CHAPTER II

PERFORMANCE REVIEWS RELATING TO GOVERNMENT COMPANIES

FINANCIAL ASSISTANCE BY MADHYA PRADESH PICHHRA VARG TATHA ALPSANKHYAK VITTA EVAM VIKAS NIGAM

Highlights

Performance of the Company with regard to achievement of targets during the five years 2001-06 was abysmally low in respect of all the schemes implemented by the Company.

(Paragraph 2.1.6)

The Company drew only Rs.13.41 crore (32 *per cent*) against Rs.42 crore sanctioned by NBCFDC. The Company could draw only Rs.3 crore (35 *per cent*) during the five years 2001-06 from NMDFC as against Rs.8.50 crore sanctioned. The low drawal of loan was due to not holding pre-identification camps for selection of beneficiaries and abnormal delay in sending utilisation certificates in respect of loans drawn earlier.

(Paragraphs 2.1.7 and 2.1.8)

Though the Company has been extending financial assistance for over 12 years for the economic upliftment of the targeted population, no survey of the targeted beneficiaries was conducted to formulate a base for extending loans covering all the beneficiaries in a phased manner.

(Paragraph 2.1.10)

Loans of Rs.95 lakh were sanctioned by the Company in violation of the NBCFDC guidelines.

(Paragraph 2.1.11)

Coverage of loan assistance to the targeted population was inadequate and was contrary to the guidelines of financing agencies. This resulted in unequal distribution of loan as well as denial of assistance to needy beneficiaries under NMDFC schemes.

(Paragraph 2.1.13)

Loan of Rs.6.04 crore and Government share of project cost (Rs.4.45 crore) meant for disbursement to the beneficiaries were diverted for repayment of instalments due to NBCFDC and NMDFC resulting in denial of assistance to needy beneficiaries.

(Paragraph 2.1.15)

Delay in sending utilisation certificates to financing agencies resulted in avoidable interest payment of Rs.5.11 crore.

(Paragraph 2.1.16)

Recovery performance was found to be poor which further declined from 20 to 15 *per cent* in respect of term loans and from 34 to 26 *per cent* in respect of micro finance disbursed by the Company head office during the years 2003-2006. Poor recovery resulted in payment of penal interest of Rs.2.58 crore.

(Paragraphs 2.1.20, 2.1.21 and 2.1.22)

Improper maintenance of records coupled with absence of internal controls led to misappropriation of cash in five districts. Inspite of misappropriations, the Company has not initiated any corrective/punitive action.

(Paragraph 2.1.25)

Introduction

2.1.1 Madhya Pradesh Pichhra Varg Vitta Evam Vikas Nigam Limited (Company) was incorporated in September 1994. The name of the Company was changed (September 1997) as Madhya Pradesh Pichhra Varg Tatha Alpsankhyak Vitta Evam Vikas Nigam. The main objective of the Company is to implement schemes, projects and programmes for the social, economic and educational upliftment of Backward Classes and Minorities of the State, to render financial and other assistance in order to enable them to generate income for their livelihood, to operate schemes for providing education, training, guidance, legal assistance to the members of Backward Classes and Minorities, to promote, defend or represent their interest in any forum and advance loans to the members of Backward Classes and Minorities in connection with achievement of the above mentioned objectives.

The Company implements schemes financed by National Backward Classes Finance and Development Corporation (NBCFDC), National Minorities Development and Finance Corporation (NMDFC) and National Handicapped Finance and Development Corporation (NHFDC). The schemes financed by

NBCFDC and NMDFC, are classified into four categories viz (i) Agriculture and Allied Sector, (ii) Small business/Artisans and Traditional Occupation, (iii) Service Sector and (iv) Transport. The schemes financed by NHFDC are aimed at promoting self-employment and other economic activities for handicapped beneficiaries of minority and backward classes.

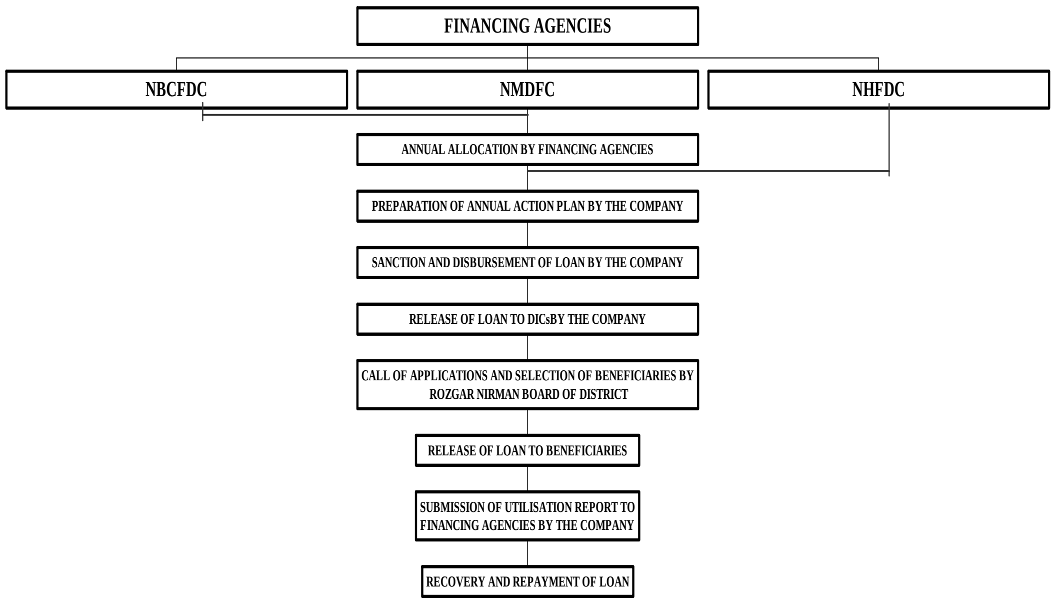
The funding agencies communicate to the Company the allocation of loan funds each year, which is notional. As per the financing guidelines of NBCFDC, the state channelising agency (SCA) (Company) is required to formulate the realistic need based projects for the beneficiaries and prepare an Annual Action Plan (AAP) keeping in view the notional allocation. The AAP contains the details of financial assistance proposed to be given along with the number of beneficiaries in different schemes like agriculture, transport, small business and traditional occupations. After approval of the AAP, the funding agency sanctions and releases loan to the Company. The Company then releases loan to the District Industries Centres (DICs). The DICs invite applications from the beneficiaries whose annual income does not exceed Rs.40,000 (Rs.42,000 in case of NMDFC) and Rs.55,000 in rural and urban areas respectively. The applications, after scrutiny, are submitted to the District Employment Board (Zila Rozgar Nirmaan Board) for selection/ sanction. The DICs then disburse loans to the selected beneficiaries. Utilisation reports are sent to NBCFDC after implementation of the schemes. The same mechanism is adopted in the case of NMDFC and NHFDC schemes. The Company prepares AAP and submits to the Funding Agencies. NBCFDC and NMDFC release funds within the overall limit of the notional allocation. NHFDC releases funds after receipt of AAP from the company.

The Management of the Company is vested in a Board of Directors with the Minister of Pichhra Varg Kalyan Vibhag, Government of Madhya Pradesh as the Chairman. The Managing Director is the Chief Executive of the company and is assisted by one Manager and one Assistant Manager at the Head office.

The Company performs its activities through DICs in 48 districts, which are under the administrative control of the Industries Department of the State Government.

The flow chart indicating the process of financial assistance is as given below:

FLOW CHART FOR THE PROCESS OF FINANCIAL ASSISTANCE



Scope of Audit

2.1.2 Performance of the Company with regard to developmental and financial assistance activities for the five years ended 31 March 2006 was reviewed between May and August 2006 through examination of records of 16[17] out of 48 DICs selected on the basis of cumulative loan assistance disbursed.

Audit objectives

2.1.3 Audit was undertaken with a view to assessing whether :

- the Company achieved its objectives efficiently, economically and effectively;
- the loans were given based on detailed survey of Backward Classes and Minorities living in different areas of the State;
- a system of properly identifying the eligible beneficiaries was in place and was working efficiently;

[17] *Bhopal, Hoshangabad, Vidisha, Shajapur, Ujjain, Indore, Dewas, Sehore, Gwalior, Jabalpur, Damoh, Bhind, Guna, Chhatarpur, Chhindwara and Khandwa.*

- adequate resources were planned and mobilised to extend financial assistance to the targeted population and the funds were utilised effectively/ optimally for the benefit of the beneficiaries and that there were no surrenders or diversions of funds;

- the system of appraisal of the projects ensured selection of viable projects capable of generating income on a sustainable basis not only to ensure repayment of loan, but also eventual economic upliftment of the targeted group;

- the Company had put in place an efficient system of monitoring, implementation of schemes after disbursement of loans; and

- the system of recovery was effective to ensure timely recovery to enable repayment of loan to NBCFDC, NMFDC and NHFDC and effective action was taken in case of default.

Audit criteria

2.1.4 Performance of the Company with regard to the stated objectives was assessed against the following criteria:

- Provisions of the MoU signed with the State Government.

- Scheme guidelines, terms and conditions of the sanctions, Annual Action plans.

- Prescribed procedures for processing, appraisal and selection of projects and beneficiaries and for release of loans and their utilisation.

- Prescribed system for post disbursement monitoring and recovery.

Audit methodology

2.1.5 A mix of the following methodologies was adopted:

- scrutiny of Memorandum of Understanding (MOU) with the State Government,

- examination of annual performance reports, annual action plans and files relating to appraisal of projects and selection of beneficiaries,

- scrutiny of sanctions and disbursements,

- scrutiny of statistical data on awareness campaigns conducted, files relating to recovery performance, seizure of assets, legal action taken, etc.

Audit findings

The audit findings were reported to the Government/Management in August 2006 and discussed in the Audit Review Committee for Public Sector Enterprises meeting held on 21 September 2006 where the Government was represented by the Deputy Secretary, Backward Classes and Minorities Welfare Department and the Company was represented by the Managing Director. The review was finalised after considering the views of Government/ Management.

