

**PUBLIC ACCOUNTS COMMITTEE  
(1969-70)**

(FOURTH LOK SABHA)

**NINETY-SIXTH REPORT**

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 74th Report (Forth Lok Sabha) on Audit Report (Commercial), 1968, Chapter XVIII, relating to the Forest Department, Andamans (Ministry of Food, Agriculture, Community Development and Cooperation.)]



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*January, 1970/Magha, 1891 (S),*

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**PUBLIC ACCOUNTS COMMITTEE**  
**(1969-70)**

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**Shri K. Seshadri—Under Secretary.**

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this 96th Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their 74th Report (Fourth Lok Sabha) on Audit Report (Commercial) 1968, Chapter XVIII, relating to the Forest Department, Andamans (Ministry of Food, Agriculture, Community Development and Cooperation).

2. On the 7th June, 1969, an 'Action Taken' Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports. The Sub-Committee was constituted with the following Members:

- |                               |   |                  |
|-------------------------------|---|------------------|
| 1. Shri N. R. M. Swamy        | } | <i>Convener.</i> |
| 2. Shri H. N. Mukerjee        |   | <i>Members</i>   |
| 3. Shri K. M. Koushik         |   |                  |
| 4. Shri Tayappa Hari Sonavane |   |                  |
| 5. Prof. Shanti Kothari       |   |                  |
| 6. Smt. Sushila Rohatgi       |   |                  |

3. The draft Report was considered and adopted by the Sub-Committee at their sitting held on the 26th December, 1969 and finally adopted by the Public Accounts Committee on the 22nd January, 1970.

4. For facility of reference the main conclusions recommendations of the Committee have been printed in thick type in the body of the Report. A statement showing the summary of the main recommendations; observations of the Committee is appended to the Report (Appendix).

5. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Comptroller and Auditor General of India.

NEW DELHI;  
January, 24, 1970  
Magha 4, 1891 (S)

ATAL BIHARI VAJPAYEE,  
*Chairman,*  
*Public Accounts Committee*

## CHAPTER I

### REPORT

This Report of the Committee deals with action taken by Government on the recommendations contained in their 74th Report (Fourth Lok Sabha) on the Audit Report (Commercial), 1968 Chapter XVIII relating to the Forest Department, Andaman (Ministry of Food, Agriculture, Community Development and Cooperation) which was presented to the House on 30th April, 1969.

1.2. Action taken notes statements on the recommendations of the Committee contained in this Report have been categorised under the following heads:

- (i) *Recommendations observations that have been accepted by Government.—S. No. 1.*
- (ii) *Recommendations observations which the Committee do not desire to pursue in view of the replies of Government.—S. Nos. 4 and 6.*
- (iii) *Recommendations observations replies to which have not been accepted by Committee and which require reiteration.—S. Nos. 2, 3, 7 and 8.*
- (iv) *Recommendations observations in respect of which Government have furnished interim replies.—S. No. 5.*

1.3. The Committee will now deal with action taken notes received on some of the recommendations.

*Deficiencies in the system of accounts adopted by the Forest Department, Andaman—Para 1.12 (S. No. 2).*

1.4. In para 1.12 of their Seventy-Fourth Report, the Public Accounts Committee had called attention to the deficiencies in the system of accounts adopted by the Forest Department, Andamans. In this connection, the Committee made the following observations:

“The Committee observed that according to the Report of the Cost Accounts Officer the proforma accounts of the Forest Department as at present prepared are an ‘unscientific jumble’ of figures on which no dependable decision on any worth which policy matters could safely be based.’ The Committee note that the Cost Accounts Officer is now engaged in the work of rationalising these accounts. The

Committee desire that early action should be taken in this respect, in consultation with Audit. While overhauling the accounts, the following points mentioned in the preliminary report of the Cost Accounts Officer should receive special attention:

- (i) The correct determination of capital employed;
- (ii) the correct computation of depreciation on assets;
- (iii) a scientific basis for the allocation of general overheads amongst the various activities of the Department;
- (iv) the determination of correct rates of royalty on timber extracted by the Department. The practice adopted in this regard in saw mills on the mainland should also be ascertained."

