

Chapter VI

Compliance Audit of Social, General and Economic Sectors (PSUs)

Chapter VI

Compliance Audit of Social, General and Economic Sectors (PSUs)

Forest Department

6.1 Activities of Extraction and Sale of Timber in Jammu & Kashmir Forest Development Corporation Limited

The Company had accumulated losses of ₹ 249.13 crore at the end of March 2020. Outstanding Royalty of ₹ 395.67 crore was payable by the Company to State Forest Department. Timber/ markings valuing ₹ 2.71 crore became rotten/unsaleable. Unrealistic criteria for categorisation of forest area led to incorrect fixation of rates for extraction and transportation of timber. Contractors/ *Amani* mates abandoned work leading to markings/ timber valuing ₹ 17.61 crore being left unattended in the forest.

6.1.1 Introduction

The Jammu and Kashmir State Forest Corporation (J&KSFC) was established (July 1979) under the Jammu and Kashmir State Forest Corporation Act, 1978 (SFC Act). Audit of the accounts of the J&KSFC (from 1996-97 onwards), was entrusted (March 2000) to the Comptroller and Auditor General of India (C&AG) under Section 19(3) of the C&AG's (Duties, Powers and Conditions of services) Act, 1971. After repeal (March 2020) of the SFC Act, the Jammu and Kashmir Forest Development Corporation Limited (J&KFDC) was incorporated (December 2020) as a Company under the Companies Act, 2013.

The functions of J&KFDC (Company) included removal of trees from forests and their disposal, exploitation of forest resources, undertaking research programmes relating to forest and forest products, rendering technical advice to the Government on matters relating to forestry, management, maintenance and development of forests transferred to it by the Government. However, the Company was undertaking only removal of trees from forests and carrying out sale of timber.

As of March 2020, Advisor, in-charge Forest, Environment and Ecology, as Chairman of the Company and five directors, appointed by GoJ&K were running affairs of the Company.

The Company had four Extraction Circles, 13 Extraction Divisions, two Sales Circles and four Sales Divisions. Besides, the Company had two Fair Price Divisions. The Department of Forest, Environment & Ecology, GoJ&K transferred (July 2016) 868 Concessional Zone Timber Sale Depots (CTSD) to the Company.

Audit examined (October 2020 to March 2021) records (2015-16 to 2019-20) of the Company at its Head Office and in six¹, out of 13, Extraction Divisions. Records were also checked in two, out of four, Sales Divisions and two Fair Price Divisions.

¹ Jammu province: Kishtwar, Bhaderwah & Udhampur and Kashmir province: PP East Pulwama, Zangli & Ganderbal.

6.1.2 Accounts and Financial Management

6.1.2.1 Non-finalisation of accounts

After entrustment (March 2000) of audit of accounts (from 1996-97 onwards) of the Company to the C&AG of India, Statutory auditors were to be appointed for submission of certified accounts to the Principal Accountant General. Audit noticed that appointment of Statutory Auditors was made (December 2004) after a delay of over four years and accounts for the period from 1996-97 to 2003-04 were certified (December 2011) after a delay of 15 years. Further, accounts up to the year 2013-14, for the years 2014-15 to 2016-17 and for the years 2017-18 to 2019-20 were submitted to the Principal Accountant General in October 2015, January 2020 and September 2021, respectively. Audit of accounts for the period from 1996-97 to 2013-14 was conducted in January/ February 2021. As of November 2021, reply to the preliminary audit observations was awaited from the Statutory Auditors of the Company.

6.1.2.2 Financial Position

Financial position of the Company for the period from 2015-16 to 2019-20² are given in Table 6.1.

Table 6.1: Financial Position

(₹ in crore)						
Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1	Sales	136.72	147.35	212.20	171.90	148.71
2	Other income	33.04	21.54	2.04	2.32	8.31
3	Closing stock of timber (standing/extracted/sawn)	438.92	461.47	445.14	468.42	511.26
	(A) Total = 1+2+3	608.68	630.36	659.38	642.64	668.28
4	Opening Stock of timber (standing/extracted/sawn)	431.53	438.92	461.47	445.14	468.42
5	Direct expenditure	47.55	55.58	82.21	53.22	51.00
6	Direction and Administration expenses	103.19	110.16	119.66	138.52	144.11
7	Other expenditure	10.15	10.34	11.39	9.90	8.74
	(B) Total = 4+5+6+7	592.42	615.00	674.73	646.78	672.27
8	Net Profit/(Loss) for the year (A-B)	16.26	15.36	(15.35)	(4.14)	(3.99)
9	Accumulated Losses ³	241.03	225.67	241.01	245.14	249.13