Audit findings are discussed in the succeeding paragraphs:

Targets and achievement

2.1.6 The targets and achievement of the company during the five years upto 31 March 2006 are indicated below.

(Amount : Rupees in lakh)

Year	Target		Achievement		Percentage of achievement	
	Physical (No. of cases)	Financial (Amount)	Physical (No. of cases)	Financial (Amount)	Physical (No. of cases)	Financial (Amount)
NBCFDC Schemes for Backward classes						
2001-02	3,518	1,100.00	989	415.22	28	38
2002-03	3,055	1,100.00	371	275.50	12	25
2003-04	3,055	1,100.00	140	450.00	5	41
2004-05	1,200	600.00	130	100.00	11	17
2005-06	1,177	500.00	531	100.00	45	20
Total:-	**12,005**	**4,400.00**	**2,161**	**1,340.72**	**18**	**30**
NMDFC Schemes for Minorities						
2001-02	459	204.00	222	NA	48	NA
2002-03	459	204.00	19	NA	4	NA
2003-04	296	150.00	150	75.00	51	50
2004-05	720	262.08	148	225.00	21	86
2005-06	1,476	500.00	636	NA	43	NA
Total:-	**3,410**	**1,320.08**	**1,175**	**300.00**	**34**	**23**
NHFDC Schemes for Handicapped						
2001-02	NA*	NA	15	8.10	NA	NA
2002-03	NA	NA	27	11.65	NA	NA
2003-04	510	431.40	35	17.10	7	4
2004-05	1,465	1,518.00	12	5.50	1	1
2005-06	1,000	500.00	NA	NA	NA	NA
Total:-	**2,975**	**2,449.40**	**89**	**42.35**	**3**	**2**

*** NA : Data not available.**

The company could not achieve targets in respect of all the schemes

It would be seen from the above table that:

- The company could not achieve its targets in respect of any scheme during any year. It even failed to achieve its substantially reduced targets for NBCFDC schemes during 2004-06. The achievement in respect of NBCFDC schemes was very low i.e., between 5 to 45 *per cent* in physical terms and 17 and 41 *per cent* in terms of financial targets.

- In respect of NMDFC schemes, the overall physical and financial achievements for the entire period of 5 years were only 34 and 23 *per cent* respectively.

- The company could advance loans of Rs.42.35 lakh only to 89 physically challenged beneficiaries as against Rs.24.49 crore targeted for 2,975 beneficiaries.

Audit scrutiny revealed that the low achievement was due to fixation of targets without identifying beneficiaries (NBCFDC), failure to send utilisation certificates in time and non payment of dues (NMDFC), sending of fewer cases to NHFDC for sanction and failure to obtain government guarantee for repayment of loans. Ineffective monitoring and substantially low recovery also contributed to low achievement as discussed in the subsequent paragraphs.

Implementation of Schemes and sanction of loan assistance

NBCFDC Schemes

2.1.7 The following table indicates the details of year wise allocations made by NBCFDC, schemes submitted, loan sanctioned, released and disbursed to DICs during the five years upto 31 March 2006.

(Amount : Rupees in lakh)

Year	Allocation made	Proposal submitted	Amount sanctioned	Amount drawn from NBCFDC	*Percentage* of release to amount sanctioned	Released to districts.	Disbursed at H.O
2001-02	1,100	1,100	1,100	415.22	37.75	409.04	--
2002-03	1,100	1,100	1,100	275.50	25.05	495.56	276.50
2003-04	1,100	1,100	1,100	450.00	40.91	180.94	309.19
2004-05	600	600	600	100.00	16.67	5.00	57.00
2005-06	500	500	300	100.00	33.33	113.85	95.53
Total	**4,400**	**4,400**	**4,200**	**1,340.72**	**32**	**1,204.39**	**738.22**

Note: Each year's disbursements include disbursements out of loan sanctioned in previous years also.

It would be seen from the above table that:

- The allocation by NBCFDC which was Rs.11 crore each year during 2001-04, came down drastically to Rupees six crore in 2004-05 and to Rupees five crore in 2005-06.

Only 32 *per cent* of the sanctioned loan was drawn from NBCFDC

- Though NBCFDC sanctioned loans to the extent of proposals submitted (except 2005-06), the company failed to draw the entire loan sanctioned. Actual loan drawn ranged from 41 to 17 *per cent* only (2003-05) of the sanctioned amount.

- The total amount of drawal of loan by the company was Rs.13.41 crore only, which constituted 32 *per cent* of the total loan sanctioned during the five years.

Pre identification camps for beneficiaries were not held resulting in delay in disbursement

Audit scrutiny revealed that the poor performance of the company in drawing of loan funds and its release to the beneficiaries was due to (i) its failure in holding pre-identification camps for selection of beneficiaries for financial assistance which resulted in delay in disbursement (10 to 24 months) and (ii) delay in sending utilisation certificates as discussed in paragraph no.2.1.16.

There was no mechanism to ensure quick disbursement of loans to the beneficiaries.

Analysis of reasons for delay in releasing loans revealed that DICs had not complied with the instructions regarding submission of Quarterly Reports about funds received from Head office of the Company (HO), funds disbursed, balance funds available to monitor disbursement of loans with a view to ensuring (i) quick disbursement (ii) timely submission of utilisation certificates and (iii) refund of undisbursed amount to NBCFDC.

The Management stated (August 2006) that the allotment from NBCFDC was based on recovery and furnishing of utilisation certificates which was uncertain and therefore the selection of beneficiaries was not done in advance.

The reply is not relevant. Selection of beneficiaries in advance could have expedited the disbursements and consequent savings in penal interest as also submission of Utilisation Certificates.

NMDFC Schemes

2.1.8 The following table indicates the year wise details of proposals submitted, loan sanctioned, released and disbursed to DICs during the five years up to 31 March 2006.

(Amount : Rupees in lakh)

Year	Proposal submitted	Amount sanctioned	Amount released by NMDFC	*Percentage* of release to amount sanctioned	Amount disbursed at HO	Amount released to DICs*
2001-02	204.00	100	Nil	Nil	Nil	22.29
2002-03	204.00	150	Nil	Nil	44.50	22.20
2003-04	150.00	200	75.00	37.50	38.60	54.00
2004-05	262.08	200	225.00	112.50	61.55	10.00
2005-06	500.00	200	Nil	Nil	66.60	121.50
Total	**1,320.08**	**850**	**300.00**	**35**	**211.25**	**229.99**

*** Each year's disbursements include disbursements out of loans sanctioned in the previous years also.**

The company could draw only 35 *per cent* of the sanctioned loan from NMDFC

It would be seen from the above table that though the Company submitted schemes for Rs.13.20 crore and NMDFC sanctioned loans to the extent of Rs.8.50 crore, the company could draw only Rs.3 crore (35 *per cent* of the loan sanctioned) during the five years.

The utilisation certificates were not sent in time.

Audit scrutiny revealed that the poor drawal of funds by the company and their release to beneficiaries was due to its failure to send utilisation certificates in time, non payment of dues of NMDFC as well as low recovery of loans. These factors ultimately resulted in meagre disbursement of loans to the beneficiaries as discussed in paragraph no.2.1.16.

NHFDC Schemes

2.1.9 The NHFDC has been financing (from 2000-01) certain schemes for the benefit of handicapped beneficiaries of minorities and backward classes with the objective of promoting self employment, establishment of small scale units, agricultural and allied units, ancillaries etc. Under these schemes the beneficiaries with more than 40 *per cent* disability, aged between 18 and 55 years, living in Madhya Pradesh with an annual income of not more than rupees one lakh in urban areas and rupees 80,000 in rural areas are eligible for the assistance.

The table below indicates the details of targets set, loan cases sent for approval, sanctioned and released by NHFDC and loan disbursed by the Company during the five years up to 2005-06.

(Amount : Rupees in lakh)

Year	Target		Loan cases recommended		Loan cases * sanctioned by NHFDC and released to DICs		Disbursement by DICs		Amount refunded to NHFDC
	P	F	P	F	P	F	P	F	
2001-02	--	--	15	7.43	31	14.22	15	8.10	2.25
2002-03	--	--	85	75.64	24	10.48	27	11.65	2.85
2003-04	510	431.40	72	67.19	41	20.00	35	17.10	1.00
2004-05	1,465	1,518.00	98	48.92	--	0.00	12	5.50	2.50
2005-06	1,000	500.00	71	49.28	--	0.00	--	0.00	--
Total:-	**2,975**	**2,449.40**	**341**	**248.46**	**96**	**44.70**	**89**	**42.35**	**8.60**

(P: Physical (No. of cases) ; F: Financial (Amount)).
***Sanctions for the year 2001-02 included cases sent in the year 1999-2000 also.**

In addition to the refund of Rs.8.60 lakh to NHFDC, Rs.6.19 lakh received from the DICs in 2005-06 towards loan recovery were also remitted to NHFDC as repayment of loan.

It would be seen from the above table that:

- no targets were fixed by the Company for financial assistance to handicapped beneficiaries during the years 2001-02 to 2002-03.

The company could send proposals for sanction of loan only for 7 *per cent* of the target fixed.

- against the targets fixed for assistance of Rs.24.49 crore to 2,975 beneficiaries during the period 2003-06, only 241 cases for total loan assistance of Rs.1.65 crore (7 *per cent* of target fixed) were recommended for sanction. The reasons for the poor performance during the period 2003-04 to 2005-06 had not been analysed.
- loan was disbursed to only 89 beneficiaries during 2001-06.
- there were abnormal delays ranging between one and 24 months in disbursement of loans to the beneficiaries.

Only 14 *per cent* of total loan disbursed could be recovered in six years

- only Rs.6.19 lakh (14 *per cent* of the total loan disbursed) were recovered during the period of five years ended on 31 March 2006, leaving Rs.36.16 lakh to be recovered (Rs.42.35 lakh – 6.19 lakh).

The Management stated (August 2006) that no staff of the company was posted at DICs, which affected the disbursement of loan and its recovery. The reply is not tenable as the State Government had ordered (July 1999) DICs to perform the work of the Company and the Company should have monitored both disbursement and recovery of loan from time to time through the Industries Department, as per the orders of the State Government.

