

Audit Inspection Report on the accounts of Uttarakhand Forest Development Corporation (UFDC), Regional Manager Office, Kotdwar for the period April 2012 to March 2016 was carried out in exercise of the power conferred by section 19 of the C & AG, DPC Act, 1971 read with section 143 of the Companies Act, 2013. The transaction audit was conducted by Shri R. L. Sharma, Asst. Audit Officer, Shri Amit Kumar, Asst. Audit Officer and Shri Khub Chand, Asst. Audit Officer, under the supervision of Shri B. C. Suyal, Sr. Audit Officer during the period from 02.05.2016 to 28.05.2016.

The inspection report has been prepared on the basis of information provided by Regional Manager Office (UFDC), Kotdwar. The Office of the Accountant General (Audit), Uttarakhand, Dehradun will not be responsible for any wrong information or information not received.

Part- I

(A) Introductory:-

Audit of the Corporation has been entrusted to the Office of the Accountant General (Audit) w.e.f April 2012. This is the first audit of the Office of the Regional Manager Office, UFDC, Kotdwar.

The following Officers held the charge since April 2012 to till date.

Regional Manager

1. Shri Bhuvan Chandra, Regional Manager, 01-04-2012 to 04-05-2013.
2. Shri S. K. Chaturvedi, Regional Manager, 04-05-2013 to 30-10-2013.
3. Shri M.P.S. Rawat, Regional Manager, 30-10-2013 to 13-01-2015.
4. Shri M.S.Pal, Regional Manager, 14-01-2015 to 30-06-2015.
5. Shri P.S. Shrivastav, Regional Manager, 01-07-2015 to till date.

Accountants

1. Shri H. K. Chaurasiya, Account Officer, 01-04-2012 to 27-01-2016.
2. Shri Vijay Swaroop, Account Officer, 28-01-2016 to till date.

(B) Outstanding paras of pervious AIRs:-

Sl. No.	AIR for the period	Part-II-A	Part-II-B	Total
----- NIL -----				

(C) Persistent Irregularities:

-----Nil-----

(D) Record not put up:

-----Nil-----

Part-IIA

Para 1: - Loss of revenue ` 581.93 lakh.

The Uttarakhand Forest Development Corporation Ltd. (Corporation) is engaged in the business of mining of sand, stones, boulders and RBM (natural resources) etc. in the river Ganga and its tributaries in Haridwar district. The mining permission in 2900 Hectare (corrected to 1380.03 Hectare) in river Ganga and its tributaries in Haridwar was available for a period of 10 years ending on 30 June 2012. As per condition No. 2 of Forest Clearance dated October 2002, the Corporation was to deposit ` 90.50 lakh in every six months for a period of 10 years to the state government on account of compensatory afforestation and river training programme. Thus, the Corporation had to deposit ` 18.10 crore (` 90.5 lakh x 2 x 10) in 10 years towards compensatory afforestation and river training programme. To deposit ` 18.10 crore in ten years, the Corporation had to ensure recovery of ` 1.81 crore per annum towards compensatory afforestation and rivers training programme.

Scrutiny of records revealed that the Corporation had recovered and deposited ` 12.28 crore only during October 2002 to May 2012 towards compensatory afforestation and rivers training programme. Hence, there was shortfall of ` 581.93 lakh which the Corporation has to bear.

The Corporation submitted (March 2012) its fresh proposal for grant of mining approval for a further period of ten years in 1380.03 hectare. However, the Forest Department demanded compliance of earlier forest clearance issued in the year 2002 and demanded ` 581.93 lakh before issuing new forest clearance. Subsequently the Corporation deposited ` 581.93 lakh (` 283.65 lakh in November 2015 and ` 298.28 lakh in February 2016). It was seen that though the Corporation had not recovered ` 581.93 lakh from the buyers, yet it had to deposit the same to the Government. This resulted in avoidable loss of ` 581.93 lakh.

Management stated (June 2016) that the Central Government in October 2002 had ordered mining in 2900 hectare which at the time of demarcation was found 1380.03 hectare, however, revised orders were not issued. Efforts are being made to recover/adjust the excess amount paid.

Reply is not acceptable since as per Forest Department's letter dated 21 November 2015 addressed to the Corporation afforestation charges demanded was related to 1380.03 hectare.

Para 2: Incorrect calculation of volume of round timber.

