.2.4 Scope of Audit

The present audit reviewed the performance of the Company covering the period from 2010-11 to 2014-15. The audit involved scrutiny of records pertaining to planning, plantation management, production management and monitoring activities carried out by the Company. For this purpose, Audit examined records at the Head Office as well as factories located at Takmacherra and Anandnagar. Besides, out of 39 RPCs of the Company, ten RPCs[21] (26 *per cent*) were selected for detailed examination using the method of Stratified Random Sampling Without Replacement.

The performance of the Company covering the period 2003-04 to 2007-08 was reviewed and included in the Report of the Comptroller and Auditor General of India,

[21] Saiderpar, Bilthai, Nalkata,Pathalia, Motinagar, Debdaru, Abhangcherra, Motai, West Ludhua and Patichari

Government of Tripura for the year ended 31 March 2008. The Report was discussed by the Committee on Public Undertakings (COPU) in October 2011 and the recommendations thereon were included in its 47th Report (February 2012). The status of compliance by the Company on the recommendations of COPU has been appropriately included in the present audit report at the relevant places.

3.2.5 Audit Objectives

The objectives of the performance audit were to ascertain whether:

- the long and short term planning mechanisms were effective in achieving the organisational goals and sustainable management of forests;
- plantations as well as human resources were managed efficiently, economically and effectively so as to ensure maximum productivity and profitability;
- processing and manufacturing activities as well as marketing operations were carried out efficiently, economically and effectively so that the activities were sustainable; and
- there was an efficient and effective monitoring and internal control mechanism in place.

3.2.6 Audit criteria

The audit criteria for assessing the achievement of the audit objectives were derived from the following sources:

- Perspective plans, Annual Action Plans; Annual Budgets and Memorandum of Association of the Company;
- Lease agreement with the Government; Industry norms in various operational areas; field standards adopted by the Company;
- industrial norms relating to various operational areas, like, processing of raw latex into value added products and processing of extracted rubber wood, etc.
- generally accepted standards and commercial principles relating to manufacturing and sales promotion activities, Corporate Governance and Internal control.

3.2.7 Audit methodology

The methodology adopted for attaining the audit objectives consisted of explaining the audit objectives to the top management of the Company in the Entry conference (May 2015), analysis of data/records with reference to audit criteria, examination of annual reports, internal reports, etc. of the Company as well as Agenda/Minutes of the BoD, interaction with the Company officials, raising of audit queries, issuing (22 September 2015) of draft Audit Report to the Management/Government of Tripura (GoT) for comments. The draft Audit Report was also discussed (6 November 2015) with the representatives of the Company/GoT in the Exit conference. The formal replies (4

November 2015) of the Company to the draft Report as well as the views expressed by the representatives of the Company and GoT in the Exit conference have been taken into consideration while finalising the Report.

Audit Findings

Audit Objective 1: Effectiveness of longand short-term planning mechanismin achievement of organisational goals and sustainable management of forests

3.2.8 Planning

3.2.8.1 Long term planning

Corporate planning essentially involves formulation of long term planning for achievement of the laid down objectives of the Company. For the purpose, the Company has to identify opportunities and threats related to sphere of its activities through regular monitoring of macro and micro environmental changes. Long-term and short-term plans are then prepared to manage the dynamic environmental factors so as to attain long-term objectives of the Company.

During examination of the records of the Company, however, it was observed that even though the Company had been managing vast financial and natural resources, it had not formulated any long term plans to help attaining the laid down objectives of the Company as well as achieving its commercial viability and social commitment. Thus, in the absence of any credible long term plan, the short term targets as at present being set by the Company under Annual Action Plans served the purposes of attending the immediate and short term issues without addressing the core issues in long run like poor yield, low capacity utilisation of processing units, manpower shortages, low demand for processed wood products and financial uncertainty faced by the Company on account of fluctuating prices of its products, etc.

In reply, the Company stated (November 2015) that it had prepared a management plan covering the period 2013-14 to 2017-18. The reply is not tenable as the said plan was prepared with a view to get certification of its wood products for export purposes only. The plan referred to by the Company had restricted utility as it failed to address the core issues like improving yield, manpower shortages, long-term strategy for marketing, etc. in long run.

3.2.8.2 Short term planning

As part of the short term planning, the Company had been preparing Annual Action Plans (AAPs). Audit observations relating to these plans have been discussed in the following paragraphs.

3.2.8.2(a) Annual Action Plans

The Company started preparing Annual Action Plans (AAPs) from the year 2012-13 onwards to supplement the financial budgeting system. The so prepared AAPs were, however, meant to justify the financial proposals made in the annual budget with definite physical targets set for rubber production, raising of plantations and seedlings, construction works to be undertaken in various RPCs and Divisions, etc. The targets under AAPs on various activities were fixed division-wise and further consolidated at Headquarters level. In this connection, following observations are made:

- Even though the targets for rubber production and tree extraction in the AAPs were set in consultation with the respective divisions, the same were revised downwards by the Company throughout the year pointing towards the fact that the targets set in AAPs had no realistic basis.
- The Company had made substantial investment in its production units at Anandnagar and Takmacherra. While preparing the AAPs, however, these units were not treated as profit centres and no commercial targets relating to turnover, profitability, etc. were prescribed for these units. In fact, even production targets for these units were not set during the first four years from 2010-11 to 2013-14 covered under the present Audit.
- The details of the rubber production targets set in the AAPs for previous three years from 2012-13 to 2014-15 and achievement there against are given in **Appendix -3.2.3.** It could be seen that production targets were not met by any Division (excepting Sadar Division in 2012-13) during any of the three years under reference. The shortfall ranged between 0.68 *per cent* (2014-15/Sadar) and 23.61 *per cent* (2012-13/North). Cumulative shortfall on this account for the three years was 677.12 MT valued at ₹ 8.93 crore based on average sales price of rubber products realised during the year.

The above findings were indicative of the fact that the rubber production targets set under AAP were not realistic.

3.2.8.2(a)(i) Fixation of low production targets

Latex[22] yield of a rubber tree is closely correlated with its age. A rubber tree usually reaches its maturity in its 7th year of planting after which it could be tapped[23]. The yield from the tree gradually increases and reaches its peak in the third year of its tapping. This peak yield period lasts upto 10 years after which yield start declining. After 32 years of planting, however, rubber plantation is considered to be commercially unviable.

Audit observed that there was no scientific basis for setting annual production targets. For instance, the procedure adopted by the Company for fixing the production targets did not take into account the age profile of plantations and hence, the actual yield potential of trees was ignored. Analysis of yield potential of the plantations (based on expected yield per tree in the State as per their age profile and actual number of trees available in various RPCs for tapping during the year 2014-15) **(Appendix - 3.2.4)**

[22] Viscous liquid collected from the trunk of a rubber tree. It contains rubber in the form of particulate matter generally referred to as Dry Rubber Content (DRC) and expressed as a percentage.

[23] The process of extraction of latex from a rubber tree by making a controlled incision on its bark. The worker who carries out tapping is called a tapper.

showed that potential yield available for extraction during 2014-15 was much more than the targets set by the Company[24] under AAP, 2014-15. Actual shortfall in production for 2014-15 thus, worked out at 1087.48 MT valued at ₹ 10.19 crore as against the shortfall of 209.45 MT (valued at ₹ 1.96 crore) in the annual target for the year 2014-15. The Company needed to consider factors like age profile and actual availability of trees, etc. for setting more realistic production targets so as to enable it to pinpoint reasons for shortfall in achievement there against and take corrective measures.

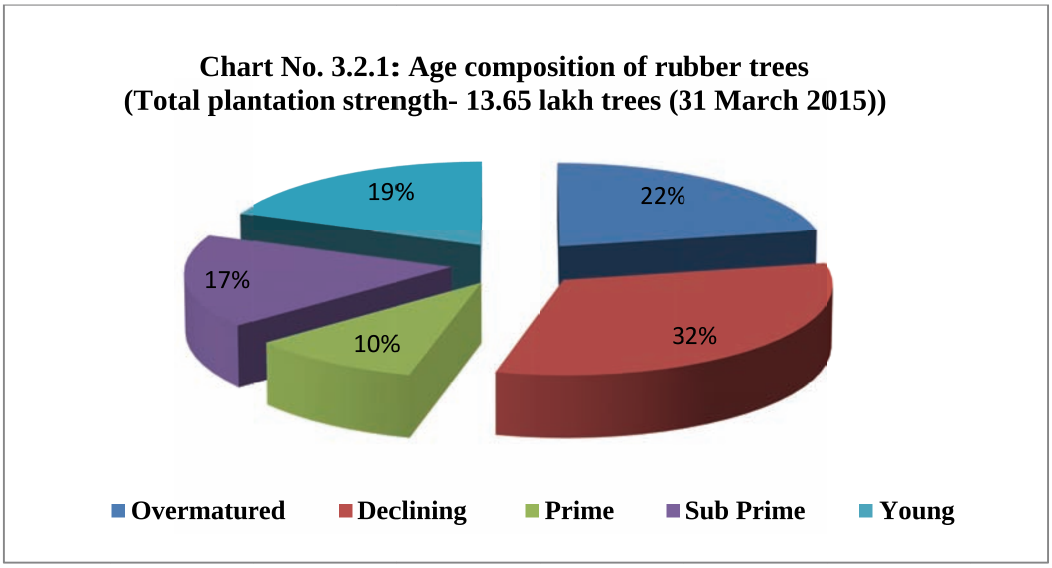
The Company did not offer any comments (November 2015) on the issue of setting the production targets without any scientific basis. As regards alteration of AAP targets throughout the year, the Company stated (November 2015) that rubber production targets had to be periodically revised because physical output was unpredictable on account of biological and socio economic factors.

The reply is not tenable since unlike other agricultural crops, rubber tree gives a steady and predictable output with slight seasonal variations which could be factored in while deciding targets. Thus, if targets were decided after considering the actual yield potential of concerned plantations, a steady output could be predicted.