From the table above, it can be seen that:

- There was increase in revenue from ₹ 136.72 crore (2015-16) to ₹ 147.35 crore (2016-17). It reached the highest level of ₹ 212.20 crore during 2017-18 due to increase in sales which declined in subsequent years to ₹ 148.71 crore in 2019-20.
- Profit earned was ₹ 16.25 crore and ₹ 15.36 crore during 2015-16 and 2016-17, respectively. However, the Company suffered loss of ₹ 15.33 crore

² Figures are based on the accounts certified by the Chartered Accountants.

³ The accumulated losses as on 31 March 2015 were ₹ 257.28 crore.

during 2017-18 mainly due to increase in direct expenditure⁴ and direction and administration expenses⁵. It also suffered losses of ₹ 4.14 crore during 2018-19 and ₹ 3.99 crore during 2019-20.

- The accumulated losses stood at ₹ 249.13 crore as of March 2020 as against ₹ 257.28 crore as of March 2015.

The Management stated (April 2021) that increase/ decrease of sale was due to behavior of market and flow of imported timber led to decrease in sale. The Management also attributed (November 2021) losses to the implementation of Goods and Service Tax from July 2017 and re-organisation of J&K UT (Union Territory) after August 2019.

6.1.2.3 Royalty payable to Forest Department

As per agenda note placed before the meeting (April 2019) of the Board of Directors, ₹ 904.15 crore was payable by the Company to the Forest Department on account of royalty bills against markings⁶ of trees handed over to the Company during the period 1979-80 to 2018-19. Against the outstanding of ₹ 904.15 crore, the Company paid ₹ 381.01 crore and supplied timber to the Forest Department valuing ₹ 377.30 crore as of March 2019, thus, leaving a balance of ₹ 145.84 crore as of March 2019. Accounts for 2018-19, however, showed that royalty payable to Forest Department was ₹ 395.67 crore. The variation of ₹ 249.83 crore was not reconciled by the Company.

Audit scrutiny of the royalty bills raised by Forest Department revealed that during 2015-20, the Company received markings of 27.26 lakh cft⁷ under projects which also consisted green trees, for which full royalty rates were required to be booked in the accounts. Audit test checked records for 6.50 lakh cft of markings under projects and found that 5.74 lakh cft (88.31 per cent) was green marking and balance 0.76 lakh cft (11.69 per cent) was dry markings. The royalty payable against green markings of 5.74 lakh cft were not provided at full rates leading to short provisioning of royalty to the extent of ₹ 1.31 crore.

6.1.3 Extraction of timber

6.1.3.1 Receipt of marking and extraction done

The details of opening balance of markings available with the Company, fresh markings taken over, targets of extractions, shortfall in extractions, closing stock and losses relating to extraction of timber during the period 2015-16 to 2019-20 are given in Table 6.2.

⁴ Due to (i) increase in quantity of markings taken over from the Forest Department which increased the royalty payable and (ii) increase in extraction of timber leading to increase in extraction charges.

⁵ Due to implementation of sixth pay commission and its impact in the subsequent years.

⁶ Trees identified/marked by State Forest Department for extraction of timber.

⁷ Jammu province: 22.72 lakh cft and Kashmir province: 4.54 lakh cft.

Table 6.2: Targets and achievements regarding extraction of timber

(In lakh cft)

Year	Opening balance of marking	Fresh marking received during the year	Total markings available for extraction	Targets for extraction of Standing volume	Extraction done (standing volume)	Targets of extraction (converted volume)	Extraction done (converted volume)	Percentage of shortfall	Timber handed back	Closing balance of marking	Percentage of converted volume to standing volume	% age of actual extraction to the total available
	i	ii	iii = i + ii	iv	v	vi	vii	viii = {(vi-vii)/vi} %	ix	x	(xi=vii/v) %	(xii=v/iii) %
2015-16	138.90	37.55	176.45	Not fixed	46.18	38	25.38	33.21		130.27	54.96	26.17
2016-17	80.27	53.03	133.30	Not fixed	52.20	43	29.96	30.32	0.31	80.79	57.39	39.16
2017-18	80.43	75.79	156.22	Not fixed	70.07	45	38.99	13.36	0.83	85.32	55.64	44.85
2018-19	84.86	45.68	130.54	80	60.51	40	33.61	15.98	1.23	68.80	55.54	46.35
2019-20	68.80	28.37	97.17	Not fixed	32.78	Not fixed	19.71	NA		64.39	60.13	33.73