The volume of timber in the standing trees is calculated in accordance with the volume factors prescribed (June 1978) by the Forest Department for different ranges of diameter at breast height (DBH), which is at 1.37 meter above the ground, for each species of trees. This is referred to as solid volume and forms the basis for payment of royalty by Corporation to the forest department.

However, as per orders issued by the erstwhile Uttar Pradesh Forest Corporation and followed by the Corporation, solid volume of the standing trees is further multiplied by 0.786 and the volume so calculated (*i.e.* 78.6 per cent of the solid volume) is called Quarter Girth (QG) volume. QG volume forms the target for production of timber from the lots.

Audit noticed that the Corporation works out the volume of logs (pieces of round timber obtained from cutting of felled trees) by applying the QG formula $((G/4)^2 \times L)$, where “G” stands for mid girth circumference of the log and “L” stands for length of the log) wherein the volume works out at 78.60 per cent of a perfectly cylindrical shape. The QG so calculated for the logs was used for calculating production and sale of timber. Basis for adoption of QG formula for measurement of the volume of logs was not available on record and is not correct as this formula underestimates the volume of the logs by almost 21.4 per cent (100 per cent minus 78.6 per cent) as compared to full circular volume. It was observed that during 2012-13 to 2014-15, the Region sold 48058.2206¹ cubic meters round timber (` 51.03² crore). Adoption of QG formula by the Corporation to work out volume of round timber sold, resulted in loss of revenue of ` 13.89 crore (underestimation of round timber by 13084.5537³ cubic meters).

The Management in its reply stated that the policy adopted by the Corporation was being followed. Facts remained unchanged that due to adoption Quarter Girth (QG) formula, the region suffered the loss of ` 13.89 crore in sale of round timber.

¹ 22018.1599 Cum + 13979.5119 Cum + 12060.5488 Cum for the year 2012-13, 2013-14 & 2014-15 respectively

² ` 20.34 crore + ` 15.49 crore + ` 15.20 crore for the year 2012-13, 2013-14 & 2014-15 respectively.

³ 48058.2206*21.4/78.6

Part II B

Para 1: Delay in obtaining mining approval.

The Uttarakhand Forest Development Corporation Ltd. (Corporation) is engaged in the business of mining of sand, stones, boulders and RBM (natural resources) etc. in the river Ganga and its tributaries in Haridwar district. The mining permission in river Ganga and its tributaries in Haridwar was for a period of 10 years ending on 30 June, 2012.

As per Clause no. 4.16 (**Specific Time Limits**) of Forest Conservation Act 1980:-

- i. To ensure speedy disposal of proposals, specific time limits have to be laid down for disposal of references at various levels. Efforts should be made to dispose of each reference at the State Governments level within a maximum period of 60 days. Specific instructions may be issued in this regard to officers at all levels.
- ii. Cases which are complete in all respects shall be disposed of within 90 days by the Central Government.

Further, as per Clause no. 4.21 (**Renewal of Mining Lease - Temporary Working Permission**):-

In respect of renewal of mining leases, temporary working permission may be granted by the Central Government to continue working in already broken up area upto maximum period of one year, even without formal approval for the renewal, provided:

- a) The user agency has submitted the required proposal with complete details to the Forest Department at least one year prior to the expiry of existing lease period.
- b) The state Government has sent the formal proposal to the Central Government for renewal of mining lease prior to the expiry of the existing lease, alongwith particulars and reports as are required to be furnished in the normal course of renewal.

For obtaining mining permission from Government of India for further tenure, the Division was to submit requisite information to the Divisional Forest Officer (DFO) for onwards submission to the Ministry of Environment and Forests, Govt. of India.

- c) The temporary working permission will be confined to areas already broken up prior to the expiry of the lease, and no fresh area will be broken up until formal renewal is granted.

Considering the above, the Corporation should have submitted its proposal for renewal of lease to the State Government 15 months⁴ prior to the date of expiry of existing lease. Since the existing lease was expiring on June 2012, the Corporation should have submitted

⁴ 12 months under clause 4.21 and 3 months (90 days) under clause 4.16 (ii)

its request to the State Government by February 2011. However, the proposal was submitted by the Corporation in March 2012. Thus, there was delay at the part of the Corporation in submitting its renewal proposal for river Ganga and its tributaries by around 12 months. The Government of Uttarakhand forwarded the same to the MOEF, Government of India in December 2012.

It was seen that since the Corporation had not fulfilled the FC (Forest Clearance) condition (2) of depositing ` 18.10 crore in ten years and had deposited only ` 12.28 crore towards compensatory afforestation and river training. Later on the Corporation deposited the same in the November 2015 (` 283.64 lakh) and in February 2016 (` 298.28 lakh) after a delay of four years.