Deficiencies in extending financial assistance and execution of schemes

Absence of Survey

Survey of targeted population living below poverty line was not conducted.

2.1.10 The Company, since its inception, had not conducted any survey of beneficiaries living below the poverty line (BPL) so as to formulate a base for planning and extending financial assistance and to cover the entire targeted population in a phased manner. As a result the beneficiaries living in remote areas who were in need of financial assistance were denied the benefits of the schemes. The Board of Directors had observed (January 2003) that the beneficiaries living below double the poverty line[18] and in remote areas were

[18] *Whose annual income does not exceed Rs.40,000 in rural and Rs.55,000 in urban areas in case of NBCFDC and in Rs.42,000 and Rs.55,000 respectively in the case of NMDFC.*

deprived of the benefits of the schemes and, therefore, had desired that a survey of such beneficiaries should be conducted. The Company, however, did not take any action in this regard (March 2006).

The Management stated (August 2006) that such surveys are conducted by the Government and not by the Company. The reply is not tenable as the government had already entrusted the activity of providing financial assistance to the Company and any survey required to identify the beneficiaries had to be conducted by the Company itself, through an appropriate agency. The Management also failed to comply with the Board directives in this regard.

Loans to ineligible projects

Rs.95 lakh were disbursed for ineligible projects

2.1.11 As per the financing guidelines of NBCFDC the SCA (Company) was empowered to sanction and disburse loan for projects costing up to rupees five lakh provided that one time approval of NBCFDC was obtained for such projects. Out of the total project cost, 85 *per cent* shall be financed by NBCFDC, 10 *per cent* by the Company and the remaining 5 *per cent* was to be contributed by the beneficiary. Contrary to the guidelines, the Company sanctioned loans of Rs.95.22 lakh in eight cases during the period January 2003 to August 2005 for projects costing more than rupees five lakh each, (Rs.6.10 lakh to Rs.19.03 lakh), collectively to more than one beneficiary forming a group.

As the cost of each project was more than rupees five lakh, sanction of loan to these beneficiaries was not justified and resulted in extension of undue favour to certain beneficiaries.

The Management stated (August 2006) that the loan was disbursed to the beneficiaries by forming their groups and utilisation certificates were sent to NBCFDC. The reply is not tenable as the financing guidelines were violated.

Non formulation of long term / short term objectives

2.1.12 Though the company has been in existence for more than a decade, it has not formulated any long term or short term strategy for financing the targeted beneficiaries.

Disproportionate coverage of loan assistance to the targeted population

Coverage of loan assistance to the targeted population was inadequate.

2.1.13 During the years 2002-06, the Company disbursed loan of Rs.2.11 crore at Head office (NMDFC schemes) out of which Rs.63.74 lakh were disbursed to 23 minority beneficiaries during the years 2002-2004. Out of Rs.63.74 lakh, Rs.46.24 lakh (72 *per cent*) were disbursed to 18 beneficiaries of Bhopal district only. Thus, coverage to beneficiaries in the other districts was skewed.

A special scheme for development of minorities in minority concentration areas of the State was approved (February 2005) by NMDFC and an amount of rupees one crore was released for its implementation in Bhopal district.

Though Bhopal district was selected, the Head office of the Company disbursed loan worth Rs.30.50 lakh to 31 Self Help Group (SHG) beneficiaries in Bhopal city only instead of extending assistance to beneficiaries in the entire district.

The Management stated (August 2006) that the loan cases were sanctioned at HO after receipt of applications from the DICs. The reply is not acceptable, as adequate publicity of the scheme was not given by the Company to attract eligible applicants from all parts of the district.

Sanction of loan in contravention of the guidelines

Loans amounting to Rs.7.96 crore were given in contravention of the guidelines of NMDFC and NBCFDC.

2.1.14 NMDFC guidelines stipulate that in order to cover maximum number of beneficiaries, at least 70 *per cent* of the term loan given in any financial year by a SCA should be for projects costing rupees one lakh and below per beneficiary, 20 *per cent* should be for projects costing between Rs. one to two lakh and that not more than 10 *per cent* of the loan should be given for projects costing more than rupees two lakh per beneficiary. It was noticed during audit that out of total loans of Rs.66.70 lakh and Rs.92.60 lakh disbursed during the years 2002-04, loans worth Rs.38.99 lakh and Rs.19.57 lakh representing 58 and 21 *per cent* were disbursed for projects costing more than rupees two lakh each in contravention of the guidelines of NMDFC. This deviation from guidelines resulted in denial of loan assistance to other needy beneficiaries

Similarly, the NBCFDC guidelines stipulate that in order to cover larger number of beneficiaries the SCA should ensure utilisation of 75 *per cent* of the total loan for projects costing below Rs.50,000 each. The position of funds disbursed at HO where the loan amount was in excess of Rs.50,000 is as detailed below: -

(Amount : Rupees in lakh)

Year	Total amount disbursed	Disbursed at HO (*percentage*)
2001-02	409.04	--
2002-03	772.06	276.50 (36)
2003-04	490.13	309.19 (63)
2004-05	62.00	57.00 (92)
2005-06	209.38	95.53 (46)
Total	**1942.61**	**738.22 (38)**

From the table above it would be observed that the company disbursed 36 to 92 *per cent* loans exceeding Rs.50,000 at HO in violation of the guidelines. This resulted in denial of benefits of the schemes to other beneficiaries.

Diversion of loan funds for repayment of dues to financing agencies

The undisbursed loan amount and share of State Government (Rs.10.49 crore) were used for repayment of loan.

2.1.15 Since inception to 31 March 2001 the Company had disbursed loan of Rs.15.87 crore (both NBCFDC and NMDFC) against which it could recover only Rs.1.99 crore from the beneficiaries. Though the recovery was only Rs.1.99 crore, the company repaid Rs.11.62 crore (Rs.8.32 crore to NBCFDC and Rs.3.30 crore to NMDFC) against instalments, which fell due for repayment. Similarly, as against the recovery of Rs.5.51 crore from the beneficiaries, during April 2001 to March 2006, the Company paid Rs.5.72 crore (Rs.3.88 crore to NBCFDC and Rs.1.84 crore to NMDFC) against instalments, which fell due till 31 March 2006. The repayments in excess of recovery were made from undisbursed loan amount (Rs.6.04 crore) and Government share of project cost received in the form of share capital (Rs.4.45 crore) and instalment recovered from the beneficiaries (Rs.6.85 crore). Thus Rs.10.49 crore were diverted for repayment of loan resulting in deprival of assistance to the targeted beneficiaries.

The Management accepted (August 2006) the above audit observation.

Abnormal delay in sending utilisation certificates

Delay in sending utilisation certificates to NBCFDC and NMDFC resulted in avoidable interest expenditure of Rs.5.11 crore.

2.1.16 As per the guidelines of NBCFDC, the loan should be utilised within 90 days from the date of release, failing which higher rate of interest at 6 *per cent* (normal rate 3 *per cent*) shall be charged for delays ranging between 91 to 180 days and at 8 *per cent* for delays beyond 180 days. Audit scrutiny revealed that the Company delayed submission of utilisation certificates from five to 35 months and did not submit utilisation certificates in respect of assistance of Rs.4.55 crore disbursed up to 31 March 2001 for which NBCFDC charged interest of Rs.2.57 crore upto 31 March 2006, at the higher rate. Further, in respect of loans disbursed from 2001-02 to 2005-06, the Company again delayed furnishing utilisation certificates for which NBCFDC charged higher rate of interest to the extent of Rs.1.19 crore upto 31 March 2006 out of which Rs.19.44 lakh had already been paid (November 2003).

Thus delay in furnishing utilisation certificates resulted in avoidable interest expenditure of Rs.3.76 crore.

The Management stated (August 2006) that the delay in furnishing utilisation certificates was due to delay in receipt of the same from the DICs. The reply is not tenable as it is the overall responsibility of the Company to furnish utilisation certificates in time. Close monitoring by the Company could have made this possible.

Similarly, in the case of NMDFC, funds remaining unutilised from 3 to 6 months attract interest at the rate of 6.5 *per cent* (normal rate 3.5 *per cent*) and those remaining unutilised for more than 6 months attract interest at 8.5 *per cent*. It was noticed during audit that the Company delayed furnishing utilisation certificates by 2 to 54 months as a result of which NMDFC charged higher rate of interest to the extent of Rs.1.35 crore till 31 March 2006.

The Management accepted (August 2006) that the delay in receipt of utilisation certificates from the DICs resulted in payment of interest at higher rates.

Absence of post disbursement monitoring

Post disbursement monitoring was not done.

2.1.17 NBCFDC guidelines, *inter alia* specify introduction of beneficiary loan cards with a view to ensuring the authenticity of the transaction and to monitor/verify the utilisation of loan and its repayment. The guidelines also stipulate introduction of response cards seeking information from the loanee about his/her identity, loan received, its utilisation/repayment etc. for monitoring and evaluation of the scheme. It was noticed during audit that these guidelines were not complied with by the Company. The Company also failed to conduct any post disbursement monitoring of the schemes/ beneficiaries to ascertain the status of actual implementation of the financed schemes and their success rate so as to ensure successful financing of future schemes.

Physical verification of assets

The company did not conduct physical verification of assets of the beneficiaries.

2.1.18 The Company did not conduct any physical verification of assets of the beneficiaries, as a result of which it was not in a position to ascertain existence of non-performing assets or the actual number of units working, closed, sold or managed by persons other than the beneficiaries.

Misappropriation of funds due to improper maintenance of records

2.1.19 Audit scrutiny of records of DICs revealed that: -

- Cash books were not maintained properly and in some DICs not maintained at all.
- Beneficiary ledger was not maintained/not maintained properly i.e., postings were not made for all the years. As a result, the amount due for recovery and received there against could not be analysed.
- The Company did not impart training to DIC staff for maintenance of accounts.

Post dated cheques submitted by the beneficiaries were not presented to Banks.