(Source: Annual accounts for the period 2015-20 and agenda of meetings of BoDs)

Audit observed that:

- Extraction (converted volume) targets were not fixed for 2019-20. There was shortfall in achievement of targets during 2015-19 ranging between 13.36 per cent and 33.21 per cent. Division-wise targets were not fixed during 2015-20.
- No targets of extraction (standing volume) were fixed except for the year 2018-19. The percentage of extraction (standing volume) with respect to total markings available for extraction ranged between 26.17 per cent and 46.35 per cent during 2015-20. Acceptance of fresh markings despite non-extraction of available markings led to creation of liability on account of royalty and accumulation of inventory (standing volume).
- There was short account of 50 lakh cft⁸ of marked trees valuing ₹ 160.93 crore⁹ in the opening stock for 2016-17 as compared to closing stock of 2015-16. Minor variations in the opening balances were also observed in the subsequent years. Since no remedial action was taken by the Company, the variation of 50 lakh cft continued in its book up to March 2020. Variation in the balance of stocks is fraught with the risk of fraud/ misappropriation remaining undetected.

The Management while replying to the audit observation provided (November 2021) a new set of figures of opening balance, marking received and extraction done nullifying the variations. The revised figures provided were not acceptable as, the data in the table above was prepared on the basis of figures of annual accounts of the

⁸ Short: In Extraction Divisions Doda (10.89 lakh cft), Kishtwar West (3.30 lakh cft), Kehmil (6.61 lakh cft), PP East (27.56 lakh cft), PP West (2.33 lakh cft), Zangli (1.90 lakh cft), Ganderbal (1.04 lakh cft), Handwara (1.04 lakh cft), Anantnag (0.78 lakh cft), Udhampur (0.26 lakh cft), Rajouri (0.37 lakh cft), Ramban (0.33 lakh cft) and Excess: In Extraction Divisions Kishtwar East (4.01 lakh cft), Baderwah (1.60 lakh cft), Jammu (0.23 lakh cft) and Baramulla (0.57 lakh cft).

⁹ Calculated on the basis of average sale rate of 585.64 per cft for 2015-16 with expected outturn of 27.48 lakh cft SV on the basis of percentage of actual outturn of 54.96 RV achieved during 2015-16.

Company and the allied working sheets which had been duly approved by the Board of the Directors of the Company and certified by the statutory auditor.

6.1.3.2 Categorisation of forest area for fixing estimated cost for extraction/ transportation of timber

The Steering Committee of the Company is empowered to revise rates for extraction/ transportation of timber as prescribed by the National Productivity Council. In Jammu province, the rates (applicable for lumbering operations) for 2015-16 were fixed in May 2015 and the same were revised in May 2019¹⁰. The coupes¹¹ of forests were categorised based on nine parameters¹² as A (upto 45 points), B (45-60), C (60-80) or D (above 80) in which the rates for category 'A' was the lowest and 'D' was highest.

Audit reviewed 82 project reports of three sampled Extraction Divisions¹³ and noticed that only in three cases¹⁴, project area had been categorised as 'C' and the remaining cases were categorised as 'D'. It was observed that the minimum points which could be assigned was 57 and thus, no coupe could be categorised as Class 'A' and the probability of categorising as class 'B' was also low. Thus, the criteria set for categorisation of the coupes were unrealistic resulting in higher rates being fixed for coupes which should've been under category 'A'.

The Management stated (September 2020/ November 2021) that the weightage distribution for categorisation of the compartment had been calculated as per the proforma devised by National Productivity Council and admitted that no compartments were categorised under Category 'A' and 'B'. It was further stated that the matter would be examined for rectification of 'A' and 'B' categories.

6.1.3.3 Allotment of works for extraction/transportation of timber

After preparation of project report for extraction and transportation of timber, the Company starts the process of allotment of work by inviting tenders or the work is directly allotted on *Amani* basis (engaging labour mates) without inviting tenders to facilitate small and petty contractors preferably local 'D' class contractors, who are unable to compete with bigger contractors. The Board of Directors (BoDs) restricted (March 2013) allotment of work on *Amani* basis to markings up to 40,000 cft (standing) with overall restriction of 33 *per cent*. This was further restricted (November 2018) to markings up to 20,000 cft with overall restriction of 20 *per cent* of the total allotment.