3.2.8.2(b) Tree extraction plan

As mentioned under **paragraph 3.3.8.2(a)(i)** *supra*, rubber plantations become uneconomical to maintain after reaching 32 years of maturity, and hence, the same needed re-plantation. Analysis of data regarding tree strength in various plantations revealed that out of the total tree strength of 13.65 lakh spread over the total plantation area of 6,692.87 ha. available as on 31 March 2015, 22 *per cent*[25] of trees had surpassed their economic life period of 32 years, while 32 *per cent*[26] of trees were in the declining age of 20 to 32 years. Age composition of trees as on 31 March 2015 has been represented in the following chart[27]:

[24] Excepting South II Division.
[25] 3.03 lakh trees spread in 1977.08 ha. of plantation area
[26] 4.35 lakh trees spread in 2614.12 ha. of plantation area
[27] Young (0-7 yrs); Sub-prime (8-10 yrs); Prime (11-22 yrs); Declining (23-32 yrs); Over matured (above 32 yrs)



Further, as discussed under **paragraph 3.2.10.3** *infra*, the plantations of the Company were also poorly stocked and had low density of trees per ha. Hence, phase-wise replacement of over-matured plantations with fresh plantations was necessary to achieve optimum density of plantations. This would improve the overall yield and economic viability of the operations of the Company.

3.2.8.2(b)(i) Deficient planning for replacement of over-matured plantations

The Company did not have a long or medium term tree extraction plan upto the year 2012-13. The Board of Directors in its 134th Meeting (April 2013) approved a Five year tree extraction plan covering the period 2013-14 to 2017-18. The Five year plan envisaged extraction of 830.15 ha.[28] (14 *per cent*) of matured plantations (5856.28 ha.) spread over the five divisions as on March 2013. Analysis of the extraction plan brought forth the following observations:

- The plan envisaged extraction of only 47 *per cent* (651.65 ha.) of the area of the over-matured plantations (1,373.76 ha.) existing as of March 2013 over a period of five years. Out of the extraction target of 830.15 ha., more than 50 *per cent* (419.50 ha.) was planned to be executed only during the last two years (2016-17 and 2017-18) of the extraction plan. The fact that another 1,866.46 ha. of plantation would also cross their economical age during the plan period, was not considered while formulating the extraction plan.
- As against the density norms of 300 trees per ha., 1,041.65 ha. of plantation area managed by the Company as of March 2013, had a density of less than 150 trees per ha. As against this, the Five year extraction plan of the Company covered only 8 *per cent* (82.5 ha) of the total low density plantation area (1,041.65 ha.). This indicated that adequate importance had not been given to include low density

[28]Including over-matured plantation spread over in 82.50 ha. of plantation area.

plantations in the tree extraction plan, even though they were equally uneconomical to manage commercially, like the over matured plantations.

- Even if the targets as per tree extraction plan were met, 3.86 lakh over-matured trees (in an area of 3,240.22 ha.) with age of more than 32 years would remain pending for extraction under various plantations after 2017-18.

Thus, the tree extraction plan prepared by the Company failed to fully consider the issues relating to extraction and replantation of the plantation area having low density and over-matured plantations, which could have adverse effects on the plantations productivity.

In reply, the Company stated (November 2015) that tree extraction plan had to be staggered to ensure that even aged plantations could be maintained and tappers on rolls could be provided with regular work. It was further stated (November 2015) that tree extraction had to be regulated as per requirement of its timber processing plants.

The fact, however, remains that there was no justification for not considering the over-matured plantations for extraction/replantation particularly in the context of poor yield and declining rubber prices. Besides, the Company, through extraction of sufficient quantities of over-matured plantations, could have also generated additional quantities of rubber wood for processing in its factory or outright sale in open market.

Audit Objective 2: Effectiveness and efficiency in management of plantations as well as human resources

3.2.9 Plantation Management

As per the records made available to Audit, the Company had raised rubber plantations[29] in a total area of 8,132.82 ha.[30].This was in addition to 418.66 ha. of rubber plantations already raised by the Forest Department and handed over (1981) to the Company. In reply to specific audit query raised in the matter, however, the Company could furnish details regarding 8,054.01 ha. of plantation area only. Thus, there was a difference of 497.47 ha. in the plantation area managed by the Company as of March 2015 which could not be reconciled in absence of complete details such as, land location, details of land schedules for the plantations raised in forest land, etc. In reply, the Company confirmed (November 2015) that 371.52 ha. of plantations were abandoned due to insurgency. The balance area of 125.95 ha. of plantation area, however, remained unaccounted. This was a serious lacuna in the management of plantations by the Company. Details of plantations raised/handed over to the Company and present manageable area are given in **Appendix - 3.2.5**.

Observations on utilisation and management of land handed over to the Company for plantation purposes have been discussed in the following paragraphs.

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[29] Planting in new areas for the first time

[30] 7,551.22 ha. up to 2000-01 and 581.60 ha. raised from 2006-07 to 2014-15

3.2.9.1 Land for own plantations

As per the MoU signed (February 1981) between the Company and the Forest Department, (GoT) forest land free from encumbrances measuring 5,200 ha. was to be transferred to the Company on lease basis for 42 years for the purpose of raising of rubber plantations. It was, however, observed that the transfer arrangements were not legalised through formal lease agreements or Government notifications providing complete details regarding the location, measurement etc. of the land so transferred. The issue was also not pursued effectively by the Company with GoT.

In addition to the above, it was further noticed that the Company had additionally brought 2,351.22 ha. of Forest Land under rubber cultivation during the period upto 2000-01 without the sanction of Ministry of Environment and Forest (MoEF)[31], Government of India (GoI). The cultivation of commercial plantations in forest land without sanction of MoEF, GoI was in violation of the Forest Conservation Act, 1980.

As the lease deeds were not executed and plantations were raised without approval of GoI, the Company ownership over these plantations was a little tenuous. The situation was further aggravated in absence of complete details/knowledge of the location and extent of land taken over under each Rubber Production Centre (RPC) leaving it vulnerable to illegal encroachment by outside parties. **Table No. 3.2.2** below shows the RPC-wise details of plantation area encroached under three Divisions (viz. North, Sadar and South-I) along with the loss of production under each RPC on account of this encroachment:

Table No. 3.2.2

Name of RPC	Division	Total area undertaken for plantation (ha.)	Year of plantation	Total area encroached in ha. (percentage to total area)	Period of encroach-ment	Annual loss of production (Kg)	Value of loss of production till March 2015 (*₹in lakh*)[32]	Raising cost of plantation (*₹in lakh*)	Total loss (*₹in lakh*)
1	2	3	4	5	6	7	8	9	10= (8+9)
Golakpur	North	193.00	1986 to 1990	193.00 (100)	2009-10	48,366.50	374.13	29.09	403.22
Dhanpur	Sadar	72.90	1983	44.00 (60)	2011-12	12,406.31	74.66	3.29	77.95
Nirvoypur	Sadar	139.95	1987	43.40 (31)	2011-12	13,678.99	82.32	4.66	86.98
Motinagar	Sadar	363.55	1983	13.48 (4)	2009-10	4,442.08	34.36	1.01	35.37
Chittamara	South I	211.00	1986	7.22 (3)	2010-11	2,371.36	18.34	0.83	19.17
Kalsimukh	South I	193.48	1964	6.00 (3)	2010-11	829.46	6.42	NA	6.42
Abhangcherra	South I	662.50	1978	1.00 (0.15)	2010-11	299.98	2.32	NA	2.32
UBC Nagar	South I	100.00	1986	5.00 (5)	2010-11	668.16	5.17	0.38	5.55

[31] After 2000-01,Company did not raise any new plantations and only replanted in existing areas

[32] Worked out based on production recorded in the year prior to encroachment and avg. sales price of field production during the respective years.

Name of RPC	Division	Total area undertaken for plantation (ha.)	Year of plantation	Total area encroached in ha. (percentage to total area)	Period of encroach-ment	Annual loss of production (Kg)	Value of loss of production till March 2015 (₹in lakh)[32]	Raising cost of plantation (₹in lakh)	Total loss (₹in lakh)
1	2	3	4	5	6	7	8	9	10=(8+9)
Paikhola	South I	348.80	1982	3.00 (0.86)	2010-11	1,011.99	7.83	0.23	8.06
Sachirambari	South I	435.65	1973	2.50 (0.57)	2010-11	962.17	7.44	NA	7.44
TOTAL		**2720.83**		**318.60 (12)**		**85,037.01**	**612.99**	**39.49**	**652.48**

From the **Table 3.2.2** above, it could be noticed that out of total plantation area measuring 318.60 ha. under encroachment, 60.58 *per cent* (193 ha.) pertained to one RPC (viz. Golakpur RPC). The said plantation area of Golakpur RPC was brought under commercial plantation during 1986-87 to 1989-90 and the Company had been collecting latex therefrom. The entire area of 193 ha. of the RPC, however, came under different kinds of encumbrances and encroachments since 2009-10.

Analysis of the records of the Company revealed that out of 193 ha. of land, an area of 52.32 ha. (27 *per cent*) was allotted (February 2009) by the District Administration to 43 tribal dwellers under the provisions of Scheduled Tribes and Traditional Forest Dweller's (Recognition of Forest Right) Act (RFR Act) for the purpose of utilising the area for inhabitation and cultivation for the livelihood of said tribal dwellers. The allottees thereafter resisted collection of latex by the Company from the allotted area. The matter was brought to the notice of the Head Office (September 2009) and the Board of Directors (May 2010) of the Company only after 6 and 14 months of the allotment respectively. After strong follow up of the issue by the Company, the District Administration cancelled (October 2011) the allotment. It was, however, observed that even after cancellation of the allotment, however, the plantations in Golakpur continued to be under unauthorised occupation of the allottees depriving the Company of collecting the latex from the said area despite all efforts (October 2015).

The details and reasons attributable for encroachments in other RPCs, however, were not available on records.

The following reasons were likely to have directly contributed to encroachment of forest land under various RPCs of the Company:

- Not issuing of the formal notifications by the Government giving complete details/ particulars of forest land assigned to the Company.
- Failure on part of the Company to pursue the issue with the Government for proper documentation of land transferred under its management from time to time in co-ordination with the District Administration and Forest Department.
- Absence of the Company's representative in the Sub-Divisional Level Committee (SDLC) formed for allotment of land under Scheduled Tribes and Traditional Forest Dweller's (Recognition of Forest Right) Act, 2006.

- Slow pace of raising plantations due to administrative inadequacies of the Company leaving areas of forest land vacant over a long period of time.
- Inaction on the part of Management in initiating strong administrative action for immediate eviction of the encroached areas.
- Inadequate protective measures in the plantation areas including fencing in vulnerable areas, deployment of protection guards and periodical inspection by Management.

Thus, inadequate management of forest land entrusted to the Company by the Government resulted in illegal encroachment of the Company's plantations by outsiders thereby entailing loss of potential revenue to the extent of ₹ 6.13 crore as well as loss of investment therein to the tune of ₹ 0.40 crore.