1.5. In an action taken note dated 5-12-1969, the Department of Agriculture have furnished the following reply to the foregoing observations:

"The final report of the Cost Accounts Officer was received in this Ministry towards the end of October, 1969. A copy of this report is also enclosed. At the outset, it is observed from this report that the rationalisation suggested by the Cost Accounts Officer indicating revised system of account is a major departure from the existing system of accounts which has been prescribed by the Audit. The approval of the Audit viz. Comptroller and Auditor General of India would, therefore, be necessary before the procedure suggested by the Cost Accounts Officer is adopted in the Andaman Forest Department."

"The points suggested by the Public Accounts Committee requiring special attention would certainly be given due consideration and necessary action taken in consultation with the authorities concerned, viz., the Ministry of Finance and the Comptroller and Auditor General of India."

1.6. The Committee observe from the final report of the Cost Accounts Officer that he has expressed the view that "there are quite a few mistakes and deficiencies in the principles adopted for the compilation of the accounts and these mistakes and deficiencies have resulted in magnifying the losses of the trading activity to a considerable extent." The Cost Accounts Officer has also observed: "The

proforma accounts as they are now prepared contain a large number of statements with each statement containing a large number of detailed heads. Besides being time-consuming in their preparation, they also give a confusing picture with their conglomeration of details and figures some of which are superfluous.....While giving so many superfluous details, they fail to give some essential details. The most essential details that they fail to give are the cost and price of logs and sawn timber category-wise with the result that all policy decisions have to be taken on the basis of average cost and average price. Decision based on such averages become valueless when the category-wise composition of the products produced or sold vary from year to year." The Costs Accounts Officer has, after analysing the existing system of accounting, suggested certain improvements "with a view to rationalising and simplifying the accounts."

1.7. On the question of determination of rates of royalty on timber extracted by the Forest Department, the Cost Accounts Officer has pointed out that the present method of computation acts as a "built-in disincentive which discourages improvements in the working of the Department." He has added: "At present the rate of royalty is being fixed separately for each category (groups of species) and is the same whatever be the quality of the timber (as represented by girth and shape) within the category. This makes it commercially uneconomical for the 'trading activity' to market comparatively inferior quality logs. For instance, if the royalty for a particular category is Rs. 100/- per ton and the cost of extraction, transport and incidental expenses is Rs. 120 per ton, the logs of this category must be sold at minimum price of Rs. 220/- per ton. It is therefore commercially disadvantageous to extract under girth logs which may fetch a sale price of day Rs. 150|- only. But from a broader aspect of the department as a whole, extraction of such undergirth logs is beneficial as there is a margin of Rs. 30/- per ton over the cost (excluding royalty) which is better than allowing the logs to rot in the forest. So the best course is to extract and market all timber which will fetch a price equal to at least the cost of the logs excluding the element of royalty." Pointing out how the present method of basing royalty on selling price acts as a damper on the working of the Department, the Cost Accounts Officer has stated:

"..... the royalty is based on the sale price of certain logs and only a negligibly small portion of the logs extracted enter such calculation. During the year 1966-67, the quantity of logs sold by auction in the mainland was only about 1050 tons as against the



total extraction of 46,000 tons. These logs actually fetched a price of about Rs. 400/- per ton. Had the department organised their sales more efficiently and managed to realise a better price, say Rs. 200/- per ton more, they would have had to pay nearly 50% of this increase (i.e. about Rs. 100/- per ton) as increased royalty on the entire quantity extracted. That is to say, they would have realised Rs. 200/- per ton more in respect of 1,850 tons but would have paid Rs. 100/- per ton more in respect of 46,000 tons. Thus increased efficiency at the sale point would have affected their working results adversely. Viewing this from another angle, under the existing system where royalty is calculated based on the price of a small quantity it is, commercially speaking advantageous for the department to sell this quantity at as low a price as possible."

1.8. The Cost Accounts Officer has therefore suggested that:

- (i) "the royalty should vary from species to species in such a manner that the profits in each species is the same after paying this royalty. In other words, the amount of royalty for the superior species should be more than that of inferior species;"
- (ii) "the royalty charged should vary according to the quality of the logs, even within the same species as explained in para 20 above. This is necessary to ensure that the lower quality logs which are otherwise profitable of exploitation are not wasted simply because of unrealistic rate of royalty."