Division-wise allotment of works (on tender and *Amani* basis) and range of receipt of markings of trees (in each compartment) during 2015-20 is detailed in **Appendix 6.1**. Analysis in audit showed that works for 77.76 lakh cft (51.76 *per cent*) were allotted on *Amani* basis out of which 54 works for 33.54 lakh cft were allotted breaching the limit of 40,000 cft or 20,000 cft.

¹⁰ Applicable from the date of issuance of order.

¹¹ Forest Coupe: An area within forest which is set aside to be operated/ harvested.

¹² Distance from *pucca* road head, Distance from market, availability of labour, working period, security condition, topography/ terrain, mature/ quantity of the marking, terms/ conditions and prevalent local rate.

¹³ ED Udampur: 22 cases, ED Kishtwar: 31 cases and ED Bhaderwah: 29 cases.

¹⁴ In ED Udampur.

Out of 573 extraction works¹⁵, only 122 works were allotted on tender basis. Remaining 451 works were allotted on *Amani* basis out of which only 285 works were allotted to Class D/ small contractors (63 *per cent*) and 166 works were allotted to Class A, B and C contractors. Besides, multiple works were allotted to same *Amani* mates, thereby defeating the purpose of allotment of work to small and petty contractors.

Further, in Extraction Division (ED) Ganderbal, out of 9.28 lakh cft allotted during 2015-20, two lakh cft (22 *per cent*) was allotted to one *Amani* mate who was a Class A contractor registered with the Company.

The Company had neither devised any criteria nor made any roster for selection of *Amani* mates and work was being allotted on the application of selective *Amani* mates, thus giving them undue favour.

The Management stated (November 2021) that the works on *Amani* mates were allotted for the following: (i) in case there was poor or no response from the contractors, (ii) to avoid loss of full working season which could lead to deterioration of markings affecting timber, (iii) to save cost escalation, (iv) for timely revenue generation and (v) to achieve the targets fixed for a particular financial year. The allotment of work on *Amani* basis was to serve the dual purpose of providing of extraction work to petty/ local contractors who could not compete with bigger contractors.

The reply of the Management is not tenable as allotment of works to *Amani* mates was made generally without resorting to the invitation of tender. Further, it was seen that works on *Amani* basis were also awarded to contractors registered as Class A indicating works being given to bigger contractors without tendering. Also, delay in execution of works was noticed in works executed on *Amani* basis as well.

6.1.3.4 Delay/ non-completion/ abandoning of works by the contractors/ *Amani* mates

As per agreement executed with contractors/ *Amani* mates for allotment of extraction/ transportation work, the timeline for completion of work was fixed in each case. In the event of failure to execute the contract in accordance with terms and conditions of the tender notice/ Agreement, the Company was to impose all or any of the penalties such as (i) terminate the contract and forfeit the Earnest Money Deposit/ Security deposit, (ii) impose penalty as decided by the management upto 10 *per cent* of the value of the contract and (iii) deregister/ black list the contractor/ *Amani* mate and (iv) execute the balance work at their risk and cost.

Audit noticed that there was delay in completion of work, ranging between one month and 72 months, in 103¹⁶ out of 112 test checked cases¹⁷ in six EDs. In 85 cases, the Company had granted extension of time for completion of work and token penalty

¹⁵ Test checked EDs only.

¹⁶ In nine cases, works were completed within scheduled time.

¹⁷ Udampur (9), Kishtwar (24), Bhaderwah (18), Ganderbal (22), Pulwama (20) and Zangli (19).

ranging between ₹ 500 and ₹ 39,500¹⁸ was imposed in 84 cases¹⁹. In remaining 18 cases, neither the extension was granted nor was any penalty imposed. It was also observed that the Company only issued notices to the contractors/ *Amani* mates and did not invoke the provisions of the clauses of the agreement/ NIT which stipulated termination of contract, execution of balance work at the risk and cost of the contractor/ *Amani* mate and blacklisting of the defaulting contractor/ *Amani* mate.