- At 5 DICs 677 old cheque books containing post dated cheques issued by the beneficiaries for payment of instalments of loan were not presented to the bank for credit to the Company's account. This indicated total lack of monitoring and control over the recovery portfolio. The Company ordered that from October 2000 onwards all loan instalments should be collected only in the form of demand draft or in cash thus further weakening the control.

Weak control over DICs resulted in misappropriation of funds.

- **It was noticed during audit that at five DICs (Shajapur, Gwalior, Chhatarpur, Bhind and Damoh) an amount of Rs.4,06,979 received from the beneficiaries against 250 money receipts was neither entered in the cash books nor deposited in the Bank. The concerned dealing assistants misappropriated the money. After the misappropriation was pointed out by Audit (June/July 2006), Rs.2,30,000 were deposited by the concerned assistant at DIC Damoh and Rs.45,900 at DIC Shajapur.**

Money receipt books were not presented to Audit for verification.

- At three DICs (Vidisha, Damoh and Khandwa) the money receipts were printed at DIC level instead of using the money receipts supplied by the Company. One receipt book (started after 29 November 2004) was not produced to Audit for verification at DIC Damoh.

- Though Money Receipt Books were issued to DIC, Indore the same were not produced to Audit. The concerned Branch Manager stated (June 2006) that no Money Receipt Books were issued to them by the HO. Despite this being a matter of serious concern, the same was not investigated. In this DIC, though the beneficiaries had deposited the amount direct into the bank, the same was not entered in the cash book.

- Revenue authorities were requested to issue RRCs for the loan amount paid to the beneficiary without actually verifying the exact amount payable because the ledgers were not maintained properly.

- The beneficiary ledger at HO was not maintained in the format prescribed by the Company itself. Complete details about the beneficiary, break-up of instalments and interest due, were not entered in the beneficiary ledger.

The Management stated (August 2006) that the training to DIC employees was being imparted through Madhya Pradesh Consultancy Organisation Limited (MPCON) for maintenance of accounts. The reply is not acceptable in view of the fact that there was no mention of the training in the scope of work awarded to MPCON in June 2001. DIC officers also stated (June/July 2006) that the company did not impart any training to them.

Though, the improper maintenance of records resulted in misappropriation of cash, the Company has neither taken any action to set right the deficiencies nor had it taken any action against the erring officials.

Recovery Performance

Term loans

Contrary to the existing practice loans of Rs.4.33 crore were disbursed without obtaining post dated cheques.

2.1.20 The Company had been sanctioning loans to the beneficiaries through DICs since its inception. From December 2002, it started disbursing all loans for projects costing rupees one lakh and above per beneficiary at its HO. Term loans to the extent of Rs.2.86 crore (Rs.2.42 crore to Backward classes and Rs.0.44 crore to minorities) and Rs.1.47 crore (Rs.1.27 crore to Backward classes and Rs.0.20 crore to minorities) were sanctioned to beneficiaries in the years 2002-03 and 2003-04 respectively (up to June 2003) by the HO.

The year wise cumulative recovery due (including interest) and actual recoveries made there against are as detailed below: -

(Amount : Rupees in lakh)

Year	Backward classes			Minorities			Total		
	Due	**Reco-vered**	***Per cent***	**Due**	**Reco-vered**	***Per cent***	**Due**	**Reco-vered**	***Per cent***
2002-03	4.88	0.26	5	0.24	--		5.12	0.26	5
2003-04	86.39	18.31	21	14.91	2.11	14	101.30	20.42	20
2004-05	154.38	30.23	19	27.51	3.78	14	181.89	34.01	19
2005-06	227.63	35.12	15	40.57	5.08	13	268.20	40.2	15

From the table above it would be seen that the recovery position, which was already poor, had further deteriorated over the years from 20 to 15 *per cent* during 2003-04 and 2005-06. Audit noticed that the main reason for poor recovery was disbursement of loan without obtaining post dated cheques from the beneficiaries though the practice was in existence in respect of 'Micro finance' loans. The Company did not also initiate legal action against the defaulters even in cases where the default was chronic.

The status of recovery by DICs could not be analysed in audit, as the beneficiary wise record was not properly maintained.

Micro finance loan

Legal action was not initiated against defaulters.

2.1.21 During the period 2002-03 to 2005-06, micro finance loan of Rs.2.05 crore and Rs.1.44 crore were disbursed to Non-government Organisations (NGOs) and Self Help Groups (SHGs) of backward classes and minorities respectively by the HO after collecting post dated cheques. The status of recovery is as detailed below:

(Amount : Rupees in lakh)

Year	Backward Classes			Minorities			Total		
	Due	Recov-ered	*Per cent*	Due	Recov-ered	*Per cent*	Due	Recov-ered	*Per cent*
2002-03	0.98	-	-	-	-	-	0.98	-	-
2003-04	18.64	6.86	37	1.52	0.09	6	20.16	6.95	34
2004-05	40.92	9.13	22	20.00	7.73	39	60.92	16.86	28
2005-06	93.87	19.77	21	50.80	17.25	34	144.67	37.22	26

From the table it can be seen that the recovery has shown a steadily decreasing trend in both the categories. The overall recovery came down from 34 (2003-04) to 26 *per cent* (2005-06).

The main reason for low recovery was the lenient view by the management against the defaulters. Audit also noticed that though the cheques submitted by the beneficiaries bounced, the management did not initiate legal action against them immediately as required under the applicable law.

In respect of NBCFDC loans, five to 11 DICs recorded `nil' recovery during the years 2001-06. Similarly, in respect of NMFDC loans, up to 17 DICs recorded `nil' recovery during various years.

The Management stated (August 2006) that legal action was being initiated against the defaulters. The fact however, remains that action should have been initiated immediately without waiting for up to 19 months after bouncing of cheques, as remedy under section 138 of the Negotiable Instruments Act is available only if action is initiated within 30 days.

Payment of penal interest

Penal interest of Rs.2.58 crore was charged by the funding agencies for delay in payment of instalments

2.1.22 Due to poor recovery, the Company could not repay the instalments of principal loan falling due from time to time. Consequently, the financing agencies levied penal interest of Rs.2.58 crore (Rs.1.87 crore by NBCFDC and Rs.0.71 crore by NMDFC) during the period 2001-06, out of which Rs.1.15 crore (Rs.0.65 crore to NBCFDC and Rs.0.50 crore to NMDFC) had already been paid.

Internal Control/Audit

The Internal Control System of the Company was found to be deficient. The weak Internal Controls resulted in misappropriation of funds as discussed in para 2.1.19. Other weaknesses are as indicated below:

Accounting Controls

2.1.23 In spite of being in existence for more than a decade, the Company had not introduced a proper accounting system either in the HO or at DICs. It was noticed during audit that:

- The books of accounts were not kept on accrual basis.
- The interest collected from the beneficiaries was adjusted against the principal only.
- Bank Reconciliation Statements were not prepared regularly.
- The accounts finalised up to 2000-01 did not reflect the correct position of income/expenditure and assets/liabilities.

No record was kept at HO for money receipt books issued to DICs.

- No record was kept at the HO till 2004 about the number of money receipt books supplied to DICs and receipts issued from out of these books.
- No steps were taken for preparation of an Accounting Manual.
- The accounts of the HO and DICs were not reconciled regularly.

Operational Controls

2.1.24 Audit noticed that:

- The loans and advances were not shown in the financial accounts according to the age, realisability and security.
- No record in support of visits made by officers of DICs for recovery of instalments was maintained.

Monthly statements were not obtained from DICs to monitor disbursement and recovery of loan.

- Monthly Statements of expenditure and details of recovery of instalments and loans disbursed were not obtained from DICs regularly so as to monitor disbursement of loan and recovery of instalments and their prompt remittance to HO.

Internal Audit

2.1.25 Though the company has been engaged in extending financial assistance to beneficiaries since 1994, it has not yet introduced any internal audit system to exercise control over sanction and disbursement of loan to beneficiaries through HO/DICs. Improper maintenance of records coupled with absence of internal audit led to misappropriation of cash in five districts as discussed in paragraph no.2.1.19.

Conclusion

The performance of the Company with regard to its stated objectives was found to be deficient in many respects. It had not conducted any survey of the targeted population, though desired by the financing agencies. It did not prepare any short term/long term strategies for providing loan assistance to the targeted population across the State. There were deficiencies in extending financial assistance viz., non-holding of pre-identification camps, non-compliance with the schemes guidelines, sanctioning loan for ineligible projects, uneven coverage of targeted population, abnormal delay in disbursement of loans and furnishing utilisation certificates, and diversion of loan funds for repayment of dues to financing agencies.

Recovery of loans was not ensured in all cases by obtaining post dated cheques and wherever cheques were obtained legal action was not initiated for bouncing of cheques. There were serious deficiencies in the system of record keeping/accounting, leading to misappropriation of cash remaining undetected. There was no internal audit in the Company since its inception. All these deficiencies resulted in poor coverage of the targeted population, drawal of lesser funds against sanction and poor recovery of dues.

Recommendations

The Company needs to :

- generate awareness among the targeted population after holding surveys of such population,
- hold pre-identification camps for quicker identification of beneficiaries,
- strengthen the mechanism for sanction and release of loans and monitor the status of beneficiaries,
- take effective steps to improve the performance of recovery and maintenance of records as well as strengthen the internal control system at DIC level,
- evolve a mechanism to assess the impact of implementation of different schemes for backward classes and minorities and
- ensure submission of utilisation certificates in time.

The above findings were reported to the Government/Management (August 2006); their replies had not been received (September 2006).

PROMOTION AND DEVELOPMENT OF PLANTATIONS INCLUDING COMMERCIAL EXPLOITATION THEREOF BY MADHYA PRADESH RAJYA VAN VIKAS NIGAM LIMITED

Highlights

The Performance of the Company with regard to promotion, development and commercial exploitation of plantations was found to be deficient due to low production of standard size rootshoots in nurseries, replacement of casualties in excess of norms/ replacement by pre-sprouted polypot plants and re-plantation in areas of failed plantation which resulted in avoidable additional expenditure of Rs.12.51 crore. Despite fixation of progressively lower targets, the Company failed to achieve them.