1.9. In paragraph 1.12 of their Seventy-Fourth Report (Fourth Lok Sabha), the Committee had stressed the need for rationalising the system of accounts adopted by the Forest Department, Andamans. In that connection, the Committee had drawn attention to the suggestions made in a preliminary report prepared by a Cost Accounts Officer, who had been asked to go into these accounts and suggest improvements therein. The Committee now observe from the final report of the Cost Accounts Officer that, while these accounts give a lot of "superfluous details", they do not provide "essential" data required for management control. The Committee would like Government now to consider, in consultation with the Comptroller and Auditor General, how best the accounts can be rationalised to serve as an efficient management tool to check performance, in the light of the suggestions made in the Cost Accounts Officer's report. The points mentioned in para 1.12 of the Committee's Seventy-Fourth Report (Fourth Lok Sabha) merit special attention in this connection.

1.10. The Committee would like particularly to invite the attention of Government to the observations of the Cost Accounts Officer that the present method of computing royalty on timber acts as a "built-in disincentive which discourages improvements in the working of the Department." Apparently, the rates of royalty are based on sale prices fetched "by a negligibly small proportion of logs extracted" and do not take adequate note of difference in the quality of various species of timber. The unrealistic rates of royalty, by magnifying losses on sales, have not only made it disadvantageous to market certain categories of logs, but also removed any incentive for the Department to organise their sales more efficiently so as to fetch better prices for the logs sold.

1.11. The Committee are distressed to note this lack of profit consciousness in the Forest Department.

1.12. The Committee trust that in the light of the findings of the Cost Accounts Officer, Government will realise the urgency of the need to simplify and rationalise the existing system of accounting in the Forest Department, Andamans.

*Working results of the Forest Department: Need for better programming of extraction, better supervision and organised sales Policy—*  
Para 1.3 (S. No. 3).

1.13. Commenting on the working results of the Forest Department which showed a loss (even after making allowances for deficiencies in accounts), the Public Accounts Committee had stressed the necessity for a proper programming of the extraction, quality control and adequate supervision at all stages and an organised policy for sales of products in various markets. In this connection the Committee observed as under in para 1.13 of their Seventy-Fourth Report (Fourth Lok Sabha);

"The Committee observe that the working results of the Department for 1966-67 as reflected in the accounts as recast by the Cost Accounts Officer showed a loss of Rs. 62.40 lakhs. The Committee would like action to be taken expeditiously to eliminate these losses through proper programming of extraction work, more intensive exploitation of timber in coupes, grading of logs, fixing of prices on the basis of grades instead of on the average quality of logs, and then 'chasing' and control over overhead expenses, as suggested by Cost Accounts Officer. One important point emanating from the Cost Accounts Officer's examination also deserves mention. A substantial portion of the losses incurred by the Department arises out of sale of sawn timber. The Cost Accounts Officer had suggested that the production and sale of sawn timber should be curtailed and the Department should concentrate on production and sale of logs.

The Committee would like this suggestion to be examined for implementation. If sale of sawn timber is undertaken in mainland markets, the Department should ensure that the sales are confined to markets where they have been relatively more remunerative."

1.14. The Department of Agriculture have, in a note dated 5th December, 1969, replied as follows:

"The Cost Accounts Officer's Report has recently been received. His suggestions regarding proper programming of extraction work, more intensive exploitation of timber, grading of logs, fixation of prices on the basis of grades instead of on the average quality of logs and then 'chasing' and control over the overhead expenses are being examined in detail. Action will be taken on these points, wherever considered necessary."

"While it is agreed that a substantial portion of the losses, incurred by the Department arises out of sale of the sawn timber, as pointed out by the Cost Accounts Officer, most of these losses are due to the present accounting system which takes into account the royalty on logs, chargeable at the rate applicable to M/s.

—the erstwhile North Andaman Licensee, and heavy indirect overhead charges—a major portion of which consists of interest on a huge amount payable by M's which has been treated as Capital-at-charge.

These points are already engaging the attention of the Government and action will be taken in this regard in the light of the recommendations of the Cost Accounts Officer.

The suggestion to curtail production of sawn timber is under examination. However, despatch of sawn timber to the mainland for sale has been considerably reduced."