It was also seen that the Corporation awarded (April 2012) the work of environment clearance to the Greencindia Consulting Private Limited, Ghaziabad whereas the existing approval was to expire in June 2012.

Thus, delay on the part of the Corporation to fulfil the condition of FC and delayed appointment of consultant for environment clearance resulted in non-recovery of Government revenue as well as establishment charges to corporation.

Management in its reply stated that as per procedure decided by the GoI, a replenishment study of the site is to be carried out and this work can be started only after completion of permission period. It further stated that the Corporation had submitted its proposal in time.

Reply is not acceptable as per clause no 4.21 for getting even Temporary Working Permission, the user agency are supposed to submit their proposal to the concerned state Govt at least one year prior to the expiry of existing lease period.

Para 2: Non recovery of ` 66.24 lakh.

1. It was observed that during the period of 1997-98 to 2003-04, 69 lots were allotted to Shri S.N. Pokhariyal, Section Officer, Pauri division. As per physical verification carried out in August 2006, 4747.9352 cum timber (RT- 1605.5187 cum + FW- 3142.4165 cum) produced during aforesaid period was not sent to the sale depot by Shri Pokhariyal. In this regard an investigation officer was appointed (September 2009) to investigate the matter. A Charge Sheet was issued to Shri Pokhariyal for loss of 4747.9352 cum timber valuing Rs 46.30 lakh. The investigating officer in its report (December 2009) stated that due to not taking timely action by PWD for road, and exit clearance by Forest Department, the timber got destroyed under the mud and exonerated Shri Pokhariyal. However, the corporate office did not accept (April 2013) the report of the Investigating Officer and second Investigating Officer was appointed with instruction to identify other accused, if any, in the loss of Rs 46.30 lakh and submit the report by May 2013. Report submitted (October 2014) by the second Investigating Officer was also not accepted by Corporate Office and third Investigating Officer was appointed in December 2014.

The fresh enquiry was in progress (June 2016).

2. Similarly, during 2006-07 to 2011-12, 54 lots were allotted to Shri B.S. Negi, Section Officer Joshimath in DLM, Karanprayag. The concerned officer retired on 31 March 2013. Though the concerned officer was instructed to submit his charge report before his retirement, however, the same was not submitted. On physical verification carried out (September 2013) by the Division for balance standing trees/semi finished goods/firewood lying at site under the control of Shri B.S. Negi revealed that 616.2575 cum timber was short.

A committee was constituted (April 2014) to investigate the matter. The investigating committee forwarded its investigation report (April 2015) to the Managing Director stating that there was minimum loss of ` 19.94 lakh. However, the decision on the matter was yet to be taken by the Management.

Audit noticed that considering the results of physical verification (August 2006) in Pauri division, the Corporation should have carried out physical verification in this case before the retirement of Shri B.S. Negi.

The Management in reply stated that investigation in both cases is under progress.

Para 3: Undue favour to contractor

Divisional Sales Manager, Kotdwar entered into an agreement (28 January 2015) for construction of pre-fabricated office and residential quarters (at Aasafnagar Depot, Kotdwar) with M/s Vibhuti Builders at a total contract value ` 27.69 lakh. As per terms of the contract the work was to be completed within 2 months from the date of award of the work i.e. by 27 March 2015. Further, in case of delay in completion of work, penalty @ 0.5 per cent of the contract value per day was to be levied on the contractor.

Against the schedule date of completion (27 March 2015), the work was completed on 26 July 2015 with a delay of 120 days. Thus as per contract, penalty of ` 2.77⁵ lakh was recoverable from the contractor. However, the contractor intimated the Corporation that the work was delayed due to his sickness and produced a medical certificate in support of his statement and requested to condone the delay. The Corporation considered the request of the contractor and condoned the penalty.

Delay in completion of work can be condoned under forced majeure only and the penalties proposed for identified lapses or omission or commission must be disclosed in the tender documents in clear monetary terms. However, the Corporation condoned the delay by considering the sickness of the contractor and did not levy the penalty of ` 2.77 lakh.