Works partially executed and partially transported: Audit further observed that the contractors/ *Amani* mates left the work incomplete leaving the markings as well as rotten/ unsaleable timber in the Forest/ Transit Depots. However, no action was taken against the contractors/ *Amani* mates. Six cases, as detailed in **Appendix 6.2** revealed that 0.26 lakh cft of timber valuing ₹ 1.60 crore²⁰ was not transported by contractors to the Sale Depots as a result of which the timber had become (17,977 cft) or would become rotten/ unsaleable. Further, 0.51 lakh cft of markings with expected outturn of 0.18 lakh cft²¹ valuing ₹ 1.11 crore had not been converted by the contractor/ *Amani* mates with the result that the condition of markings/ timber got deteriorated.

Works abandoned after partial execution and not transported: Ten case studies, as detailed in **Appendix 6.3**, revealed that the contractors/*Amani* mates had abandoned work without i) converting the markings of 1.76 lakh cft Round Volume (RV) with expected outturn of 0.80 lakh cft Sawn Volume (SV) valuing ₹ five crore, and (ii) without transporting the extracted timber of 2.02 lakh cft SV valuing ₹ 12.61 crore. This could result in deterioration of the unprocessed timber with the passage of time.

Works not started: In 31 cases²², the contractors/ *Amani* mates failed to execute the work with the result markings of 3.070 lakh cft with expected outturn of 2.22 lakh cft valuing ₹ 13.79 crore remained un-attended.

The Management attributed (November 2021) delay/ abandoning of works by the contractors/ *Amani* mates to upward trends of labour rates and scarcity of labour in general due to developmental activities, reduction in working hours in a day due to security reasons, spread of marking in vast areas in view of dead end marked trees and erratic climatic conditions. They further added that penalties invoked were subject to the circumstances existing in the forest coupe.

The reply is not tenable, as during preparation of the project reports all the variables are to be suitably taken into consideration.

6.1.3.5 Expected outturn, rotting of timber and incurring of extra cost due to cancellation of contract

In detail review of 13 cases, the following was observed:

- In two cases due to unrealistic preparation of project report the markings rotted with expected outturn of 11,500 cft valuing ₹ 44.44 lakh (**Appendix 6.4**)

¹⁸ Udampur: ₹ 500-5,200, Kishtwar: ₹ 1,000- 39,500, Ganderbal: ₹ 500-15,000, Bhaderwah: ₹ 1,000-22,000, Pulwama : ₹ 2,000-15,900 and Zangli: ₹ 500-36,000.

¹⁹ In one case, extension was granted without imposing penalty.

²⁰ Calculated at a rate of ₹ 625.40 per cft (weightage average sale rate for the period 2015-20).

²¹ Calculated at weightage average conversion of timber from marking during the period 2015-20.

²² Pulwama: 22 and Kupwara: 9

- Audit analysis of three cases²³ (**Appendix 6.5**), revealed the Company failed to re-allot the cancelled contracts for transportation of extracted timber from Forest to Sales depots in time and could not recover extra cost of ₹ 1.09 crore²⁴ from the defaulting contractors. This also led to rotting of 6,773 cft of timber valuing ₹ 39.67 lakh and loss of expected outturn of 12,783 cft SV valuing ₹ 74.86 lakh.
- The expected outturn is to be fixed based on the norms and inspection of field staff of respective divisions. It was noticed there were abnormal variations in the expected outturn and actual outturn achieved. In one instance, it was observed that the outturn was 74 per cent in excess of the expected outturn. These cases are detailed in **Appendix 6.6**.

The Management stated (November 2021) that the Company had received dry/ fallen/ diseased trees and actual outturn depend upon the quality of marking expected and that the actual outturn was available only after completion of all lumbering activities.

The project reports are to be prepared after receipt and inspection of markings received. However, the Company did not provide any specific reply for abnormal variation in expected and actual outturn.

6.1.3.6 Ineffective system of measurement of timber

Timber is measured while passing the stocks in the Forest after sawing and then the activities of off road transportation²⁵ (ORT)/ Road Transportation (RT) are carried out. Final measurement is done at Sale Depots and the same is recorded in the reconciliation statement issued by the Sales divisions. *Sharamandi* variation²⁶ is allowed upto five per cent, besides, additional two per cent is allowed for mahan²⁷ loss.

Sharamandi variations were allowed irrespective of the type of the ORT activity. In East Marketing Division, Jammu, against the dispatches of 25.24 lakh cft from Extraction Divisions, actual receipt was recorded at 23.49 lakh cft during the period 2015-20 and variations of 1.75 lakh cft was shown/allowed as *Sharamandi* variations. Variations were also noticed when the stock was again measured while making lots of timber for putting it to auction. In contrast to this, no variation was noticed when the supply was made to the CTSDs (three test checked EDs: 2.35 lakh cft²⁸) during 2016-20.