In response to audit query raised during the course of audit, the Company accepted (August 2015) that 1,143.88 ha. of land was encroached. In reply to the draft report, Company stated (November 2015) that protective measures like fencing, deployment of guards, etc. are now being undertaken to prevent any future recurrence. It was further stated that there was no provision for representation of the Company in the SDLC formed under RFR Act. The Company also expressed its inability to directly evict encroachers since necessary powers were vested with Forest and Civil administration. The reply was, however, silent on not following up the matter of issuing formal lease notification with GoT for the plantation area assigned to the Company.

Audit observed that Forest Department was represented in the SDLC and not raising of any objection in the matter by Forest Department pointed towards lack of co-ordination between the Company and its administrative department. Further, formal lease notification by GoT giving complete details of the plantation area assigned to the Company could have helped taking preventive measures against illegal occupants of plantation land.

3.2.9.2 Land for Beneficiary plantations

Shifting cultivation by tribal of the State[33] had caused irreparable damage to large extent of Forestland. To discourage this environmental degrading practice and to rehabilitate the tribal involved in it, GoT devised (June 1991) a Plantation programme. As per the programme, rubber plantations were to be raised in degraded forest land using public funds and handed over to the tribal beneficiaries (henceforth referred to as beneficiaries). The beneficiaries obtaining the possession of such rubber plantations, were responsible for maintaining the plantations handed over to them besides holding the rights to extract and sell latex so extracted from said plantations.

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[33] Also referred to as *Jhum* cultivation whereby tribals will clear forest area for farming purposes. Once the fertility of the area was exhausted they move to another area of forest and the process is repeated.

Based on a proposal of the Company (November 1991), GoT sought (December 1992) permission from the Ministry of Environment and Forest (MoEF), GoI[34] to utilise forest land measuring 9,019.52 ha. for settling tribal beneficiaries in the State. GoI, while approving (December 1997) the diversion of 1,500 ha. of land under Phase-I of the Scheme, stipulated that formal approval for Phase-II plantations should be sought for after successful completion of Phase-I. The Company, however, could raise (1998-99 to 2004-05) plantations only to the extent of 595.10 ha. benefiting only 392 beneficiaries. The remaining area of 904.90 ha. was, however, handed over by GoT to other two organisations in the State sector *viz*., Tripura Rehabilitation Plantations Corporation Limited (TRPCL) and Tripura Tribal Areas Autonomous District Council (TTAADC).

Based on the proposal of the Company, Forest Department, GoT submitted (May 2005) a proposal for further utilisation of 3,873.78 ha. To MoEF, GoI for implementation of Phase-II of the plantations under the programme. The GoI conveyed (June 2005) the approval for the above proposal subject to the following conditions:

- Legal status of the land should not be changed;
- The Company should submit action plan showing the year wise areas to be planted with financial analysis;
- Forest land should not be used for any other purpose;
- A co-ordination committee under the Chairmanship of Principal Chief Conservator of Forests and other concerned officials be formed for co-ordination among the departments concerned for smooth conduct of plantation activities.

It was observed that although the GoI had approved (June 2005) for utilisation of 3,873.78 ha. of forest land for implementation of Phase II plantations, Forest Department, GoT handed over (November 2005-March 2006) the forest land measuring 2,374.62 ha. Only to the Company for raising plantation under three Divisions.[35] The Forest Department, GoT did not hand-over the remaining area of 1,499.16 ha. to the Company for no reasons on records though it had proposed the transfer of this land to MoEF and GoI had approved it.

During examination of the records of the Company, it was noticed that out of the handed over area of 2,374.62 ha., the Company could raise plantation in an area of 999.60 ha. only (42 *per cent*). There was absence of planning, implementation and monitoring of the plantation activity under Phase II of the programme. The Board of Directors of the Company also did not evaluate and monitor the progress of implementation of the programme. Further, the condition of GoI regarding formation of a State level co-ordination committee for better monitoring and smooth conduct of plantation activities was also not complied with. As a result, large areas of land

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[34] (Under Sec.2 of the Forest Conservation Act,1980)
[35] Sadar (233.005 ha.), South-I (1,662.785 ha.) and South-II (478.83 ha.).

remained vacant without any supervision which led to encroachment of plantation area to the extent of 354.882 ha. as identified by Audit as per the following details:

Table No. 3.2.3

Sl. No.	Name of division	Total area handed over (in ha.)	Total area brought under plantation (in ha.)	Total area identified as encroached (in ha.)	Balance area on which no plantations were raised	Reasons for not raising of plantations in balance area
1	South-I	1662.785	538.60	338.792	785.393	388.433 ha. of the area was bison affected. No recorded reasons for balance area of 396.96 ha.
2	Sadar	233.005	43.00	--	190.005	No recorded reason
3	South-II	478.830	418.00	16.090	44.740	No recorded reason
Total		**2374.620**	**999.60**	**354.882**	**1020.138**	

Thus, due to its inability to ensure safety and security of the forest land, the Company failed in complying with the allotment conditions regarding maintaining the status of allotted land as Forest area besides non-achievement of the intended objectives of the plantation programme.

In reply, the Company accepted (November 2015) that reportedly an area measuring 1,137.10 ha. could not be cultivated due to encroachment problems. It was further stated that the land was not free from encumbrances while it was handed over to the Company and therefore, the Company could not take physical possession of the same.

Reply is not tenable since the Company, before taking over the land possession, should have ensured that the land was free from encroachments/encumbrances.

3.2.9.2(a) Non achievement of objectives of plantation programme

As mentioned in **paragraph 3.2.9.2** *supra* (refer **Table No. 3.2.3**), out of total 2,374.62 ha. made available for plantation, the Company could not raise plantations on 631.705 ha. (26.60 *per cent*)[36] for no reason in record.

Further, out of the total area of 478.83 ha. handed over by GoI for plantation in South-II Division, the Company could raise plantations only in 418 ha. targeting 418 beneficiaries. This included the plantations (265 ha.) raised in 2006 and due for maturity in 2013. As against this, however, only 157 ha. (59 *per cent*) (targeting 157 beneficiaries) had matured indicating deficiencies in raising and management of plantations despite the fact that the programme was fully funded by Department of Tribal Welfare, GoT.

The Company stated (November 2015) that even after delayed maturity, the trees will be available for tapping for a period of 25 years. The fact, however, remains that delayed maturity of the plantations adversely affects the livelihood of beneficiaries intended to avail the benefits of the programme.

[36] 396.960 ha. in South-I Division, 190.005 ha. In Sadar Division and 44.740 ha. in South-II Division

3.2.9.2(b) Diversion of forest land for raising own plantations

The diversion of forest land for raising commercial plantations was allowed by the GoI specifically to benefit the tribals. Contrary to the specific approval of GoI, the Company utilised 581.60 ha.[37] (24.49 *per cent*) of the said area (2374.62 ha.) handed over in 2005-06 for raising its own commercial plantations without the sanction of GoI. Thus, utilisation of the plantation area provided by GoI for the benefit of tribals for own commercial plantation by the Company was irregular and lacked justification besides defeating the intended objectives of the programme.

In pursuance of Supreme Court directives (October 2002 and August 2003), MoEF, GoI issued (September 2003) orders that agencies who utilise forest land for non forestry purposes have to deposit the compensation in the form of Net Present Value (NPV) of the forest land at prescribed rates with the Compensatory Afforestation Fund Management and Planning Authority (CAMPA[38]). Accordingly, the GoI/MoEF and Forest Department, GoT raised demand (December 2012) on the Company for depositing NPV amounting to ₹ 282.79 crore[39] against diversion of forest land (3,873.78 ha.) for commercial plantation under Phase-II of the programme. The demand notice was issued because rubber plantations were not covered under the exemption list approved (May 2008) by the Supreme Court in its order.

In reply, the Company stated (November 2015) that it had disputed the demand and filed (October 2013) an application before the Central Empowered Committee (CEC, formed by Supreme court) for granting exemption from the same on the ground that the plantations aimed to rehabilitate the tribals in the border areas and provide gainful employment to them.

Audit observed that the Company was likely to get exemption from payment of NPV only if the handed over land was used for the benefit of tribal people. By diverting the land (581.60 ha.) approved for the benefits of the beneficiaries for own commercial purpose as mentioned *supra*, the Company had lost the scope of availing exemption in respect of this diverted land (581.60 ha.) thereby attracting the risk of payment of NPV amounting to ₹ 42.46 crore[40] to CAMPA.

3.2.10 Yield from Rubber Plantations

Out of total matured plantation area of 33,187 ha. in the State as on 31 March 2014, the Company managed an area measuring 5,868.80 ha. (17.68 *per cent*). The year-wise share of the Company with regard to total matured plantation area and total

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[37] 538.60 ha. in South-I and 43.00 ha. in Sadar (Please refer **Table No. 3.2.3**)

[38] A statutory body formed under Ministry of Environment and Forests for promoting afforestation and regeneration activities. CAMPA redistributes compensation collected for forest land diverted for non-forest uses to various States.

[39] At the rate of ₹ 7.30 lakh per ha. on 3,873.78 ha. of land

[40] on 581.60 ha. @ ₹ 7.30 lakh per ha.

rubber production in the State during the years 2010-11 to 2013-14[41] (expressed as percentage) is presented in the table below:

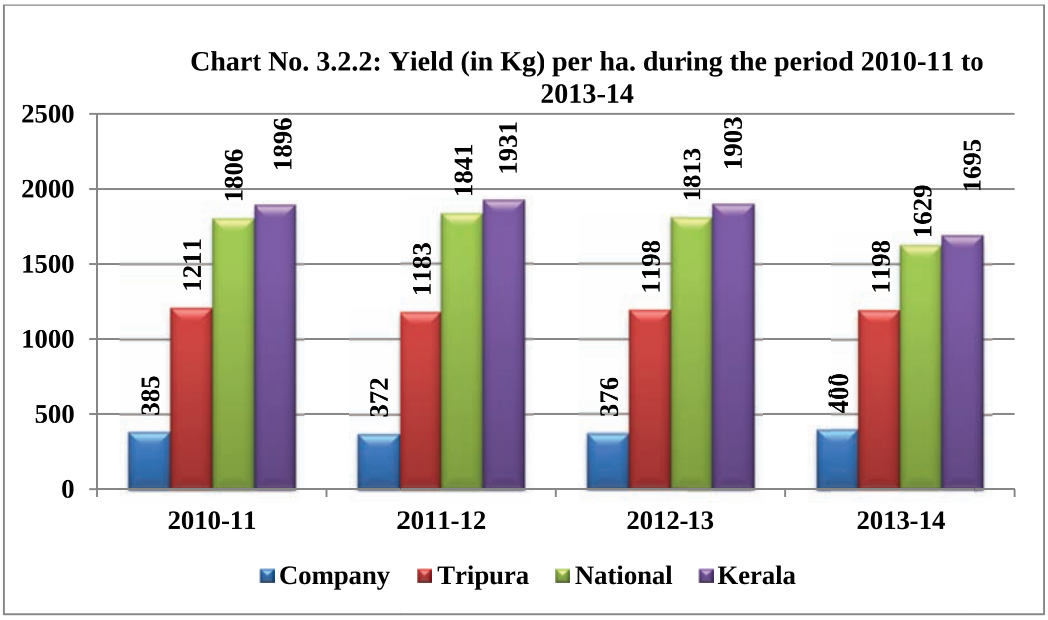
Table No. 3.2.4

(Figures represent percentage)

Particulars	Percentage Share of the Company to total area/production of the State			
	2010-11	2011-12	2012-13	2013-14
Area	23.47	21.44	18.82	17.68
Production	7.47	6.74	5.91	5.90

It could be seen that the share of matured plantation area managed by the Company registered consistent decline throughout the period and was matched by corresponding decline in share of the Company in total rubber production of the State. Figures for the year 2013-14 shows that even though Company managed 17.68 *per cent* of matured area of plantation, its contribution towards total production was significantly low at 5.90 *per cent* only pointing to poor productivity of plantations.