(Paragraphs 2.2.10, 2.2.13, 2.2.14, 2.2.16, and 2.2.18)

Only 70 *per cent* of the land acquired had been utilised for plantation. Utilisation of land for plantation was lowest at 53 *per cent* in Chindwara followed by 59 *per cent* in Barghat (Seoni), 61 *per cent* in Lamta (Balaghat) and 62 *per cent* in Rampur Bhatodi (Betul) divisions.

(Paragraphs 2.2.6 and 2.2.7)

No system was in place to monitor variations in actual cost of plantation compared to the estimated cost. Inter-division comparison of actual cost was also not made to ascertain reasons for abnormal variance either to take cost control measures or to ensure preparation of realistic estimates.

(Paragraph 2.2.19)

High rate of failure of bamboo plantation and low yield (24 *per cent*) in various divisions, during April 2001 to March 2005, resulted in loss of potential revenue of Rs.20.71 crore.

(Paragraphs 2.2.20 and 2.2.27)

Postponement of thinning in 7,349 hectares due to substandard teak plantation resulted in loss of potential revenue of Rs.15.13 crore with consequential loss of interest of Rs.4.43 crore. Failure of teak plantation in type C area of Kundam division, Jabalpur resulted in loss of revenue of Rs.2.26 crore.

(Paragraphs 2.2.25 and 2.2.26)

The Company not only fixed a low upset price but also sold timber below the upset price resulting in loss of revenue of Rs.34.37 crore.

(Paragraph 2.2.29)

Absence of internal control mechanism facilitated defalcation of sale proceeds to the extent of Rs.3.69 crore out of which Rs.2.41 crore could not be recovered.

(Paragraph 2.2.31)

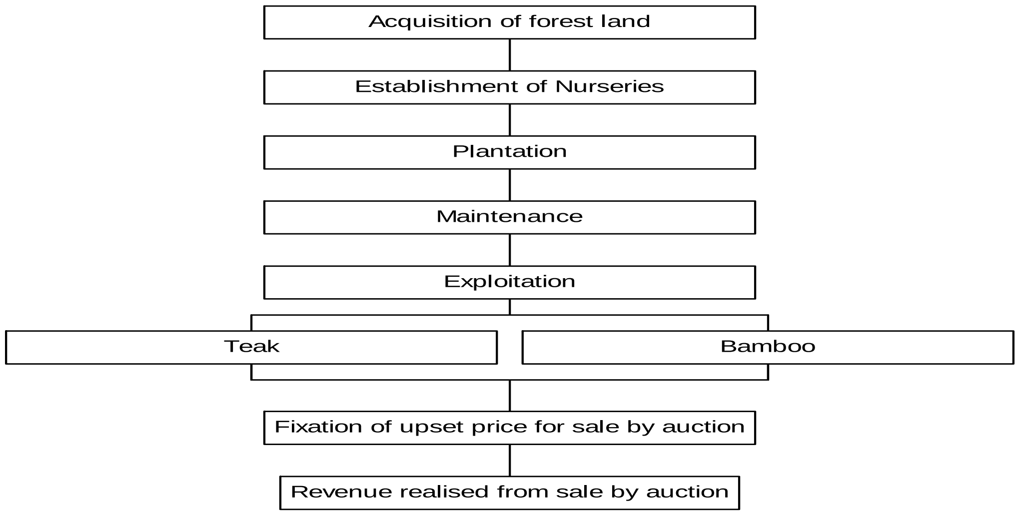
Introduction

2.2.1 Madhya Pradesh Rajya Van Vikas Nigam Limited (Company), formerly known as Madhya Pradesh Forest Development Corporation Limited was incorporated in July 1975. The main objectives of the Company are (i) to accelerate and increase forestry production by raising plantations of (a) fast growing species (b) species of higher economic value and (c) species capable of diversified use for industrial and commercial purpose, (ii) to bring suitable forest areas under intensive management practices to improve, enrich and enhance production both in quantity and quality, (iii) to develop land, conserve, protect, preserve, tend, exploit crops and trees raised or come up naturally, (iv) to undertake maintenance, preservation, protection and development of existing fauna and (v) to carry on business of felling, converting, marketing, processing, grading of forest products raised or otherwise found naturally.

The main activities of the Company presently comprise acquiring forest land from the State Government, raising plants in nurseries, preparation of rootshoots, polypot plants, plantation as per annual targets, casualty replacement, maintenance, cleaning and thinning[19] at fixed intervals and commercial exploitation viz., felling, cross cutting of trees in forest coupe, conversion into logs/poles/stacks, cutting of bamboos, transportation to depots and sale by auction after fixing of upset price (grade, species and size-wise).

[19] *Thinning means reducing the number of stems/plants per unit to ensure improved growth, higher timber production and better hygiene.*

Flow chart of the activities of the Company is given below:



The Company is managed by a Board of Directors consisting of 10 Directors including the Managing Director who is the Chief Executive of the Company. The Managing Director is assisted by one Additional Managing Director, two Executive Directors, two Deputy General Managers (one for Finance and one for Marketing) and two Regional General Managers.

The Company presently has eight divisions viz. Kundam, Umaria, Lamta, Mohgaon, Barghat, Chindwara, Ramapur Bhatodi, and Sidhi. Besides, there is an Industrial Plantation Division exclusively undertaking deposit works.

The Company had prepared project reports in phases (Phases I to V) from 1976 onwards for commercial plantation of teak, bamboo and other species. During 2000-01 to 2004-05, the Company undertook Phase VI of Commercial plantation which envisaged raising teak plantations in net area (excluding existing natural trees) of 12,300 hectares (ha) during these five years at the rate of 2,460 ha per year, for eight divisions.

A review on the working of the Company for the five years ended 31 March 1995 was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1996 (Commercial)-Government of Madhya Pradesh. The Report was discussed (March 1998) by the Committee on Public Undertakings (COPU). Recommendations thereof were made in 161st Report of the COPU in April 1998. Effective action with regard to the following recommendations of COPU had not been taken by the company (as discussed in paragraph 2.2.10, 2.2.13 and 2.2.14):

- Efforts should be made for achievement of targets within stipulated time.

- Concerted efforts should be made to increase the production of rootshoots as per the norms laid down by the Company.

- Rootshoots of good quality should be preferred over polypot plants for plantation.

Scope of Audit

2.2.2 The present review conducted during January to May 2006 covers the performance of the Company with regard to promotion and development of plantations including commercial exploitation thereof during the last five years ended 31 March 2006. Seven out of eight divisions were selected for audit scrutiny, on the basis of volume of plantation and exploitation activities carried out.

Audit objectives

2.2.3 This performance audit was undertaken with a view to assess whether:

- the land received from the Government was examined for suitability for plantation, before taking over and was optimally exploited.

- the plantations and developmental activities were carried out effectively, efficiently and economically.

- promotional and development activities carried out were regularly monitored and analysed to identify deficient areas for remedial action.

- raising of plants in nurseries, preparation of rootshoots, plantation, replacement of casualties, maintenance of plantation, re-plantation etc., were carried out as per the norms specified in the Project Report/ guidelines issued by the Company.

- yield and revenue per ha achieved was as per the norms fixed.

- cost of operations of the enterprise was reasonable with regard to the volume of operations.

- internal control system was effective to provide oversight and prevent losses/defalcations.

Audit criteria

2.2.4 The Performance of the Company with regards to its objectives of promotion and development of plantation etc. was assessed against the following criteria:

- prescribed norms for selection of area for plantation, planting stock, planting, maintenance of plantation, yield, commercial plantation contained in the project report for raising commercial plantation - Phase-VI/VII,
- rules, decision and guidelines issued by the Board of Directors/State Government/ Government of India from time to time,
- State Forest Policy, Memorandum of Understanding (MOU) with the State Government, the Forest (Conservation) Act 1980, Forest (Conservation) Rules 1981 and Forest (Conservation) Amendment Act 1988,
- working plans/management plans, yield norms & targets fixed for plantation each year as per Company's orders (June 2000), and
- broad principles of Internal Control System. Compliance with the internal controls was examined with reference to provisions of the accounting manual.

Audit methodology

2.2.5 A mix of the following methodologies was adopted:

Scrutiny of records like:

- Project report for phase VI,
- MOU with the State Government with reference to State Government policy,
- records relating to plantation activities like sowing of seeds, preservation in nurseries, plantation, their maintenance, thinning, felling etc.,
- working plan and guidelines issued by the Company and adequacy of procedures adopted for sale of produce and personal interaction with the management.

Audit findings

The Audit findings were reported to the Government/Management in July 2006 and discussed in the Audit Review Committee on Public Sector Enterprises (ARCPSE) meeting held on 14 September 2006 where the Government was represented by Secretary, Forest Department, and the Company was represented by the Managing Director. The review was finalised after considering the views of the Government/Management

Audit findings are discussed in the succeeding paragraphs.

Working Plan

2.2.6 As per the Forest (Conservation) Act 1980, Forest (Conservation) Rules 1981 and Forest (Conservation) Amendment Act 1988, prior approval of the Government of India is mandatory for all proposals involving clearing of/working in forest areas including re-forestation, for which working plans/management plans are to be submitted.

The Working plan which contains year-wise programme of work to be done (viz., detailed survey of the forest area to be transferred from the State government, its grading, selection of species, etc., suitable to the soil, periodical activity involved from sowing of seeds to harvesting, yield norms, sale of forest produce by auction together with details of activity-wise expenditure to be incurred each year, expected sales realisation etc.,) is required to be prepared by the Company for each division.

The activities were carried out without approval of the Working Plan in one division till March 2006.

It was noticed in audit that the working plan for the Sidhi Division though prepared in 2001 had not been got approved by Government of India till March 2006. Thus, the activities of the Sidhi Division were carried out without any approved working plan till March 2006.