The DM, East Marketing Division, Jammu stated (January 2021) that due to paucity of time during unloading stock in store, the checking was done as per ocular estimation but at the time of forming the lots, proper measurement of stocks was done in store depots with tape and kanda. It was also stated that variation occurred due to dryness and wear and tear of timber. The Management further stated

²³ 51 Kellar, 47 Kellar and 34 Dudu.

²⁴ C: 51/ Kellar: ₹ 21.08 lakh, C: 47/ Kellar: ₹ 53.18 lakh and C: 34/Dudu: ₹ 34.72 lakh (The contracts provided for completion of work at the risk and cost of defaulting contractor).

²⁵ Pathroo, pacci nali, tarpans, mahan and crane-Modes of off road transportation within forest area.

²⁶ Variation between measurement made in forest and measurement made at sales depot, Jammu.

²⁷ Off road transportation through nallah/ river.

²⁸ Udhampur: 0.59 lakh cft, Bhaderwah: 0.82 lakh cft and Kishtwar: 0.94 lakh cft.

(November 2021) that *Sharamandi* variations occurred during the process of extraction/ ORT. Some variation at Sales depots were due to breakage of scants due to small sized timber²⁹,

The Company should relook into the norms for *Sharmandi* variations allowed during supply of timber to prevent leakage of revenue.

6.1.3.7 Non accountal of marking

In case of Compartment-13/ Neeru, 2.08 lakh cft³⁰ were allotted (May 2012) to a contractor on tender basis. Up to October 2012, the contractor converted 83,139 cft³¹ SV (1,57,929 cft RV) out of which 83,034 cft³² SV was transported to the Sales Depot Jammu. As per Performance report of the Range (Neeru), the contractor had left 50,179 cft RV of Deodar species in the compartment as unconverted which was lying unattended in the Forest. However, performance/ progress report of the ED, Bhaderwah showed no balance of markings. The Committee constituted (February 2016) reported (March 2016) that due to oversight by staff 50,179 cft RV was reflected in the Performance report though there was nothing in the forest except 8,562 cft which was either rotten or hollow from which nothing could be extracted. Thus, non-accounting of 41,617 cft RV and rotting of 8,562 cft RV of marking of Deodar specie³³ led to loss of 26,414 cft SV of timber valuing ₹ 2.43 crore³⁴.

The DM, Bhaderwah stated (May 2021) that the Company took over dry/ diseased and fallen markings which further deteriorated with time and had no timber value; as per standing instructions, such markings were not converted resulting in balance shown in the records. After spot verification only 8,562 cft also having no timber value was found.

The reply made by the management is contradictory, as the balance shown in records was 50,179 cft whereas on spot verification by the Committee only 8,562 cft was found. Non-accountal of such significant quantity of marking indicated possibility of theft and pilferage.

6.1.4 Sale of timber

6.1.4.1 Targets and achievements in respect of sale of timber

The Company conducts sale of timber through open auction and fair price depots and also supplies³⁵ timber directly to the consumers at concessional rates. The position of targets fixed for sale of timber, achievements and shortfall during 2015-20 is given in Table 6.3.

²⁹ Like Ballies, Hakries, Pharras, Trikona, etc.

³⁰ 1.91 lakh cft of deodar species and 0.17 lakh cft of kail species.

³¹ 74,244 cft of Deodar and 8,895 cft of Kail species.

³² Balance 105 cft SV was shown as operational loss.

³³ All the timber in respect of kail species has been extracted (8,895 cft out of 17,194 cft).

³⁴ Calculated on the basis of average sale rate of Deodar during the year 2015-16, which was ₹ 919.12 per cft, for 26,414 cft (52.64 per cent actual outturn achieved in respect of 83,139 cft SV out of 1,57,929 cft RV).

³⁵ The function was entrusted by the SFD to the J&KFDC from July 2016.