The average yield per hectare in a year for the State as a whole could be considered as standard criteria for judging the productivity of rubber plantations managed by the Company. Comparison of the yield recorded by the Company's plantations during 2010-11 to 2013-14 with that of State/National average yield and also with the average yield recorded by the highest rubber producing State, namely Kerala, is graphically represented below:



As could be seen from above, though the per hectare yield recorded by the plantations managed by the Company after 2010-11 showed an upward trend, it was only around

[41] The plantation area managed by the Company as on 31 March 2015 was 5,944.30 ha. However, the corresponding figures of total matured plantation area as on 31 March 2015 for the State as a whole was not available.

31-33 *per cent* of the average yield per hectare recorded in the State for the respective year.

The shortfall in yield was mainly due to:

- delay in re-plantation causing disproportionate increase in the population of over-matured plantations;
- poor stand[42] of tapping trees;
- tapping tasks not being undertaken;
- low productivity of tappers;
- drawbacks in incentive system;
- absence of rain guarding and
- inadequate field supervision and control

The observations relating to above issues are discussed in subsequent paragraphs.

3.2.10.1 Extraction and re-plantation activities

The summarised details regarding area targeted for extraction *vis-a-vis* actual area extracted during the period from 2010-11 to 2014-15 are given in **Table No. 3.2.5** below:

Table No. 3.2.5

Year	Extraction targets		Actual extraction		Shortfall against targeted volume (in *per cent*)
	Area (in ha.)	Volume (in cum)	Area	Volume (in cum)	
2010-11	NA	2320.00	70.18	2168.71	6.52
2011-12	NA	2000.00	25.20	1160.49	41.98
2012-13	NA	3390.00	104.70	1861.60	45.09
2013-14	109.80	6700.00	79.08	2674.48	60.08
2014-15	146.85	6783.00	123.70	3252.23	52.05

From the figures detailed in the **Table 3.2.5** above, it could be noticed that the Company was not able to achieve its extraction targets in any of the five years. The shortfall in achievement of extraction targets were significantly high during four years from 2011-12 onwards.

Examination of records further revealed that an area of 563.85 ha. had completed the economical age of 32 years at the beginning of review period. Subsequently, another 1,413.23 ha. of plantations gradually became over-matured and due for re-plantation during the period 2010-11 to 2014-15. It was further noticed that against the total over-matured area of 1,977.08 ha. existing as of March 2015, the Company was able to replant only 684.48 ha. (34.62 *per cent*) during the review period pointing to the shortfall of 65 *per cent* (1,292.60 ha.) in re-plantation.

Delay in re-plantation in over-matured plantation areas had led to disproportionate increase in the population of over-matured trees in the plantations. This had negative impact on the overall productivity of the plantations. Since rubber trees once felled have to be chemically treated and seasoned immediately, the extraction had to be

[42] 'Stand' refers to density of trees in a defined area

regulated as per the processing ability of timber treatment plant in the rubber wood factory. Thus, poor production performance of the rubber wood factories and Door project of the Company as discussed under **paragraph 3.2.11.1** *infra* was one of the major factors contributing towards shortfall in extraction and replantation activities of the Company.

3.2.10.2 Failure of re-plantation

Plantations raised during 2003 to 2006 (110 Ha) in Motinagar RPC still remained immature due to uncontrollable sal undergrowth caused by deficiencies in soil preparation.

The success rate of replanted plantations of the Company had been adversely influenced by several factors like large scale mortality of immature trees, damages caused to the plantations due to gale/fire, inadequacies of silviculture techniques, etc. It was noticed that out of 1,358.25 ha. of plantations raised/replanted during the period 2003 to 2008, only 1,165.95 ha. (86 *per cent*) matured during the review period and started yielding latex. The remaining 192.30 ha. (14 *per cent*) of plantations were either damaged, encroached or were at immature stage. Audit could not analyse the reasons of high mortality and deficiencies in silviculture techniques, etc. due to non-maintenance of plantation journals[43] by the Company in proper manner. It is pertinent to mention that raising of shelter belts using bamboo or other species around the plantation area is an accepted protection measure for reducing plantation damages from gale/storms. This practice was also recommended by Rubber Board. The Company, however, did not take any action to create such shelter belts around the plantation areas. In the absence of shelter belts, 20,598 matured rubber trees of varying ages spread across various RPCs were damaged by gale during the review period.

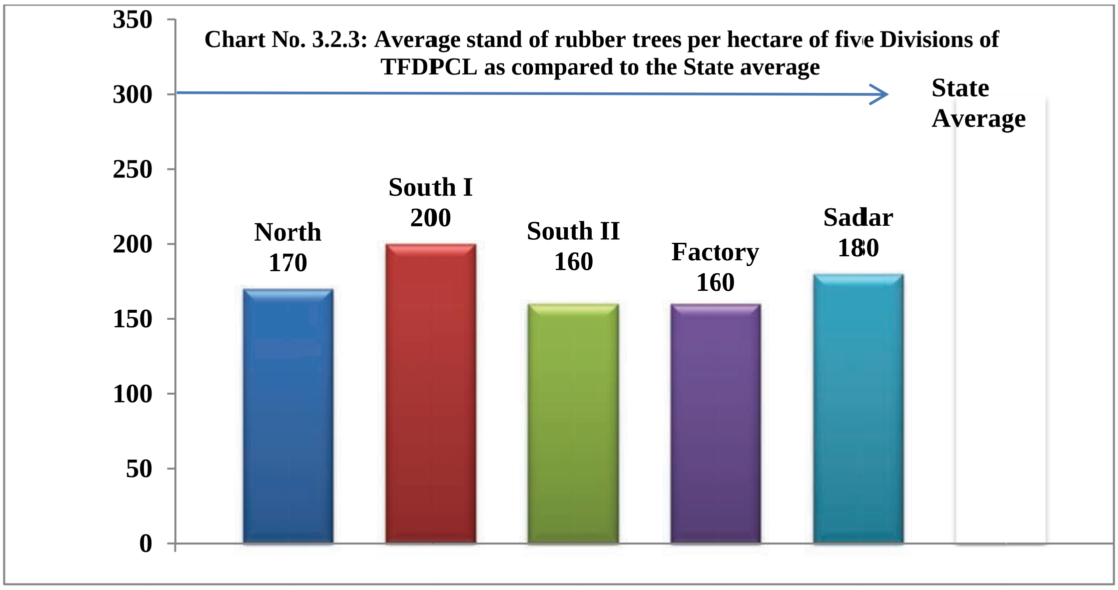
3.2.10.3 Stand of tapping trees

Stand of trees refers to the density of trees in a specific area. As per the industry norm, the average stand of rubber trees per hectare is expected to be at 300 trees after tenth year of planting when the trees would have matured and started giving a stable output. Poor stand of rubber trees in a defined area leads to reduced yield and thus, such plantation area could prove to be uneconomical.

Division wise analysis of latest Division wise data on availability of matured trees with reference to corresponding plantation area revealed that stand of trees as on 31 March 2015 in the plantations managed by the Company averaged only 180 per ha.

[43] Detailed records maintained in each RPC showing particulars of plantations like area, type of species, physical and financial particulars of silvicultural techniques adopted each year etc.

which was far below the State average of 300 trees per ha. The stand of trees was least in two divisions (Factory and South II) as shown in the graph below:



Due to the poor stand of tapping trees, the Company had been remarking the tapping blocks so that these blocks cover a minimum of 300 trees. This made the Blocks bloated in size (with area of upto 2.5 ha. per block as against a standard size of 1 ha. per block) making it difficult to be covered in a tapping task which incidentally was one of main reasons for poor productivity of tappers.

A well-stocked rubber plantation

Audit also observed that there was no system in place for conducting the annual tree census for gathering year-wise information on the actual number of trees existing under each RPC. In the absence of credible and updated information on actual number of trees, Management could not address the issue of poor stand of tapping trees in the plantation areas managed by the Company. In reply, the Company accepted (November 2015) that the sparse stand of trees led to less yield and stated that poor stock was mainly due to gale damage, rat damage, insurgency issues in the past, etc. It was also stated that necessary measures have been taken to address such issues in future.

3.2.10.4 Installation of rain guarding system

During rainy days, tapping of rubber trees was not possible since the latex gets mixed with rainwater. As the State of Tripura falls in a high rainfall zone with the incidence of high concentration of rainfall[44], it becomes difficult to tap the rubber plantations during the monsoon season. To overcome this problem, Rubber Board had

[44] Upto 400 mm of rain in a month on an average

recommended for installation of rain-guards on the rubber trees in the State before the rainy season starts. It was, however, observed that even though on an average, 25 to 35 days of tapping were lost in each rainy season, the Company did not consider installation of rain-guards in any of its plantations. Allowing the trees to remain untapped on account of rains led to avoidable production loss. Analysis of rubber production records revealed that even if the rain guarding system had been installed in 4[45] high yielding RPCs out of total 39 RPCs of the Company, it could have extracted 246.58 MT of additional crop valuing ₹ 3.00 crore[46] during the five year period under review as shown in **Appendix -3.2.7**.

In reply, the Company stated (November 2015) that service of rain guard was found to be uneconomical and ineffective and hence discontinued. The reply is not tenable as rain guarding is an acceptable practice recommended in the State by the Rubber board based on the fact that it was economical and effective. To improve the effectiveness of rain guarding system, Company may consider installation of the rain guards through experts/trained manpower.