Further, as per The Uttarakhand Procurement Rules, 2008 section 35(1) “*A work may be completed ahead of schedule or delayed due to unforeseen fortuitous circumstances, extra effort or developments beyond the control of the procuring entity or the tenderer and it is sometimes difficult to apportion credit or responsibility. Incentives for early completion and penalties for delay should, therefore, be built into the contract very judiciously.*”

and as per section 35 (3) “*In case of delay in completion of the contract, liquidated damages should be levied at a specified rate of the contract value, subject to a maximum of 10% of the contract value. The penalties proposed for identified lapses or omission or commission must be disclosed in the tender documents in clear monetary terms.*”

The LD clause in the agreement did not incorporate specifically identified lapses or omission/commission. Thus, the LD clause incorporated in the agreement was not in compliance with Procurement Rules 2008 of Government of Uttarakhand.

The Management in reply stated that on the basis of the request of the contractor, the penalty was condoned. It further stated the due to delay in completion of work, no loss was suffered by the Corporation.

⁵ $\frac{27.69 \times 10}{100}$

The reply is not acceptable since neither the provisions of Uttarakhand Procurement Rules 2008 were complied with nor the Management has assured to incorporate requisite LD clause in future contracts.

Para 4: - Short Production of Round Timber.

As per orders issued by the erstwhile Uttar Pradesh Forest Corporation and followed by the Corporation, solid volume of the standing trees is further multiplied by 0.786. The volume thus calculated is called Quarter Girth (QG) volume. For estimation of production of round timber from standing trees, the Corporation has adopted the Quarter Girth formula.

Total 288 lots test checked out of 589 lots in 2 Divisional Logging Managers⁶ (DLM) relating to chir, revealed that against the required production (28621 cum), actual production (19496 cum) was less than the required production by 9125 cum which resulted in loss of revenue of Rs 13.21 crore worked out on average selling price during 2012-13 to 2015-16.

Audit noticed that main reasons for short production were as below:

1. As per rule prescribed by the erstwhile UP Forest Corporation in October 1990 and followed by the Corporation, the logs were required to be made up to the minimum mid girth of 30 cm. In test check of 448 cases (relating to Chir and Tun) of 2 DLM, audit noticed that in 439 cases (98 *per cent*), logs were made between mid girth of 40 cm to 78 cm. Consequently, the potential timber was converted into fire wood (which is sold at the rates of around 3 to 5 per cent of the average rates of round timber) and the Corporation failed to fetch higher revenue.
2. The girth of boot⁷ and bottom girth of the first log should be same. Further proforma prescribed for submission of tree-wise production (Report 1.1) required to indicate the details of each log obtained *i.e.* girth of bottom, girth of mid and girth of the top of each log.

In test check of 448 cases, audit noticed that the only mid girth of the log was filled in, in the prescribed proforma. In the absence of details relating to the girth of the logs at the bottom as well as at the top, the audit could not ensure whether the complete timber was extracted by the Corporation from the trees allotted.

Management in reply stated (1) that for measurement of round timber policy adopted by the Corporation was being followed.

(2) That as far as details of girth of the log at bottom and top is concerned the same can be done, but will be expensive and no difference will be found in actual production. The reply is not acceptable as proforma (Report 1.1) prescribed by the Corporation required complete details of the logs. In the absence of complete information, the required production could not be ensured.

⁶ DLM Pauri and DLM, Karna Pryag

⁷ Part attached to root from where the tree is felled.

Para 5: - Blockage of fund ` 29.74 lakh

The Uttarakhand Forest Development Corporation (Corporation) is involved in the felling of trees and production of timber, firewood and roots from the lots allotted by the Forest Department. The Corporation pays royalty to the Forest Department on the allotted lots every year in the month of March, June and September as per volume mentioned in the sale list received from Forest Department.

During test check of the records of logging division Pauri & Karanprayag, it was observed that the works on the 55 lots (08 Pauri + 47 Karanprayag) which were allotted to Corporation during 2008-09 to 2014-15 did not commence till 31 March 2016. The Region has paid royalty of `29.74 lakh as detailed below:

Name of division	Raw Material as on 31 March 2016 (In Cum)	Royalty paid to Forest Department (In `)
DLM Pauri	666.504	1345134
DLM Karanprayag	718.382	1628841
Total	1384.886	2973975

It is evident from the above that due to non-felling of the allotted lots in reasonable time the royalty of ` 29.74 lakh which was already paid in respective years to the forest department could not be recovered till date resulting in blocking of funds of ` 29.74 lakh. Management while accepting the fact stated that concerned DLM are being instructed, to return the lots to the Forest department and if it is not possible to start the work in time.

Part III

-----Nil-----

Sr. Audit Officer