Table 6.3: Targets and achievements in respect of sale of timber

Year	Targets	Achievements	Shortfall	Shortfall (percentage)	Sales revenue (₹ in crore)	Sales revenue (per cft) in ₹
	(In lakh cft)					
2015-16	36.00	23.24	12.76	35.44	136.12	585.64
2016-17	43.50	19.81	23.69	54.46	117.78	594.58
2017-18	45.50	26.00	19.50	42.85	150.65	579.40
2018-19	41.00	20.68	20.32	49.56	138.77	671.19
2019-20	Not fixed	18.44	NA	NA	128.41	696.21

(Source: Targets as per Agenda of the meeting of the BoDs and achievements as per performance reports)

Audit noticed that division-wise targets were not fixed and no targets were fixed for 2019-20. Shortfall in achievement of targets during 2015-19 ranged between 35.44 per cent (2015-16) and 54.46 per cent (2016-17). Sales which stood at 23.24 lakh cft during 2015-16 decreased to 18.44 lakh cft during 2019-20. Sales revenue per cft which was ₹ 585.64 during 2015-16 increased to ₹ 696.21 during 2019-20.

The Management attributed (November 2021) the shortfall in sales revenue to local market demand and that imported timber had taken a chunk of the conifer sale.

The Company's reply was silent with regard to not fixing of division-wise targets and not fixing of targets for the year 2019-20.

6.1.4.2 Reduction/clearance sale

Timber is sold at Sales depots through auction at the reserve price fixed by the Steering Committee of the Company. The price of timber which could not be sold at reserve price is reduced by 15 per cent after two unsuccessful auctions and further reduced by 15 per cent if not sold in third auction. In case timber is not sold after reducing the reserve price twice, the timber is sold through auction by clearance sale even below the reduced reserve price.

Out of eight clearance sale auctions³⁶ conducted by the EMD, Jammu during 2017-18 to 2018-19, audit test checked four clearance sales wherein 0.65 lakh cft of timber was sold. The time analysis within which timber was received at Sales Depot, Jammu and clearance sale is given in Table 6.4.

Table 6.4: Time within which timber received in Sales Depot, Jammu and their clearance sale

Specie (in Cft)	Timber received before clearance sale (in months)					Total	Percentage to total
	1 to 6	7 to 12	13 to 18	19 to 24	More than 24		
Deodar	604.53	237.64	2,131.28	5,446.07	11,676.5	20,096	31
Kail	1,308.16	943.29	5,500.92	10260	11,832.5	29,845	46
Fir	214.36	261.79	3075.1	2,859.44	3,879.48	10,290.2	16
Chir	7	0	1,183.07	3661.1	39.85	4,891.02	7
Total	2,134.05	1,442.72	11,890.37	22,226.7	27,428.3	65,122.1	
Percentage to total	3	2	18	34	42		

³⁶ Volume of timber sold: 1.25 lakh cft.

Out of 65,122.10 cft of timber sold through clearance sale:

- 3,576.77 cft (five *per cent*) was received within one year,
- 11,890.37 cft (18 *per cent*) was received between one year to one and half years,
- 22,226.70 cft (34 *per cent*) was received within one and half years to two years, and
- 27,428.30 cft (42 *per cent*) was received more than two years from the date of clearance sale.

Out of 65,122.10 cft of timber sold by clearance sale, 20,096 cft (31 *per cent*) was that of Deodar species.

Sale of stock through clearance sale within one to two years of receipt, especially in case of durable species like Deodar indicated that the stocks received were of poor quality.

The Management stated (November 2021) that quality of conifer stocks received in the Sale Depots is of poor quality and the same could not be improved until good quality marking is received by the Company.

The reply could be viewed in light of the fact that there had been delay in execution of works as observed in the para above which also led to deterioration in quality of timber and consequently the Company resorted to clearance sale.

6.1.5 Inventory management

The position of sales and closing balance of timber during the period 2015-20 is given in *Appendix 6.7*.

Losses accumulated on account of timber was ₹ 283.89 crore as of March 2020 (₹ 5.39 crore during 2015-19) on account of floods, fire, theft, transit shortage etc. which had neither been made good nor written off after approval of the Board of Directors.

Accounts Manual of the Company prescribes a maximum closing stock (as of March each year) of 10 *per cent* of annual targets of sale in a sale depot in Jammu province and seven *per cent* in Kashmir province. Audit noticed that the closing stock of timber in the East Marketing Division (EMD), Jammu was more than the annual sales during the period 2015-20 ranging between 109.55 *per cent* and 143.73 *per cent*³⁷. The position of closing stock of timber in North Marketing Division, Srinagar ranged between 12.32 *per cent* and 40.55 *per cent* of annual sales during the period.