The Cost Accounts Officer has in his final report made the following observations on the various aspects of the working of the Department touched upon in the Seventy-Fourth Report:

(i) *Extraction Programme:*

"That area to be extracted, the species of trees to be extracted in that area and the particular trees that are to be felled in those species are decided keeping in view the technical requirements of forestry. Even as per the existing working plans which do not provide for the maximum area, the quantity that can be extracted every

year is about 1.35 lakhs tons (60,000 tons in South and Middle Andaman and 75,000 tons in North Andamans). The existing capacity of the department in the shape of men and equipments is only for extracting about 60,000 tons per year. If the maximum area is not extracted, the trees may become over-mature resulting in wastage of timber (*i.e.* national wealth). Apart from preventing wastage of timber, a higher quantity of extraction per year will also reduce the cost per ton of timber, on the principle of 'economy of scale' as the overheads will not increase in direct proportion to the quantity extracted. Therefore the maximum area of extraction should be fixed keeping in view the technical requirements of forestry and the department should gradually increase its capacity in the shape of men and material so as to reach this maximum."

"The trees felled in the forest are logged at the site of extraction and only those logs with a minimum midgirth of 120 cms in the case of hardwood and 90 cms in the case of softwood are at present transported out of the forest and sold and the rest of the logs are left in the forests. These minimum girth limits are apparently taken from the ISI specifications of plylogs and match logs respectively. The process of production of plywood and match sticks are different from the process of production of sawn timber from the logs and the former process requires a higher girth of logs than the latter. The Andaman timber including the species which are normally used for producing plywood and matches are also used for producing sawn timber. In the mainland, I had an occasion to collect some information in the Government Saw Mill at Siliguri (West Bengal) and I found that they are accepting logs upto a minimum midgirth of 70 cms. The existing minimum midgirth specification for exploitation of Andaman timber, therefore, apparently results in the wastage of commercial timber."

(ii) *Need for quality control and supervision.*

"A scientific system of grading the logs coupled with a system of marking them with identification numbers and watching their ultimate receipt in the destination point by means of a control register will help to pin point the delays in transit and the consequential loss in value."

"Unless a system of marking each log with identification numbers at the site of extraction itself is introduced rigorously and the receipt of the logs number-wise is watched at the final point and tallied, the wastages cannot be avoided fully. A system of marking is in vogue at present but the marks disappear in the course of transit and new markings are made at the intermediate depots and there

is no control register to trace the final disposal of each log as marked in the forest site."

"The spoilage (i.e. deterioration in quality) occurs in the territorial divisions mainly because of the delay in transit and the method of transport in vogue. Here again, it is not possible to ascertain the extent of such deterioration as the logs are not graded. Had the logs been graded quality-wise at the forest site and again re-graded at the final point of disposal (at the mills or at the sale points) the extent of deterioration in quality would automatically come to notice."

"At present, the department do not even know what time a particular log took to reach the final point of disposal from the time it was extracted. One log might reach within a month whereas another might take an year. The logs are handled in bulk at different points (viz. the extraction site, the camp depot, the ghat depot and the export depot) and there is no fool-proof system of sending off the logs at these points on the basis of 'first come first sent.' They are just dumped at these points and sent on when transport is available. It is possible that the logs in the bottom of the dump remain there indefinitely while the later arrivals are sent out.

"The deterioration arises also due to defective storage and transport. The logs stay for a longer time at the ghat and export depots than at camps and forest sites. The logs are transported from the ghat depots to export depots by rafting them together and towing them by motor boats. The hardwood logs sink in water whereas the softwood floats. So hardwoods and softwoods have to be rafted together to make rafters and the hardwood logs which are more in number have to wait a long time at the ghat depots awaiting availability of softwoods. The logs are kept near the water mouth and are immersed in water most of the day due to tides. They are also exposed to the atmosphere, rain and sun. These factors contribute to their deterioration.... I estimate the quantity towed by motor boats at about 12,000 tons during the year 1966-67 i.e. only about 30% of the logs requiring water transport. 17 motor boats were utilised for towing this 12,000 tons involving a direct expenditure of about Rs. 6 lakhs on them i.e. about Rs. 50/- per ton. For transporting 30,000 tons of logs to Port Blair, only 8 water crafts (including 3 L.C.Ts.) were utilised involving a direct expenditure of about Rs. 8 lakhs i.e. about Rs. 27/- per ton. The distance from ghat depots to Port Blair is much longer than to the export depots, say, roughly 3 times longer. Transport by towing is therefore 6 times as costly as transport by loading the logs in the water crafts."

(iii) *Need for organised sales policy.*

"The pricing policy for local sale of logs results in underselling good quality logs."