3.2.10.5 Performance of tapping tasks

As per the universally accepted practice also being followed by the Company, tapping blocks are tapped every alternate day. Each RPC had adequate number of permanent tappers on rolls to perform the tapping task. Besides, the RPCs also had sufficient number of substitute tappers ready to take over if permanent tappers did not report for work. It was, however, observed that many tapping blocks remained untapped during the year due to absence of tappers resulting in loss of revenue although the overall absenteeism of the tappers during the years from 2010-11 to 2014-15 showed a downward trend. As could be noticed from **Appendix-3.2.6,** absenteeism of tappers during 2010-11 to 2014-15 varied from 8.48 *per cent* (2014-15) to 16.04 *per cent*(2010-11) and altogether resulted in loss of 2,61,014 tapper days during the five years under reference. Absenteeism of workers resulted in non-exploitation of available yield potential leading to production loss valuing ₹ 23.78 crore (**Appendix - 3.2.6**) over the period of five years under review. This huge revenue loss could have been avoided by following better labour management practices like, providing incentives to employees regular in attendance and penalising the habitual absentees, organising periodical training programmes for the employees, ensuring safety and health of workers at work, organising periodical sessions for employee-employer communication to address grievances of workers, etc.

The Company stated (November 2015) that action is being taken against tappers who regularly remain absent to minimise the absenteeism.

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[45] Anandpur, Rowa, Debdaru and West Ludhua

[46] After considering the cost of rainguarding which came to ₹ 26/tree (approx) and had a life span of about 3 years

3.2.10.6 Labour productivity

Crop collection from the plantations of the Company was further affected by poor labour productivity. As per the industry norms on collection of latex, total 52 kg of latex was expected to be collected per day from a block of 300 trees. As against this, average collection per day in the Company's plantations varied from 34.86 kg (Sadar Division) to 10.34 kg (Factory Division) per block. This was indicative of the possibility that all trees were not being tapped during a tapping task. The issues relating to inefficiency and poor labour productivity should have been addressed by the Company through effective supervision of labour at RPC level. The Company, however, had never analysed productivity of tappers for taking the corrective action to improve the same.

In reply, the Company stated (November 20150 that even minimum targets set for tappers were not achieved in some blocks mainly due to poor tree conditions caused by illicit tapping as well as ineffective supervision under extremist conditions.

The reply points to the fact that illegal tapping was rampant in the plantations managed by the Company and the Company could not address this problem by effective deployment of protection guards, fencing vulnerable areas and public awareness programmes.

3.2.10.7 Supervision of field activities

Rangers, Foresters and Guards are the backbone of field supervision and are assisted by plantation workers in their day to day work. Even though there was prescribed sanctioned staff for the Company as a whole, sanctioned strength for each Division/RPC across various categories had not been prescribed. Hence, actual staff disposition against the requirement in each Division/RPC could not be analysed in audit. As could be observed from **Appendix- 3.2.8,** the vacancy position in these posts increased from 30 to 38 *per cent* during the review period.

As observed from the actual staff strength of three categories of supervisory staff as on 31 March 2015, only one supervisory staff was available for supervision of plantation activities spread over every 83 ha. of the plantation area, which was considerably inadequate. Thus, inadequacy of supervisory staff for field operations particularly the tapping activities had adverse impact on the overall yield/productivity of the plantations managed by the Company.

In reply, the Company stated (November 2015) that recruitment process for filling up the vacant post in supervisory staff has been initiated.

3.2.10.8 Incentive system

Analysis of rubber production of the Company showed that the percentage of scrap rubber[47] collected to total field collection (Rubber latex and scrap) varied from 15.49 *per cent* in 2010-11 to 17.24 *per cent* in 2014-15. This was against the Rubber Board

[47] Coagulated form of rubber collected from tapping cut and latex cup

standard of 20 to 30 *per cent* of the scrap expected to be collected. Collection of the scrap below the standards was indicative of the possibility that all the scrap collected during tapping was not being deposited by tappers. The Company had an incentive system whereby the tappers were rewarded or penalised for production of latex and field scrap collection with reference to set benchmarks. The scheme of incentive as stipulated for peak and lean seasons is given in **Appendix - 3.2.9**. It could be seen that the minimum target per day per tapper for scrap collection set by the Company was only 14.06 *per cent* to 14.77 *per cent* of total field collection by the tapper. Thus, the standard set by the Company was below the industry norms prescribed by Rubber Board for scrap collection. Thus, the benchmarks set by the Company for award of incentives and penalties needs to be modified in line with the industry norms so as to improve the collection of scrap rubber from fields. It was observed that due to lower than acceptable standards on scrap collection the Company may have lost 22.64 *per cent* of scrap production valuing ₹ 4.65 crore[48] during the period of five years under review.

The Company stated (November 2015) that existing production of scrap rubber was as per norms of Rubber Board. The reply was factually incorrect as the audit observation was based on the industry norms prescribed and available on the official site of the Rubber Board.

Audit Objective 3: Economy, efficiency and effectiveness in processing and manufacturing activities and marketing operations

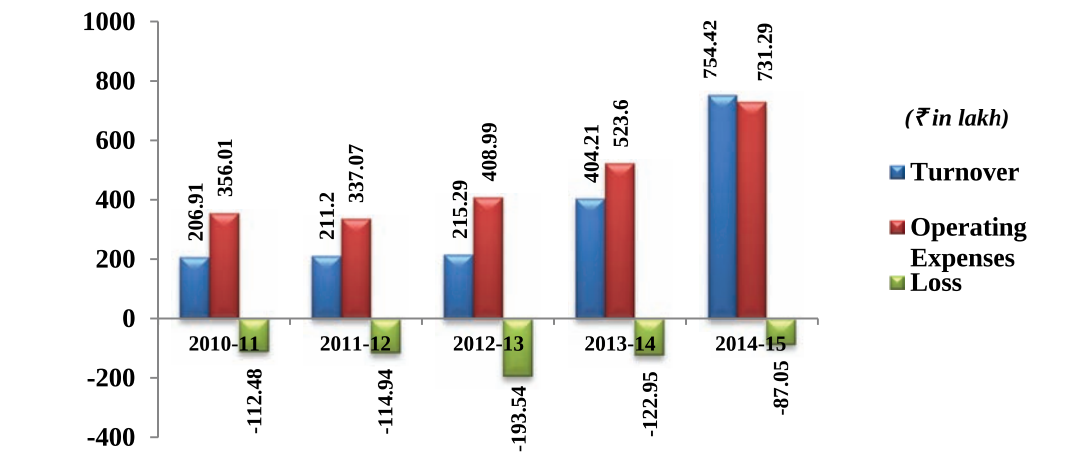
3.2.11 Processing and manufacturing activities

3.2.11.1 Rubber Wood Processing and manufacturing activities under the Industrial Estate, Anandnagar

Industrial Estate of the Company located at Anandnagar was the center of all wood processing activities of the Company. The Estate comprises of (i) Timber Treatment Plant (TTP) (ii) Tripura Rubber Wood Factory (TRWF) (iii) Furniture Making Unit (Unakoti Crafts Factory-UCF) and (iv) Door manufacturing unit. The Company never carried out any financial and operational analysis to assess the economic viability of the Industrial Estate. Audit analysis revealed that the operations in the Industrial Estate resulted in a cumulative loss of ₹ 6.31 crore (**Appendix - 3.2.10**) during 2010-11 to 2014-15 as depicted in the chart below:

[48] Worked out based on the selling price of scrap rubber during the years concerned

Chart No. 3.2.4: Profitability of the Industrial Estate, Anandnagar



Major components of operating expenses during the initial four years (2010-11 to 2013-14) were depreciation and establishment expenditure, which were of fixed nature and ranged from ₹ 1.54 crore (2010-11)to ₹ 1.69 crore (2013-14). The operational expenditure of the Estate could not be absorbed during any of the said four years mainly due to under utilisation of capacity and absence of effective marketing as discussed under **paragraph 3.2.11.1(e)** *infra*. Even though the overall turnover of the units functioning under the Estate had increased substantially during 2014-15, it was inadequate to generate operational surplus and the Industrial Estate continued to be in loss. Audit observations on issues that affected the production performance have been discussed in succeeding paragraphs.

3.2.11.1(a) Timber Treatment Plant and Tripura Rubber Wood Factory

Round logs received from various plantations are sawn, sized, chemically treated and seasoned in the kilns to convert them into treated timber. Activities undertaken in the Industrial Estate, Anandnagar, have been depicted in the activity flow chart attached under **Appendix - 3.2.11**. The TTP had been in operation in the Estate since 1999 with an annual installed sawing capacity of 500 cum of round logs. The other factory (viz. TRWF) was commissioned (July 2008) at a total cost of ₹ 6.57 crore with facilities for sawing, treating and manufacturing of solid wood boards and thus, enhancing the total sawing capacity of the Industrial Estate to 9,000 cum of round logs annually. In addition, TRWF envisaged manufacture of 12,000 solid rubber wood boards on annual basis. The performance of the timber treatment units under two factories (viz. TTP and TRWF) during the five year period under review is given below:

Table No. 3.2.6

Year	Installed capacity of sawing units in TTP and TRWF (cum)	Targeted volume of making timber (cum)	Actual quantity of logs sawn (cum)	Processed timber produced (cum)	Scantling, timber and saw dust (cum)	Capacity utilisation (in percentage)
1	**2**	**4**	**5**	**6**	**7=(5)-(6)**	**8=(5)÷(2)*100**
2010-11	9,000	3600	2168.71	706.38	1462.33	24.10
2011-12	9,000	3600	1160.49	386.95	773.54	12.89
2012-13	9,000	3600	1861.60	649.52	1212.08	20.68
2013-14	9,000	3600	2674.48	887.18	1787.30	29.72
2014-15	9,000	3600	3252.23	1208.72	2043.51	36.14
Total			**11117.51**	**3838.75**	**7278.76**	**24.71**

From the **Table 3.2.6** above, it could be seen that the capacity utilisation of two factories against log sawing activities ranged from 12.89 *per cent* (2011-12) to 36.14 *per cent* (2014-15) during the period covered under review. Audit observed that shortage of technical manpower was one of the main reasons for low production. It was observed that against the sanctioned strength of 42 technical persons[49] in two factories, there were only 12[50] technical men in position as on 31 March 2015. The Committee on Public Undertakings (COPU) in its 47th Report had also recommended for recruitment of technical staff on regular basis. The Company, however, did not make any concrete efforts to comply with the recommendation of COPU (October 2015). Thus, the issue of low production in two plants remained unresolved due to inaction of the Company in recruitment of regular technical manpower despite the recommendations of COPU.