Acquisition and utilisation of land

2.2.7 Madhya Pradesh has 96.13 lakh ha of forest land. As per the State Forest Policy (April 2005), 10 *per cent* i.e., 9.61 lakh ha of forest land is to be transferred to the Company for development. The Company has so far acquired on long term lease basis, only 2.36 lakh ha ***(Annexure 7)*** i.e. 2.11 lakh ha since inception to March 2001 and 0.25 lakh ha from April 2001 to March 2006, which represents only 25 *per cent* of the land to be acquired.

Audit scrutiny revealed that:

0.67 lakh ha of land was lying idle for one to twenty nine years.

- Out of 2.36 lakh ha of the forest land transferred up to March 2006, only 1.65 lakh ha land was utilised for plantation and 0.04 lakh ha was returned. Out of the remaining 0.67 lakh ha, 0.44 lakh ha acquired between 1976 to March 2001 and 0.23 lakh ha between 2001 to 2006 was lying idle for 1 to 29 years. Thus, a considerable portion of the land (30 *per cent*) transferred before issue of the State Forest Policy was lying idle.

- Transfer of land after issue of the State Forest Policy (April 2005) upto 31 March 2006 was negligible as only 1,453 ha of land was transferred in 2005-06.

- The overall utilisation of land was 70 *per cent* of the land acquired. The utilisation was lowest at 53 *per cent* in Chindwara division followed by 59 *per cent* in Barghat division (Seoni), 61 *per cent* in Lamta division (Balaghat) and 62 *per cent* in Rampur Bhatodi division (Betul). Low utilisation of land in Chhindwara division was attributed to delayed transfer of land by the Government.

- Out of the eight divisions of the comapny, five divisions viz., Rampur Bhatodi, Chindwara, Mohgaon, Umaria and Sidhi had not carried out detailed analysis of the workable land as envisaged in the working plan. It was noticed during audit that the remaining three divisions viz Kundam (Jabalpur), Lamta (Balaghat) and Barghat (Seoni) had workable land of 15,000 ha, 1,750 ha and 2,500 ha respectively, which was not put to any use. Reasons for low utilisation of land were not on record.

Loss due to development of unsuitable land

2.2.8 While selecting land for transfer from the Forest department, the Company is required to assess the suitability of soil for the desired plantation. Audit observed that the Company, without assessing the suitability of the soil got 3,225 ha of land transferred during 1992 to 1994 and 1998 for Chindwara project (Jamaai and Batka Khapa ranges) and incurred Rs.39.75 lakh (1994-95) on plantation of teak on 1,535 ha. The entire area of 3,225 ha was transferred back (2001) to the Forest department as the soil was found to be infertile and unsuitable for teak plantation.

Similarly, the forest department transferred 146 ha of land in Damoh district during 2000-01 for irrigated teak plantation. The Company spent Rs.44.29 lakh on plantation in 40 ha but had to return the entire area of 146 ha (March 2005) to the Forest department, as the soil was not suitable for teak plantation.

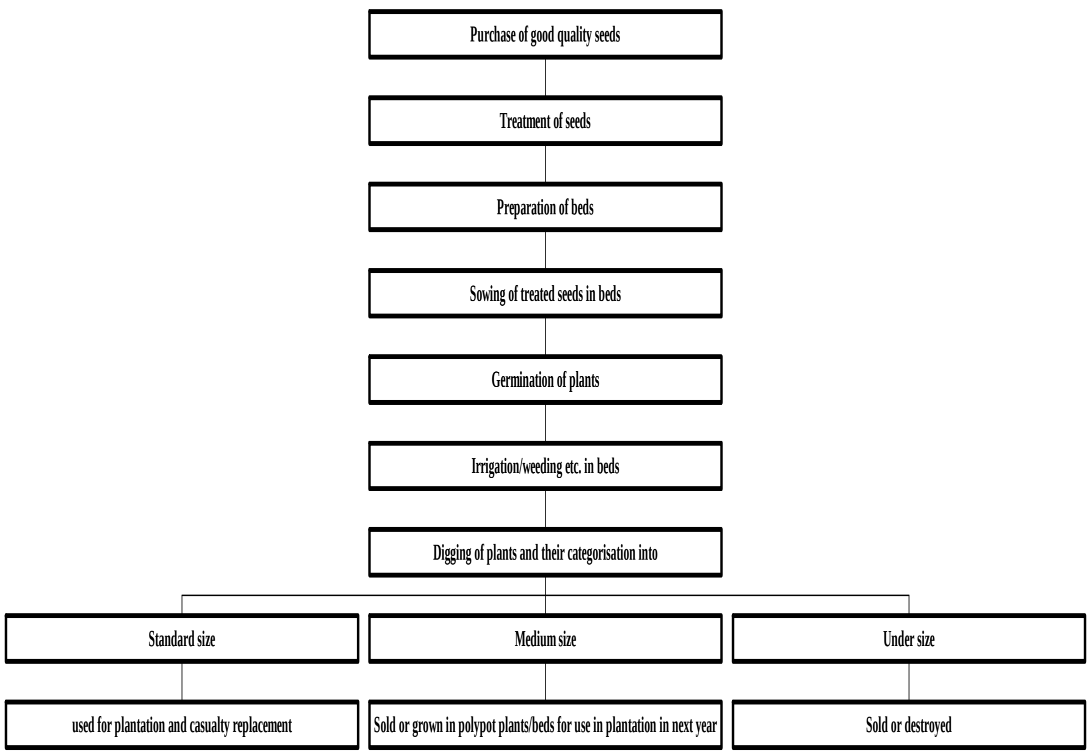
Thus, Company’s failure to assess suitability of soil at the time of acquisition and before raising plantation resulted in avoidable expenditure of Rs.83.99 lakh. The Management in the ARCPSE meeting (14-9-2006) stated that the loss would be recovered from the Government. The reply is not tenable as it was the Company’s responsibility to ensure suitability of the land before incurring expenditure.

Performance of nurseries

Procedure for production of rootshoots in nurseries

2.2.9 On the basis of targets fixed for plantation each year, each division of the Company decides the quantity of rootshoots to be prepared in the nurseries under their control. Root-shoots are prepared out of plants germinated from seeds. For raising plants of good quality, seeds are purchased from Van Suraksha Samiti as well as from the open market and, after treatment the seeds are sown for germination in April/May each year in beds of 10 x 1 meter size. Plants grow in these beds by June/July of the next year. Plants grown are of three categories viz. standard, medium and under-size. Plants of good quality and standard size are selected for preparation of root-shoots which are used for plantation as well as casualty replacement i.e. replacement of dead plants of plantation done in the previous year. Root-shoots are also prepared out of medium size plants but after planting them in beds till the next year for growth up to the standard size. Under-sized plants are destroyed or sold out.

The flow chart for preparation of rootshoots in nurseries is as given below:



Low production of standard size rootshoots

Loss of Rs.1.20 crore due to short production of standard size root shoots compared to norms.

2.2.10 As per the norms fixed by the Company, a minimum of 700 root-shoots are required to be prepared from one bed, out of which 500 (71 *per cent*) should be of standard size and 200 (29 *per cent*) should be of medium and/or undersize. Audit scrutiny revealed that during the period 2001-06 actual production of standard sized root-shoots from 92,820 beds ranged from 90 to 469 as against the norm of 500 per bed resulting in short production of 143.33 lakh standard sized root-shoots. The short production resulted in avoidable loss of Rs.1.20 crore (at the rate of Rs.0.84 per standard size root-shoot as per the cost estimates contained in the project report for Phase-VI) as given in ***Annexure-8.*** Though the COPU had recommended that efforts should be made to increase the production of root-shoots as per the norms laid down by the Company, the Company had not taken any effective action in this regard.

Non-accounting of rootshoots

Inter division transfer of root shoots were not accounted for by the recipient divisions.

2.2.11 In the divisions where required number of root-shoots could not be prepared due to shortfall in production of standard sized plants, root-shoots were transferred during 2001-06 from other divisions where they were surplus. Audit analysis of the plantation account of Lamta (Balaghat), Chindwara, Kundam (Jabalpur) and Mohgaon (Mandla) divisions revealed that these divisions had shown 14,06,500 root-shoots valued at Rs.11.81 lakh as transferred to other divisions. The receiving divisions, however, had not shown them as received. Utilisation particulars of root-shoots received from other divisions were also not recorded. The possibility of misutilisation cannot be ruled out. The management in the ARCPSE meeting (14-9-06) assured that the matter would be investigated and appropriate steps taken for proper accounting in future.

Commercial plantation

2.2.12 Upto 1986-87 the Company had been following 'Concentrated Regeneration Method' which requires clear felling of all existing natural forest. The envisaged plantation under this method is 2500 teak or 625 bamboo or 1667 mixed species per ha. From 1987-88, this method was replaced with 'Supplementary Regeneration Method' in which planting is confined to intervening blanks without felling of natural tree growth. The new method adopted by the Company requires more than one ha of land for every 2,500 teak or 625 bamboo or 1,667 mixed species. The Company, however, failed to achieve even the sub-optimal targets of plantation area fixed for 2001-06 as discussed in the succeeding paragraph.

Plantation targets and achievements

Targets fixed were sub-optimal.

2.2.13 On the basis of targets fixed for plantation each year, each division of the Company decides the quantity of root-shoots to be prepared in the nurseries owned by it. The targets for plantation for Phase VI (four years from 2001-02 to 2004-05)/Phase VII (one year 2005-06) and actual plantation (net) are given in the table below:

(Area in ha)

Name of the division	Target as per the budget (From 2001-06)	Actual plantation		
		New area	Old area	Total area
Lamta (Balaghat)	2,669	2,054	578	2,632
Rampur Bhatodi (Betul)	2,325	51	1,408	1,459
Umaria (Umaria)	2,200	1,066	326	1,392
Kundam (Jabalpur)	2,414	378	1,695	2,073
Mohgaon (Mandla)	3,360	1,215	1,650	2,865
Barghat (Seoni)	2,550	1,706	536	2,242
Chindwara (Chindwara)	1,235	926	105	1,031
Total	**16,753**	**7,396**	**6,298**	**13,694**

Achievement of target for new plantation was only 44 *per cent*

It was noticed that while the achievement in terms of total area was 82 *per cent* of the budgeted target fixed for 2001-06, the achievement in respect of new plantation was only 44 *per cent*. The remaining 38 *per cent* plantation was in respect of re-plantation in areas of failed plantation of the previous years. Thus the Company achieved only 44 *per cent* of the target fixed. This in turn resulted in (i) less forest cover by 6,298 ha of land, (ii) delay in rotation of plantation and (iii) deferment of revenue on plantation to the extent of 6,298 ha.