Out of closing stock of 5.06 lakh cft³⁸ of timber as on March 2020, 3.78 lakh cft (75 *per cent*) was received within one year before March 2020, 0.82 lakh cft (16 *per cent*) was received between one and two years, 0.37 lakh (seven *per cent*) was received between two to three years and 0.09 lakh (two *per cent*) cft was received between three and four years before March 2020. Holding of huge inventory was

³⁷ Except during 2018-19 when it was 89.97 *per cent*.

³⁸ In Stores at Sunjwan and Bachhan (under EMD, Jammu).

indicative of defective inventory management exposing the stocks to fire, flood, theft, deterioration over time and involving avoidable handling charges.

Stock of 35,650 cfts in three EDs³⁹ received from Transit Depots and Sales Depots had become unsaleable at CTSDs during May 2016 to March 2020 resulting in loss to the Company. Further, while bringing forward closing stock as on 31 March 2019, 393 cft of timber was short accounted for⁴⁰ as opening stock for 2019-20.

The Accounts Manual⁴¹ of the Company provides for physical verification at least once a year. Audit noticed that no physical verification of stocks was conducted in Extraction Divisions during 2015-20 in contravention to provisions of the manual.

In the EMD, Jammu, physical verification was not conducted regularly⁴² at Sales Depots and Stores. As per the PV reports, variations⁴³ were noticed. In North Sales Division, the PV reports of all the four Sales Depots showed excess ground balance of timber than the book balance to the extent of 1,05,556 cft during 2015-20. However, no action was taken to analyse variation in the stocks.

The Management attributed (November 2021) variations to operational losses like loading/ unloading, ORT operations, delay in completion of works turning the timber to firewood, and stated that the Company had taken steps to minimize losses. It was further stated that as Physical Verification Reports were not sent to Sales Circle/ Sales division, the necessary rectifications were not made in the sales records.

The fact remains that the losses incurred on account of timber since inception were yet to be either made good or written off by the BoDs. Besides, the reply of Company was silent regarding holding of inventory at sales division and deterioration of quality of timber.

6.1.6 Conclusion

- **Royalty of ₹ 395.67 crore was payable by the Company to State Forest Department for markings of trees.**
- **There was shortfall in achievement of extraction (converted volume) targets ranging between 13.36 per cent and 33.21 per cent; and extraction (standing volume) was done to the extent of 26.17 per cent and 46.35 per cent of the total markings available leading to accumulation of markings.**
- **Unrealistic criteria were set for categorisation of forest area led to incorrect fixation of rates for extraction/ transportation of timber.**
- **There was irregular allotment of contracts in contravention to the directions of the BoDs led to undue favour to the contractor.**

³⁹ ED Udampur: 7,974 cft, ED Zangli: 8,876 cft and ED Pulwama: 18,800 cft.

⁴⁰ In CTSD Domail 'A'.

⁴¹ Chapter X: Inventory Control.

⁴² PV not conducted: Sales depot Bachan for the years 2017-18 and 2019-20, Store at Bachan for the years 2016-17, 2017-18 and 2019-20, Sales depot, Sunjawan: for the years 2016-17, 2017-18 and 2019-20 and Store Sunjawan: for the years 2016-17 and 2017-18.


⁴³ Store (Sunjwan), Sales Depot (Sunjwan), Store (Bachan).

- Timber/ markings valuing ₹ 2.71 crore had become or would become rotten/ unsaleable as these had not been transported by contractors/ *Amani* mates to the Sale Depots or had not been converted to timber.
- Contractors/ *Amani* mates had abandoned work without converting the markings valuing ₹ 17.61 crore.
- There was Shortfall in achievement of sales targets ranged between 35.44 per cent and 54.46 per cent during 2015-19.

6.1.7 Recommendations


- *The Company may consider fixing targets of extraction commensurate with the available markings and endeavour to achieve the set targets;*
- *The Company may devise a mechanism to monitor the extraction and transportation of timber to avoid delays;*
- *Forest area may be categorised on realistic criteria to ensure correct fixation of rates for extraction/transportation of timber;*
- *Contract management may be strengthened; process of allotment of contracts should be transparent and in accordance with the directions issued by the BoDs; and*
- *Efforts may be made to achieve sales targets to avoid accumulation of inventory and selling of timber in clearance sales with attendant losses.*

Srinagar/ Jammu
Dated: 01 February 2022


(Pramod Kumar)
Principal Accountant General (Audit)
Jammu and Kashmir

Countersigned

New Delhi
Dated: 15 February 2022


(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