In reply, Company stated (November 2015) that recruitment process of technical persons was in progress.

3.2.11.1(b) Consumption of input material beyond norms/standards

As per standards adopted (2010-11) by the Company for costing purposes, 1,750 cum of round logs was required to manufacture 6,000 solid rubber wood boards (i.e; 0.2917 cum per board). Consolidated consumption-cum-manufacturing statement of logs and boards in respect of TRWF during the years 2010-15[51] has been given in **Table No.3.2.6**:

[49] (Supervisor-6, Boiler Attendant-1, Electrician -2, Machine operator-25, Saw bench operator-8)
[50] Supervisor-1 and Machine Operator-12
[51] (excepting 2013-14 when consumption was within standard)

Table No. 3.2.7

Year	No. of boards produced	Log used for timber conversion (cum)	Requirement of log as per standard (cum)	Excess log used (in cum)	Cost per cum of log ₹[52]	Excess value of log used (₹ in lakh)
(1)	(2)	(3)	(4) = (2) ×0.2917	(5) = (3)-(4)	(6)	(7)= (5)×(6)
2010-11	1981	898.13	577.86	320.27	2941.83	9.42
2011-12	1883	742.84	549.27	193.57	2941.82	5.69
2012-13	1446	439.31	421.80	17.51	3707.00	0.65
2014-15	3380	1280.29	985.95	294.34	3707.00	10.91
Total		**3360.57**	**2534.88**	**825.69**		**26.67**

From the **Table 3.2.7** above, it could be seen that TRWF consumed 825.69 cum of logs worth ₹ 26.67 lakh in excess of the standards. The Company, however, did not analyse the reasons for excess consumption of input material in manufacturing activities of the unit. It was also observed that there was no system in vogue for periodical review of actual consumption of input material against prescribed standards and taking remedial action to address the issue. Thus, in absence of an effective system in place for monitoring of consumption of input material by manufacturing unit, the Company continued to bear extra manufacturing costs in TRWF.

In reply, the Company stated (November 2015) that figures of log consumption considered was incorrect. The Company, however, did not provide detailed calculations/workings in support of their claim.

The reply is not tenable in view of the fact the audit observation was based on the analysis of the annual production data compiled by Audit from the monthly production figures of TRWF as furnished by the Company. The compilation of production data was necessitated since the Company did not maintain annual production data in respect of TRWF in a readily verifiable form.

3.2.11.1(c) Management of waste timber and sawdust stock

As observed from the production records of TTP and TRWF, round log when sawn into timber results in a conversion loss of approximately 65 *per cent* in the form of scantling timber and sawdust. Part of this scantling timber could be used for manufacture of boards and furniture. The remaining waste was saleable as firewood and hence, all scantling bear some market value. Waste timber is also used as fuel in the boilers for kilns even though it was more profitable to utilise it in boards and furniture which had comparatively higher market value. As shown in **Table No. 3.2.6** under **para 3.2.11.1(a)** *supra*, a total quantity of 7,278.76 cum of scantling timber and firewood was generated in TTP and TRWF during 2010-15. No detailed records on usage of this waste timber were, however, maintained by the Company. There was no system in existence for conducting periodical physical verification of waste timber so generated in the production process to confirm the stock position.

[52] Cost of log includes Cost of Round log *plus* felling, logging and transportation charges per cum. Cost of log for the years 2010-11 and 2011-12 was taken on the basis of cost determined in February,2011 and for 2012-13 to 2014-15, based on the cost of March 2013

In reply, the Company submitted (November 2015) a statement showing year-wise split up details of un-sized waste timber in respect of only one out of the two sawing units (TRWF).

The reply is not tenable in view of the fact that the monthly production reports for the sawing Units as earlier provided by the Company did not contain any details regarding the waste timber generated and utilised. Hence, the Company was requested to furnish the source and details of waste timber data furnished with the reply. The Company, however, did not submit any satisfactory clarification on the issue. This raises doubt on the authenticity of the data of the waste timber furnished by the Company with the reply.

3.2.11.1(d) Door Manufacturing Unit

A project for manufacture of rubber wood based doors was sanctioned (January 2008) by the Ministry of Commerce, GoI at an estimated cost of ₹ 5.08 crore. The project was fully export oriented and was expected to generate an estimated profit of ₹ 1.30 crore per annum. Out of the sanctioned amount, the Company received (July 2008 to March 2013) funds amounting to ₹ 4.89 crore[53] with the condition that any cost escalation during actual implementation of the project need to be borne by the Company. The factory was commissioned (November 2012) at a total cost of ₹ 5.95 crore including ₹ 1.06 crore from own sources. The production performance of the Door manufacturing unit during the three years from 2012-13 to 2014-15 is given below:

Table No. 3.2.8

Year	Effective capacity[54] (Nos.)	Actual production during the year (Nos.)	Capacity utilisation (in percentage)	Orders received during the year (No. of doors)
(1)	(2)	(3)	(4)	(5)
2012-13[55]	3,720	72	1.94	73
2013-14	11,200	404	3.61	166
2014-15	11,200	638	5.70	642
	26,120	**1,114**	**4.26**	**881[56]**

From the **Table 3.2.8** above, it could be seen that capacity utilisation of the Unit was very low even after three years of commissioning of the project. The low capacity utilisation of the Unit was mainly attributable to lack of sufficient supply orders and demand for the products of the Unit. It was observed that although the Unit was supposed to be cent *per cent* export oriented, it was not able to export even a single door since its commissioning (November 2012). At present, sales of the products of the Unit were restricted to local market only. During 2012-15, the Unit could register

53 Net funds received after deducting the processing fee (₹ 0.19 crore) at source by the financing authority.

54 Based on the effective capacity of the Unit (40 doors per day for 280 days in a year) as worked out by the Company

55 From December 2012

56 Against these supply orders, the actual supplies were made for total 776 doors only.

an aggregate sale of 776 doors (valuing ₹ 37.43 lakh) in local market, which was merely 2.97 *per cent* of the effective capacity (26120 doors) of the Unit for the said period. The low demand for the products of the Unit was primarily attributable to absence of adequate efforts of the Company in strongly promoting the value added product. Besides, the absence of adequate technical manpower had also adversely affected the production performance of the Unit. It was observed that as against the projected requirement of 68 employees for achieving full scale production, actual staff in position (contractual) ranged from 6 to 8 only during the review period pointing to apathy of Management in improving the production performance. Thus, despite availing substantial funding from GoI of establishment of first fully export oriented project of its kind in North East, the Unit could not achieve the intended objectives of the project in absence of effective marketing and adequate manpower.

In reply, the Company stated (November 2015) that to cope up with the insufficient capacity of Unakoti Crafts Factory (UCF), the machineries in the Door factory were being used for manufacture of other furniture. The reply was, however, silent on the reasons for not recruiting adequate number of technical manpower to improve the production performance of the Unit.

The reply was indicative of the fact that the capacities of the export oriented Unit were diverted on other works defeating the intended objectives of the project.

3.2.11.1(e) Marketing for the products of the Industrial Estate, Anandnagar

Company's showroom located in its Head Office building was rarely promoted.

Marketing is indispensable for enhancing the acceptability of any product in the market. Even though rubber products had captive demand and need not have aggressive marketing, rubber wood had to compete with other available types of wood and hence, required active promotion. The Company, however, did not have any marketing department or professionally trained personnel for efficient and effective execution of marketing and promotional activities relating to the products of the Industrial Estate, Anandnagar. In this connection, following observations are made:

- During the review period of five years, the Company spent a negligible amount aggregating ₹ 10.30 lakh on advertisement (₹ 2.77 lakh) and sales promotion (₹ 7.53 lakh) for creating market awareness for rubber wood timber and doors. The Company had also not tied up with any agency including the Central and State PSUs or e-tail platforms/online retailers for sales/promotion of the rubber wood products manufactured in the Industrial Estate of the Company. Inadequacy of marketing efforts on part of the Company had contributed towards low demand for Company's products.

- Analysis of records revealed that the Industrial Estate was highly dependent on Government orders (mainly schools) for sale of its products particularly the furniture products manufactured in UCF. It was observed that during 2014-15, the sales of the products to private parties (₹ 3.53 lakh) formed only 0.47 *per cent* of total sales (₹ 754.42 lakh). Further, the sales of the Industrial Estate to private parties during the period from 2010-11 to 2014-15 decreased from ₹ 9.65 lakh (2010-11) to ₹ 3.53 lakh (2014-15) substantiating the audit contention regarding inadequacy of the marketing effort by the Company.
- TRWF was established in the Estate on the premise that there was good market for rubber wood in the Country. As envisaged in the detailed project report of TRWF, the market was to be tapped by opening of new showrooms in Kolkata, Guwahati and Agartala and appointing sales agents (commission basis) for sales of the products manufactured in TRWF. Further, as per the project report, an amount of ₹ 20 lakh had to be set apart by the Company to create necessary infrastructure for the purpose. No action was, however, taken by the Company to implement any of these steps (October 2015).
- The Company had two showrooms, one in its HO Complex and another in Anandnagar located in a remote area located at a distance of 15 km from the City. No trained personnel, however, had been deployed in these showrooms to improve their sales performance. The Company had also neither fixed any accountability nor set any sales targets etc. to monitor and improve the sales performance of two showrooms.

Thus, there was significant under-utilisation of capacity for processing rubber wood units at the Industrial Estate, Anandnagar in the absence of adequate and effective efforts on part of the Company for expanding the market of its products.

In reply, the Company stated (November 2015) that it has sufficient orders and since it was a Government Undertaking, priority was given to Government sales.

The reply substantiates the Audit contention regarding high dependence of the Company on Government orders and its inability to attract other segments of customers through effective marketing.

3.2.11.1(f) Recruitment plan for timber processing factories

The Company reviewed (March 2013) the requirement of Managers and support staff *vis-a-vis* the existing strength of the staff in the context of the existing capacities of the manufacturing units (viz. TTP, TWRF and UCF) located in the Industrial Estate, Anandnagar. It was concluded that the existing strength of Managers and support staff was inadequate to use the capacity of the machines and other infrastructure installed in the manufacturing units. The plan recommended for operation of double shift at TTP and TRWF. For this purpose, the Company felt the need to fill the existing vacancies against the sanctioned strength of the employees and also to review the entire manpower situation in this context for fresh recruitment of suitable personnel on top priority. The Company also planned that realistic assessment of manpower requirement would be carried out every year immediately after the monsoon season so as to fill up the vacancies within two months after monsoon. No concrete steps were, however, seen to have been taken by the Company to implement these plans so as to improve the production performance of these units.