It was also noticed that progressively lower targets at 37,844 ha (net) for Phase-III, 25,550 ha (net) for Phase-IV and 23,900 ha (net) for Phase-V and 12,300 ha (net) for Phase-VI (all figures exclude figures for Chhattisgarh State consequent to bifurcation of State of Madhya Pradesh) had been fixed.

It was noticed that the Company did not have a system of calling for proposals from the divisions for plantation/ re-plantation each year. The targets were decided at the head office but not communicated to the divisions. Thus, the postion with regard to COPUs recommendation of "making efforts for achieving targets in time" the position has only deteriorated.

Teak plantation by pre-sprouted polypot plants

2.2.14 As per Company's orders (June 2000), teak plantation is required to be done by standard size root-shoots of best quality. Audit scrutiny, however, revealed that six divisions of the Company utilised 11.17 lakh pre-sprouted polypot plants[20] for plantation during the years 2001-02 and 2002-03 out of which 8.48 lakh (76 *per cent*) polypot plants were utilized by Lamta division, Balaghat and Mohgaon division, Mandla. The use of polypot plants involves additional expenditure at the rate of Rs.2.65 per plant. It was observed during audit that the Company had not complied with the COPU recommendation "that rootshoots of good quality should be preferred over polypot plants for plantation". This also led to an additional expenditure of Rs.29.60 lakh on

[20] *Medium/undersize plants grown in poly pots for use in plantation*

11.17 lakh polypot plants. Specific reasons for use of polypot plants by all the divisions and excessive use in Lamta division, Balaghat and Mohgaon division, Mandla were not on record.

Casualties in teak plantation

High Casualty rate of plants

High casualty rate of plants was not investigated for remedial action.

2.2.15 As per the norms fixed in Project Report for Phase VI, maximum allowed casualty of plants was up to 20 *per cent* of the total plantation. Audit analysis revealed that :

- During the year 2001, the casualties ranged from 22 *per cent* (Kundam and Umaria) to 45 *per cent* (Barghat),
- During the year 2002 the percentage variation in casualties was 17 *per cent* (Barghat) to 50 *per cent* (Chindwara division),
- During the year 2003, the casualties ranged between 26 *per cent* (Mohgaon) to 70 *per cent* (Chindwara) and
- During the year 2004, the casualties ranged between 10 *per cent* (Mohgaon and Kundam) to 21 *per cent* (Chindwara).

The overall excess casualty of 12.19 lakh plants compared to the norm of 20 *per cent*, resulted in an additional expenditure of Rs.18.77 lakh.

When rootshoots are prepared out of best quality healthy plants and are used in plantation, there should be no scope for casualties. Though there were casualties of upto 70 *per cent* of plantation, the Company had not investigated the reasons for high casualties to ascertain whether the casualties shown had actually occurred and, if so, what remedial action could be taken.

The Management in the ARCPSE meeting (14-9-2006) assured that appropriate steps would be taken after investigation of high casualties in teak plantation.

Replacement of casualties by pre-sprouted polypot plants

Casualties were replaced by poly pot plants involving additional cost.

2.2.16 As per the Company's instructions (June 2000 and April 2001) casualty in teak plants found during 100 *per cent* counting of plants (done in 10^{th} month after plantation) is required to be replaced in the subsequent year only by standard size rootshoots. Audit, however, noticed that in six divisions, the Company, during the years 2001-02 and 2002-03, used 27.44 lakh pre-sprouted polypot plants for casualty replacement which resulted in additional expenditure of Rs.72.71 lakh.

Thus, replacement of casualties in excess of norms as well as replacement of casualties by pre-sprouted polypot plants resulted in additional expenditure of Rs.91 lakh.

High-input /Hi-tech plantation

2.2.17 The Company, without obtaining an opinion on the Cost Benefit Ratio (CBR) and Internal Rate of Return (IRR) from the State Forest Research Institute, raised commercial high-input plantation in 200 ha (3.25 *per cent*) each in 2003 and 2004 and high tech irrigated plantation in 302 ha (2.45 *per cent*) during 2000-2005 and incurred expenditure of Rs.42 lakh on plantation and Rs.1.43 crore on maintenance in the seven test checked divisions. It was noticed during audit that though the reports of the Divisional Managers, also confirmed by the Managing Director (June 2006) showed that the survival rate was high at 91 to 98.65 *per cent*, with satisfactory growth in height and girth, the Company stopped the above plantations from 2005-06 on the ground that preliminary reports of some of these plantations had not produced the results envisaged in the Project Report.

The Management in the ARCPSE meeting (14-9-2006) stated that the high input/high tech plantation being costly and uneconomical was stopped and the matter was under examination in the State Forest Research Institute, Jabalpur. The details of the cost and benefit~~s~~ were, however, not furnished to Audit.

Replantation in the area of failed plantation

2.2.18 Teak plantations are maintained every year up to three years. Cleaning of plantation is done in the 5th year while first thinning is done in the 11th year. Subsequent thinning is done in the 21st, 31st, 41st and 45th year. Final harvesting is done in the 60th year. It was noticed during audit that the divisions have no mechanism to check the plantation at periodical intervals between the year of cleaning to the year of thinning and in between two thinnings, in order to monitor the status of each plantation and inform the head office about the status of plantation viz., height, girth, survival rate, pilferages, illicit felling etc. In the absence of regular monitoring, failure of growth or status of plantation comes to the notice of the divisions/Company only when thinning is taken up.

Monitoring of status of plantation was poor. Re-plantation of failed plantation was done at a cost of Rs.9.38 crore.

Audit scrutiny of plantation records in the selected divisions revealed that during the five years ended 31 March 2006, the Company carried out re-plantation of failed plantation at a cost of Rs.9.38 crore in an area of 6,298 ha.

Audit further noticed that the status of plantation between cleaning and thinning in the case of teak and between one felling and another in case of bamboo was not monitored to ascertain failure, if any. Re-plantation, wherever required was not done immediately, but after a lapse of 13 to 27 years after the year of plantation. Abnormal delay in re-plantations resulted in:

- sales revenue forgone for 13 to 27 years.

- denial of employment opportunities to the villagers adjoining the forest area.

- decrease in forest cover to an extent of 6,298 ha of land for the period of delay in replantation, contrary to the objective of increasing the forest cover

Wide variation in teak plantation cost

There were wide variations in the actual cost compared to estimates between various divisions.

2.2.19 The details of estimated plantation cost of teak (rainfed) per ha, including maintenance up to 3 years as per the Project Report for Phase VI (2000-05) and actual expenditure incurred by the various divisions of the Company are given in ***Annexure 9.*** It would be seen from the Annexure that :

- There were wide variations (42 to 74 *per cent*) in actual cost per ha in various divisions in the same year e.g., from Rs.12,713 to Rs.23,350 (2000-01); from Rs.16,243 to Rs.28,263 (2001-02) ; and from Rs.14,410 to Rs.20,476 (2002-03).

- While five divisions had incurred expenditure in excess of the estimated cost by Rs.45.69 lakh in 2001-02, four divisions had incurred an excess expenditure of Rs.39.82 lakh in 2002-03.

- Contrary to the increasing trend in the cost of each item of work as per the estimates, the actual cost incurred per ha decreased significantly in 2003-04 as compared to 2001-02 e.g., from Rs.18,645 to Rs.16,509 in Lamta division, from Rs.19,568 to Rs.14,241 in Mohgaon division, from Rs.28,263 to Rs.13,389 in Barghat division and from Rs.18,992 to Rs.13,792 in Kundum division.

- There was no system in place to compare the actual cost incurred with reference to the estimated cost as well as for inter-division comparison of actual cost incurred to ascertain the reasons both for substantial increase / reduction in actual cost and to assess as to what extent the estimates were realistic.

The Management during the ARCPSE meeting agreed to take all factors into account at the time of preparation of estimates so as to make them realistic.

Bamboo Plantation

Failure of bamboo plantation resulted in loss of Rs.2.99 crore

2.2.20 During March 2001, the Company called for evaluation reports from its divisions in respect of bamboo plantation raised by them since inception (1976) to March 2001. The divisions furnished the reports between 2003 and 2006.

Scrutiny of these evaluation reports by Audit revealed that since inception to 2001 four divisions of the company viz. Lamta, Rampur Bhatodi, Barghat and

Kundam divisions raised bamboo plantation in 22,895 ha out of which plantation in 15,172 ha (66 *per cent*) had failed. The failure in these divisions ranged between 65 to 76 *per cent* resulting in loss of Rs.2.99 crore.

In spite of substantial failure the reasons were not analysed.

Non felling of Bamboo Plantation

2.2.21 The Company planted bamboo in 53 ha (1990-91) and 565 ha (1997) in Sidhi division which were due for 8^{th} year felling in 1999 and 2005 respectively. The next harvesting for 53 ha was also due in 2005. The Company failed to obtain the permission for felling of bamboo due to non-submission of working plan to Government of India for approval, and therefore felling in the area of 618 ha could not be taken up (March 2006). This resulted in loss of anticipated revenue of Rs.33.95 lakh.

Flowering in Bamboo Plantation

2.2.22 Out of the total bamboo plantation of 20,698 ha, plantation in an area of 8,807 ha in Barghat and Mohgaon divisions started flowering between 2001-05. As there is no growth of bamboo after flowering, forest cover would be reduced by that extent. The Management had not taken any action for regeneration of the area of plantation.

Exploitation

2.2.23 Exploitation denotes obtaining yield through thinning and final harvesting of plantation. In case of teak, thinning is done in $11^{th,}$ 21^{st}, 31^{st} 41^{st}, 45^{th} year and final harvesting in 60^{th} year and in the case of bamboo, felling is done in 8^{th} year and every 4^{th} year thereafter up to 40^{th} year. The Company, however, failed to optimally exploit the plantation due to its failure as discussed in the succeeding paragraph.