3.2.11.2 Manufacture of Cenex

The Company operated a centrifuging factory at Takmacherra where field latex[57] is centrifuged and converted into Cenex (having DRC of 60 *per cent*). Skim generated during this process is collected and used to manufacture skim crepe by further processing separately. In addition, the factory also produces Pale Latex Crepe (PLC) directly from field latex whenever necessary. Manufacture of PLC did not involve any centrifuging process.

3.2.11.2(a) Efficiency of centrifuging operations

Centrifuging factory operated two Centrifuging machines for manufacture of Cenex. Efficiency of a centrifuging machine is judged on the basis of DRC in the input (field latex) material *vis-à-vis* that in the output, namely Cenex. The rated efficiency of the installed machine was 90 *per cent*.The Company spent (October 2012) an amount of ₹ 25.10 lakh to replace one of the older centrifuging machine with a new machine having a higher rating. Analysis of Rubber production statements furnished by the Company showed that actual efficiency of operation of these machines was much lower (by upto 35 *per cent*) than that prescribed efficiency of 90 *per cent* during all the five years from 2010-11 to 2014-15 as shown in **Appendix -3.2.12.**

Low efficiency of centrifuging machines indicated that huge quantity of latex was being removed as skim which incidentally commanded lower market price even after conversion into skim crepe. Efficiency of centrifuging machines depends upon factors like length of skim screw, feed rate and running time, etc., which could be ensured only through well trained workers and continuous supervision of machine operations. Low efficiency pointed out above indicated that these factors were not taken into account during manufacturing process resulting in potential loss of revenue to the extent of ₹ 2.46 crore during the period 2010-11 to 2014-15 as shown in **Appendix - 3.2.12**.

In reply, the Company stated (November 2015) that low efficiency as commented by Audit was not correct as the input DRC taken for calculation was higher than the actual due to adulteration of latex and falsification of records to conceal the same. As soon as the matter was detected, action was taken to arrest the same.

The reply is not tenable as the Audit observation was based on figures certified and accounted by the Company and as reported by it to the Rubber Board.

[57] Normally containing 30 to 35 *per cent* of Dry Rubber Content (DRC)

3.2.11.3 Manufacture of ISNR

Scrap rubber collected from plantations is further processed into Technically Specified Rubber also known as Indian Standard Natural Rubber (ISNR). ISNR is classified into different grades based on various certified quality parameters like ISNR5, ISNR10, ISNR20, ISNR50, etc. each progressively having lower quality and value. Quality of ISNR is largely determined by quality of input scrap which tends to deteriorate if stored for a long period.

Deteriorated condition of scrap rubber at ISNR Factory

ISNR Factory of the Company commenced production in April 2013at its industrial complex in Takmacherra. The effective production capacity of the factory was 5 MT of finished product per day. Audit analysis of operation of the factory for the two years (*viz*. 2013-14 and 2014-15) revealed the following:

- As on March 2013, the factory had a stock of 282.110 MT of scrap rubber, which was equal to six months requirement in single shift operation of the factory. Audit observed that this scrap had progressively accumulated from the year 2010-11 when the proposal for the factory was initiated. The Company could have fetched a revenue of ₹ 3.95 crore through disposal of the scrap stock at the selling price prevailing during 2010-11 and 2011-12. Capacity utilisation of ISNR factory for the two years after commencement of production (April 2013) was low at 5.37 *per cent* (2013-14) and 20.23 *per cent* (2014-15) only. Accumulation of scrap over a long period prior to and even after commencement of production resulted in deterioration of its quality due to oxidation. Consequently, a significant proportion (20.76 *per cent*) of the production of the factory (during 2014-15) was the lower grade ISNR50 while 22 *per cent* could not be graded at all (off grade) due to below par quality. Lower quality of finished product resulted in short realisation of revenue to the extent of ₹ 0.27 crore **(Appendix - 3.2.13)** during 2014-15 when compared with the price realised for higher grade product namely ISNR20.

- It was also observed that the unit cost of production was high due to high consumption of diesel by the drier. As against the industry standard of 35-40 litres of diesel per MT of production, the actual diesel consumption in the production process worked out to 48.27 litres per MT of ISNR during 2014-15 resulting in additional production cost. As opined (August 2013) by the technical consultant appointed for reviewing the operations of ISNR factory, high consumption of diesel was mainly due to low capacity utilisation and defective design of drier which allowed leakage of heated air. No corrective measures were, however, taken by the Company in this regard (November 2015).

In reply, the Company accepted the audit observation and stated (November 2015) that efforts would be taken to produce higher quality ISNR since the old stock of scrap has got exhausted.

3.2.11.4 Mechanisation of rubber processing inthe RPCs

Latex is coagulated into thin slabs of coagulum by mixing with water and formic acid. The coagulum is rolled through a set of smooth rollers and then dried and smoked to obtain sheet rubber. The RPCs of the Company located in various parts of the State collected liquid rubber latex for further processing into sheet rubber. The cost of such conversion *inter alia* included the cost of formic acid, fuel and wages for labour. Audit observed that conversion cost incurred by the Company during the period from 2012-13 to 2014-15 was higher by ₹ 0.60 crore in aggregate when compared with the conversion cost incurred by another state owned company (Tripura Rehabilitation Plantation Corporation Limited) engaged in similar activities.

Analysis of production costs revealed that higher conversion cost was mainly due to fixation of labour norm at a higher level (44 mandays) than that allowed by TRPCL (42 mandays) for processing one MT of latex. Audit observed that the labour norm adopted by the Company was fixed in 1999 and since then, the same had not been revised. In addition, the Company also failed to take full advantage of mechanisation in rubber processing so as to bring down labour cost. It was observed that only 11 out of 39 RPCs were provided with electric roller machines for rubber processing which incidentally reduced the requirement of mandays to only 27 per MT. Use of electric roller machines in its RPCs could have resulted in a saving of manpower cost to the extent of ₹ 34.49 lakh per annum[58] (based on production figures for 2014-15) as shown **Appendix - 3.2.14.** Considering the scope for massive reduction in manpower cost, use of electric roller machines should have been the norm rather than the exception.

In reply, the Company stated (November 2015) that mechanised roller machine could not be provided in all production centres due to absence of electricity in all the RPCs.

The reply is not tenable in view of the fact that the electric roller machines had not been provided even in RPCs having power connection as revealed during the test check[59] of RPCs. The Company, however, should take necessary steps for electrification of all RPCs so as to reduce the production costs by installing mechanised roller machines.

[58] After considering the additional expenditure on account of electricity charges
[59] Conducted in five RPCs in Sadar Division

Audit Objective4: Efficiency and effectiveness of monitoring and internal control mechanism.

3.2.12 Monitoring and Internal control

3.2.12.1 Monitoring

Activities of the Company are varied, complex and geographically spread out across the State. Effective monitoring of the activities carried out by various functional units is essential to ensure that common organisational objectives are achieved. Audit observed the following deficiencies in overall supervision and monitoring:

3.2.12.1(a) Monitoring by Board of Directors

During April 2010 to March 2015, Board of Directors of the Company held twenty three meetings. Scrutiny of the minutes of these meetings revealed the following:

- As discussed under **para 3.2.8.2(b)** *supra*, the Board of Directors of the Company had approved Five year tree extraction plan around three years back in April 2013. Even though the Company could not achieve the tree extraction plan and re-plantation programmes, the issue was not reviewed by the Board of Directors for necessary remedial action till date (November 2015).
- Minutes of Board meetings held during 2010-11 to 2014-15 did not give any indication that the Board discussed and monitored progress achieved in beneficiary plantation programmes.
- It was observed that the issue of encroachment continually came up before the Board for consideration and possible remedial action. No strategy or definitive plan of action was, however, formulated by the Company to resolve the problem of encroachments (October 2015).

3.2.12.1(b) Monitoring by top management

To assess the progress made in achievement of set targets, Executive Director of the Company was convening monthly review meetings with the Divisional Managers. Review of records relating to these meetings revealed the following:

- Effective steps for improvement of performance were not seen suggested in the cases of poor progress noticed in achievement of the targets .
- Even though the operation of the manufacturing units at Takmacherra and Anandnagar was critical to the profitability of the Company, no targets at any level had been set for these manufacturing units during major part of the review period. In absence of the performance targets, monitoring of the activities of these manufacturing units was not effective.
- There was no independent vigilance mechanism in place under the top management to ensure the integrity of operations and safety/security of assets of the Company. Such a mechanism was essential considering the statewide operations of the Company.

3.2.12.2 Internal control

Internal control system of an organisation ensures achievement of organisational objectives, effective utilisation of resources, safeguarding of assets and availability of reliable information to the management and other stakeholders. The deficiencies noticed in the internal control system of the Company have been discussed in the following text.

3.2.12.2(a) Financial controls

- The Company did not conduct any internal audit of its activities during the years 2010-11 and 2011-12. Review of internal audit reports pertaining to the years 2012-13 to 2014-15 showed that the reports were silent on vital issues like efficacy of systems and controls particularly in manufacturing units, adherence to plans, policies and procedures, operational efficiency, etc. This made the internal audit exercise of the Company to be superficial and unfruitful.

- The finalisation of annual accounts of the Company was not up-to-date and there was back log of at least one year accounts throughout the period of five years under review. It was observed that Finance and Accounts wing of the Company was manned by clerical staff and the Company was fully dependent on external agencies for the works relating to compilation of accounts, internal audit, tax matters, etc., without any corresponding internal oversight or control. The accounts of the Company for the year 2013-14 (compiled by external agencies) also deviated from the format approved under the Companies Act,1956 (Schedule-VI), which was also commented by CAG during supplementary audit.

- Manufacturing operations and value added products occupy increasing share of sales portfolio of the Company. Despite this fact, there had been no attempts to introduce reliable costing systems that could help the management in ensuring that its products were priced competitively after covering all overheads.

3.2.12.2(b) Operational controls

- Plantation journals are detailed records maintained in each RPC showing various particulars of plantations raised like area, type of species, physical and financial particulars of silvicultural techniques adopted each year, etc. Audit observed that plantation journals in the RPCs were maintained in a rudimentary manner without the necessary details like area, location, type of seed/clone, details of planting and maintenance activities, etc. Absence of basic and reliable data in respect of the plantations under its control was a major constraint faced by the Company in effective monitoring and taking legal course of action to make the plantation area free from encroachment. Maintenance of the plantation journals at each RPC detailing complete particulars of the plantations falling under the control of respective RPC could be useful in effective monitoring of the plantation activities and improving the performance of the plantations managed by the Company.

- No functional manuals were prepared by the Company prescribing the policies and procedures for various operational activities, like financing, management of plantations, procurements, purchases, maintenance of stores and stock, etc. for guidance of the functional heads.
- No Control Registers were being maintained by the Company at the head office level in respect of various activities, such as Purchases, Works, etc.
- The Company was unable to control widespread theft of latex in some of the vulnerable RPCs like Abhangcherra and Sachirambari. No action plan was formulated to prevent the same despite the fact that large scale re-plantation was being taken up in the area.
- The Company had a sound system of recording and reconciliation of production data relating to rubber and value added products. Management Information System of the Company was, however, found to be deficient in other operational areas. The Corporate Office was fully dependent on Divisional Offices for compilation and updation of basic plantation data like land area, extent of plantations, details of planting, maintenance and extraction of plantations, development activities undertaken, etc. There was no system of cross verification of the plantation data on the same area generated from different sources (e.g., Area of plantations raised during a particular year) due to which data integrity was affected and varying data on same topic was being generated from different sources. This was mainly due to lack of coordination and chain of authority at the Head Office where clerical staff were directly reporting to top level management without any middle level supervision who would have reconciled/verified the details.
- There was no uniform data formats applicable to all five divisions of the Company. For example, Divisions adopt different formats for submitting required information on preparation of Annual Action Plans. Similarly, there was no standard format for preparing the proposals regarding payment of incentive and bonus, etc. by the Divisions. The Company needed to prescribe uniform formats for all centralised activities.
- There were no set standards for deployment of manpower in 5 Divisions and 39 RPCs.
- Even though Central Stores at Anandnagar held huge inventory of stock (rubber sheets, scrap rubber) there was no independent third party physical verification of stock and the same was certified by the Officer in charge.
- The Company did not comply with manpower safety requirements stipulated by Factories Act, 1948, which included fencing off the dangerous machineries, clothing and accessories of workers and provisions for first aid, etc.

The internal control system of the Company needed to be strengthened by addressing the above financial and operational control issues which had the potential to undermine the organisational goals.

3.2.13 Conclusion

The Company was one of the few State PSUs which recorded profits and paid dividend. The operational surplus of the Company was, however, increasingly under strain due to the losses made by its wood processing activities and declining trend of rubber prices.

The Company did not have any long term planning mechanism to attain its laid down objectives. The Annual Action Plans prepared by the Company merely served the purposes of addressing the immediate and short term issues without addressing the core issues in long run like poor yield, low capacity utilisation of processing units, manpower shortages, low demand for processed wood products and financial uncertainty on account of fluctuating prices of its products, etc. The first Five year Tree extraction plan (2013-14 to 2017-18) prepared by Company did not adequately consider the necessity of replanting of over matured and thinly populated plantations so as to improve productivity.

Forest lands handed over to the Company for raising plantations were encroached in the absence of legal title, lack of proper documentation, inadequate monitoring and absence of effective administrative action for eviction of encroached areas. The Company irregularly utilised the forest land allotted for the benefits of tribal for own commercial plantations in violation of the Government of India approval, thus depriving the tribal community of the intended benefits of land allotment besides involving the risk of payment of compensation towards said diversion of forest land.

The average yield from the plantations managed by the Company was less than half of the average yield of the State during the five years under review mainly due to delay in re-plantation in over-matured plantation areas, failure of replanted areas, poor density of tapping trees, low productivity and absenteeism of tappers, inadequate field supervision and control, etc.

Rubber wood processing activities of the Company resulted in substantial operational losses due to low capacity utilisation, manpower shortage, lack of adequate marketing efforts and lack of performance evaluation of the production units. The operations of Cenex and ISNR manufacturing facilities were also not efficient in absence of trained workers and effective supervision of operations.

Monitoring and internal control activities had scope for improvements.

3.2.14 Recommendations

The Government/the Company should consider the following recommendations:

- The Company should strengthen its planning mechanism by devising long term perspective plans on scientific basis in line with its laid down objectives;
- The Government and the Company should jointly identify encroached forest land and take urgent steps to reclaim the area. Action should be taken to legalise

the Company's control over the plantation areas by entering into formal lease agreements with Government. Effective measures should be taken to prevent further encroachments and accountability should be fixed for any lapse in this regard;

- To improve the yield from its plantations, the Company should accelerate re-plantation activities particularly in over-matured areas and adopt best labour and plantation management practices in consultation with the Rubber Board;
- The Company needs to prepare comprehensive plan for effective marketing and publicity of its rubber wood products so as to improve capacity utilisation and operational performance of its wood processing units. Besides, recruitment of adequate and skilled manpower and ensuring effective supervision of their work at the production centre level may also be desirable to improve the financial viability of its production units.
- The Company should strengthen its monitoring/management information systems in order to ensure effective control over its operations.

POWER DEPARTMENT

(Tripura State Electricity Corporation Limited)

3.3 Avoidable payment of interest

Negligence in filing of Annual Income Tax Return and shortfall in remittance of Advance Income Tax resulted in avoidable interest expenditure of ₹ 4.52 crore.

Under the provision of Section 139 and 140 A of the Income Tax Act, 1961 (Act), every company at the close of each financial year, must assess its tax liability for the year, adjust both advance tax paid and tax deducted at source and deposit balance tax payable on self assessment and file the Income Tax Returns (ITR) within 30 September of the assessment year. Further as per Section 208 of the Act, it is obligatory for a company to pay Advance Income Tax (AIT) in four quarterly installments[60] during the relevant financial year. As per Section 234 A of the Act, simple interest at one *per cent* per month is payable in case of default in furnishing of ITR on due date. Further, as per Section 234 B of the Act, simple interest at one *per cent* per month is also payable on the amount of shortfall in assessed tax, if the advance tax paid fall short by more than 10 *per cent* of the assessed tax. In addition, as per Section 234 C, in case of delay in payment of Advance Income Tax on due dates simple interest at one *per cent* per month is payable.

We observed (August/September 2014) that Tripura State Electricity Corporation Limited (Company) failed to file the ITR for the Assessment Years 2009-10 and 2010-11 on time. Further, there was shortfall in payment of Advance Income Tax (AIT) besides delays in payment of AIT on due dates. Due to the above irregularities, the Company had to pay interest aggregating ₹ 7.79 crore towards non-filing of ITR on time under Section 234 A (₹ 4.04 crore), shortfall in payment of AIT under Section 234 B (₹ 3.11 crore) and non-payment of AIT within the due dates under Section 234 C (₹ 0.64 crore). This resulted in net interest expenditure of ₹ 4.52 crore[61] which could have been avoided by paying the quarterly installments of AIT within the prescribed time and by filing of IT return on due date as per the provisions of the Act. Non compliance with the provisions of the Act reflected lack of financial prudence on the part of the Company.

The matter was reported (June 2015) to the Government/Company; their reply had not been received (November 2015).

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[60] On or before 15 June, 15 September, 15 December and 15 March.

[61] After considering interest amounting to ₹ 3.27 crore earned from unpaid tax amount computed based on average fixed deposit rates for the corresponding financial years.

3.4 Extra expenditure

Non-application of the prescribed selection criteria uniformly for all the bidders resulted in extra expenditure of ₹ 36.09 lakh on purchase of distribution transformers.

Distribution Transformers (DTs) are used for stepping up/down of voltage of current supplied to the consumers and is expected to be in operation for a period of 25 years. When in operation, DTs incur energy losses, which can be classified into 'no load losses' (i.e. loss associated with the core of the DT) and 'load losses' (i.e. loss associated with the current flowing through the coils of the DT). Accordingly, while procuring DTs, the effective costs over the lifetime of DTs has to be considered by adding the capitalised cost[62] of these inherent losses to the value of DTs.

Scrutiny of records of Tripura State Electricity Corporation Limited (Company) revealed that the Company had floated (June 2012) Notice Inviting Tender (NIT) for procurement of 300 DTs of 63 KVA capacity at an estimated cost of ₹ 2.43 crore. Section IV (Para 7.3) of the NIT specified the loss capitalisation factor to be considered during evaluation of the bid. While the 'no load loss' factor was fixed at ₹ 3,71,577 per KW, 'load loss' factor was specified as ₹ 49,048 per KW. As per the NIT conditions, the supplier also had to furnish Guaranteed Technical Particulars (GTP) declaring the 'load' and the 'no load' losses of the DTs to be supplied by the supplier. As per Clause 8.0 of Section II of the NIT, the particulars declared in GTP were to be supported by the type test reports from specified laboratories. Of the four bidders whose technical and commercial bids were accepted, two bidders namely, M/s Eastern Trafo Pvt. Ltd.(ETP) and M/s Siliguri Electric Works (SEW) were evaluated to be L_1 and L_2 based on their quoted prices of ₹ 96,135 and ₹ 87,680 respectively after taking into account the value of capitalised loss mentioned *supra*. The Purchase of 300 Nos. of 63 KVA DTs from ETP was approved (September 2012) by the Board of Directors and purchase order was issued (October 2012) for a total amount of ₹ 2.99 crore[63]. The supply was completed in August 2013.

Scrutiny of the selection process of suppliers revealed that the tender conditions were not applied uniformly at the time of evaluation of the bids by the Deputy General Manager (Material Management) of the Company. It was observed that even though type test results had been furnished by both the bidders, losses declared in the GTP were considered in the case of evaluating the offer of ETP (L_1), while actual losses as per type test results were considered for SEW (L_2). It was observed that if the Company had evaluated the bids after taking into account the actual energy loss figures as per the type test reports of the two bidders, effective cost of ETP (L_1) would have been higher by ₹ 4,827.83 per DT than the effective cost of DTs offered by SEW

[62] Capitalised cost is arrived at by multiplying the loss capitalisation factor (₹ per Kw) pre-determined by the Company with 'load' / 'no load' loss (in Kw) as certified in test reports.

[63] 150 Nos. @ ₹ 96,135 (Nil Excise Duty) and 150 Nos. @ ₹ 1,03,283 (incl.Excise Duty @ 12.36 *per cent*)

(L_2) as shown in **Appendix- 3.4.1**. This was due to the higher tested 'load loss' of ETP than that declared in its GTP.

Thus, non-application of the prescribed selection criteria uniformly for all the bidders resulted in extra expenditure of ₹ 36.09 lakh [64] on purchase of distribution transformers.

The matter was reported (June 2015) to Government/Company; their replies had not been received (November 2015).

[64] (₹ 2,99,12,745) - (₹ 87,680 x 300) = ₹ 36,08,745