Thinning process for Teak

2.2.24 In an area of one ha of land, 2500 teak plants are planted. In the thinning process a fixed number of trees per ha are retained and the balance removed. The removal of trees ensures proper growth and development of retained trees till next thinning. The number of trees retained after thinning depends upon the quality of the area to be thinned, which is assessed on the basis of height, and girth of trees. As per the guidelines issued by the Company (1998-99), the area to be thinned is divided into plots of 1 ha each. Each plot is again divided into 3 parts viz., Type A: dense area in which thinning is necessary, Type B: area in which growth of plants is not uniform and Type C: area of failed plantation where survival rate of plantation is less than 20 *per cent* in which thinning is not required. The deficiencies noticed in 11^{th}/21^{st} year thinning are discussed below:

11th Year thinning

2.2.25 Test check of 11th year thinning which fell due in an area of 7,999 ha in four divisions viz., Kundam (Jabalpur), Chindwara, Mohgaon (Mandla) and Umaria during the years 2001-05 revealed the following:

Revenue forgone due to substandard plantation.

Out of 7,999 ha, thinning was not done in 7,349 ha due to substandard plantation (inadequate height and girth of the plants). This resulted in forgoing revenue to the extent of Rs.15.13 crore (at the rate of Rs.20,600 of net revenue per ha based on Project Report for Phase VI) and consequent loss of interest of Rs.4.43 crore at the rate of 12 *per cent* per annum from the year of thinning not done to March 2006.

In Kundam division (Jabalpur), out of 456 ha of area due for thinning in 2003-05, plantation was unsuccessful in 205 ha and as a result no yield could be obtained. This resulted in loss of revenue of Rs.42.23 lakh (at Rs.20,600 net revenue per ha) .

21st Year thinning

Failure of plantation (type C area) resulted in loss of Rs.2.83 crore.

2.2.26 During 2001-05 an area of 2,842 ha (Net) was due for 21st year thinning in Kundam division (Jabalpur) which included type C area (area of failed plantation) to the extent of 1,068 ha (38 *per cent*). Thus, there was no yield from this area resulting in loss of revenue Rs.2.26 crore (at the rate of Rs.21,200 per ha based on project report for phase VI).

Mohgaon (Mandla), Umaria and Lamta (Balaghat) divisions had done 21st year thinning in type C areas admeasuring 758 ha (2001-05), 315 ha (2001-02) in contravention of the orders of the Company.

The Management assured (September 2006) to analyse the reasons for failure in all the divisions. The Management was, however, silent about thinning work in type C areas.

Low yield of bamboo

Low yield in bamboo plantation resulted in loss of Rs.17.72 crore in two divisions.

2.2.27 The Company raised bamboo plantation in 7,759 ha in Mohgaon division (Mandla) during the years 1978 to 1985. This had fallen due for harvesting during 2001-05. Audit analysis revealed that as against the minimum expected yield of 6.06 notional tonne (NT[21]) per ha as per the Project Report of Phase III, the actual average yield of bamboo obtained decreased from 2.02 NT/ha in 2001-02, 1.71 NT/ha in 2002-03, 1.54 NT/ha in 2003-04 and 0.74 NT/ha in 2004-05, which was very low (an average of 1.46 NT/ha) at 24 *per cent* of the expected yield. This resulted in loss to the extent of 35,691 NT (47,019 NT minus 11,328 NT) valued at Rs.8.04 crore (industrial bamboo: Rs.1.39 crore and commercial bamboo: Rs.6.65 crore).

[21] *NT= No. of Commercial Bamboo x 5.5 meter ÷ 2400.*

Similarly, in Lamta division (Balaghat), bamboo plantation was raised in 13,326 ha during the years 1985 to 1991. First to third harvesting of these plantations had fallen due during 2001-05. It was noticed during audit that as against the minimum yield of 2.02, 4.04 and 6.06 NT/ha respectively for the first, second and third harvesting the actual yield was 1.78, 1.15 and 1.68 NT respectively which resulted in loss of 43,968 NT bamboo valued at Rs.9.68 crore.

Abnormal loss in yield was not investigated to take remedial measures.

Even though the loss in yield was substantial, the Company had not investigated the reasons for loss in yield to take remedial measures. Similar loss of yield, if any, in other divisions viz. Rampur Bhatodi (Betul) and Kundam (Jabalpur) divisions could not be ascertained in audit for want of details.

Sale of forest produce

2.2.28 The forest produce harvested is sold in the form of logs, poles, and stacks. The logs of teak and other species are sold by volume after measurement, poles are sold by numbers and small branches used as firewood being of low value is disposed of by stacks. Similarly, commercial bamboo is sold by numbers and industrial bamboo is sold on NT basis. It was noticed during audit that the revenue realiasation was low due to incorrect fixation of upset price and sale at lower than the upset prices in some cases, as discussed below:

Fixation of upset price

2.2.29 The Company invites tenders for auction of forest produce (viz., Teak, bamboo and other miscellaneous species). Auction takes place at the depots of the respective divisions. The division proposes the upset price of each lot of timber, bamboo and other species on the basis of average sale proceeds per unit realised in the previous six months/one year. The upset price is approved by the Regional General Manager of the division without bringing it to the notice of the Board of Directors of the Company.

Audit scrutiny revealed that:

Total sales realisation was less by Rs.34.37 crore than the total upset price fixed.

- During the period 2001-04, the sale proceeds realised by all the divisions were less than the total upset price fixed which resulted in short realisation by Rs.34.37 crore as detailed in ***Annexure 10.*** In Rampur Bhatodi (Betul) division (2003-04) the realisation of forest produce sold was only 40 *per cent* of the upset price fixed.

- While working out the average sale price per unit for using as a benchmark, the division had been taking into account the sale price of produce sold below the upset price also which is not correct. Inclusion of sale at below the upset price to work out the benchmark price had resulted in fixation of upset price of good quality logs at lower rate.

Thus, the Company not only fixed a low upset price but also sold timber at below the upset price and realised less revenue to the extent of Rs.34.37 crore.

The Management in the ARCPSE meeting (14-9-2006) stated that the system of fixation of upset price would be examined with a view to make it realistic and transparent.

Management information system

MIS reporting was inadequate.

2.2.30 The Company has not developed an adequate Management Information System (MIS) to apprise the top management regarding status of various activities of the Company, viz, acquisition of land for plantation, treatment of seeds, production of rootshoots/polypot plants in the nurseries, plantation activities of different divisions so that the information could be processed, analysed and corrective action taken to prevent/minimise losses. Data on human resources available, their deployment and productivity etc. were either not furnished or not linked with the activities of the divisional offices.

Progress report on quantity of forest produce sold at below the upset price by the divisions, revenue realised, loss incurred due to sale at below the upset price were neither ascertained nor reported to the Board of Directors. The Company had also not brought to the notice of the Board the extent of failure of plantation, the area on which re-plantation was done and amount incurred on re-plantation. The Board of Directors also did not ensure obtaining critical information for decision making.

Internal Control System

2.2.31 Internal Control System is an essential part of the Management activity. An efficient and effective Internal Control System helps the management to achieve the objectives laid down. The following deficiencies in the Internal Control System in the company were noticed by Audit.

- There was no segregation of duties. In Kundam Division (Jabalpur), the only accountant posted in the Division during 2001-04 received money and issued money receipts. He was also responsible for depositing cash in to the Bank as also for preparation of work orders. **During this period, the official issued 598 forged work orders to the bidders and allowed lifting of forest produce valued at Rs.3.69 crore in 31 auctions (during 2001-02 to 2003-04) without depositing the sale proceeds.** Out of this an amount of Rs.1.28 crore was recovered and the balance amounting Rs.2.41 crore was outstanding (August 2006). The Management, in the ARCPSE meeting (14-9-2006) stated that investigation in the matter of defalcation of sale proceeds of forest produce was in progress and assured that adequate steps for strengthening the internal control system would be taken to avoid recurrence of such events in future. The defalcation of sale proceeds was a major internal control failure and was facilitated by non- deployment of an Assistant Manager (Accounts) in this division, as provided for in the Accounting Manual of the Company.

- There was no periodical reconciliation of departmental material including rootshoots supplied by various divisions of the Company to sister divisions. The failure of this important internal control resulted in non-accountal of 14.06 lakh rootshoots as pointed out in paragraph 2.2.11.

- Plantation targets fixed by the Head Office were not communicated to the divisions.

- Customer-wise sales register for different produce together with value obtained was not maintained in most of the divisions.

Conclusion

The Company's performance, with reference to achievement of objectives envisaged in the Project Report for Phase VI and those mentioned in the MOU with the State Government, was unsatisfactory. Despite having fixed substantially lower targets for Phase VI compared to other phases these were not achieved. There were losses/avoidable expenditure due to less production of standard size root-shoots; high casualty rate of plants; replacement of casualties in excess of the norms; replacement by pre-sprouted polypot plants and re-plantation in areas of failed plantation. High-input/ high-tech plantation was stopped despite satisfactory growth. There was high rate of failure in bamboo plantation. No system to analyse and monitor unusual variations in actual cost compared to estimates and variation in cost incurred in different divisions to exercise cost control was in place. Postponement of 11th year thinning and failure of teak plantation noticed in type C area during 21st year thinning resulted in substantial loss of revenue. Fixation of low upset price and sale of timber at below the upset price resulted in significant loss of revenue. Absence of internal controls led to defalcation of sale proceeds.

Recommendations

The Company needs to improve its performance by:

- maximising utilisation of land,
- taking suitable measures to maximise production and financial return by adopting best management practices,
- reorient its planning process to achieve the targets envisaged in each phase,
- improve performance of nurseries, minimise casualties of plantation, introduce continuous monitoring of plantation to taking timely remedial action,
- re-examine the procedure for fixation of the upset price duly linking it to the market price ; and
- strengthen the internal control system.

The above findings were reported to the Government /Management in July 2006; their replies are awaited (September 2006).