"At present the logs exported to the mainland are generally sold there by auction. The following are the main disadvantages of sales by auction:

- (i) The logs are sold in stacks and so the purchasers do not have the choice of selection. They have to bid for the stack as a whole even if they do not require a particular log or logs in the stack.
- (ii) The auctions are held only on about 10 or 12 days in a year and the quantities auctioned are small and also varies from one auction to another. There is therefore no regularity of supply and the purchasers cannot depend on this supply for their regular needs. They cannot plan their activities taking into account these supplies."

"The prudent way of selling the logs in the mainland is therefore to offer these logs for sale at prices fixed for different categories and different grades within the category on the basis of the market trends using the cost of production for minor adjustments of the sale prices and also for deciding which grades and category are advantageously marketable."

- (iii) Non-gurjan plylogs, gurjan plylogs, match logs as well as sawn timber sold in the local markets are "underpriced..."

Non-Gurjan and Gurjan Plylogs sold to certain factories in Calcutta were also low priced as compared with prices thrown up by auctions. The Department could not have got optimum prices in auctions because it was itself selling to a few parties at a lower rate. In other words, it was acting as its own competitor in bringing down the auction prices.

If ... it is decided for other considerations that the sale price at Andamans should be cheaper, it should also be decided how far it should be cheaper. At present there is no such policy decision defining the extent of concession to the Andaman consumers. Prices fixed in the dim past are continued year after year (except for an *ad-hoc* increase of 25 per cent in 1968-69) justifying them on the ground that they are higher than what are fetched in the mainland less freight and other expenses incurred on such mainland sales."

- (iv) In regard to sale of sawn timber in mainland markets, "Madras market fetches a better price for sawn timber but no attempts have been made to send more sawn timber to Madras. It is argued on the contrary that Madras cannot absorb more sawn timber as the potential is limited; no assessment of the potential has ever been made with the result that the department does not know how much can be sold there and whether it is already sending enough quantity even to meet the limited demand. In fact, no market research is being done either in Madras or in Calcutta to find out the preferences of the market, the total quantity that can be sold or the prices that can be reasonably expected."

**1.15. The Committee have already stressed the need for proper programming of the work of extraction of timber in the Andamans. They trust that, in the light of the findings of the Cost Accounts Officer, action would be taken to ensure that the maximum area is covered in the course of extraction and that 'mid-girth' specifications for purposes of extraction are realistically drawn up, in the light of practices in the mainland, so that there is no wastage of commercial timber.**

**1.16. The Cost Accounts Officer has also drawn attention to the inadequacies of its existing system of grading of logs and the defective storage and transport arrangements which have contributed to wastages on a fairly large scale. Certain observations made by the Cost Accounts Officer would bear repetition: "At present the Department does not even know what time a particular log took to reach the final point of disposal from the time it was extracted. One log might reach within a month whereas another might take an year. The logs are handled at different points (viz., the extraction site, the camp depot, the ghat depot and the export depot) and there is no fool-proof system of sending off the logs at these points on the basis of 'first came first sent'. They are just dumped at these points and sent on when transport is available." The Committee consider this to be an unsatisfactory state of affairs and would like to impress on Government the need to evolve a scientific procedure for grading, storage and transport of logs and for adequate supervision at all these stages.**

**1.17. No less important is the need to organise efficiently the sale operations of the Department, both in the mainland and local markets. The Cost Accounts Officer has pointed out that there is under-**

pricing of logs and that auction is not necessarily the best way of selling the logs in the mainland. In regard to sawn timber, he has pointed out that, owing to failure of the Department to gather adequate market intelligence, adequate quantities are not canalised to markets capable of yielding better returns. The Committee would like Government to have proper surveys carried out and lay down guidelines to be followed by the Department in the matter of pricing, method of sales and choice of markets and varieties of logs to be sold therein.

*Working of Chatham Saw Mill—Paras 1.23-1.24 (S. Nos. 7 and 8)*

1.18. Commenting on the working of the Chatham Saw Mill at Port Blair, the Public Accounts Committee made the following observations in paras 1.23-1.24 of their Seventy-Fourth Report (Fourth Lok Sabha):

“1.23. The Committee are not happy about the performance of the Government-run saw mill at Chatham. The wastage in the mill which was 55% in 1966-67 increased to 58% in 1967-68. The Cost Accounts Officer who examined the working of the mill came to the conclusion that ‘the mill should be able to give a better outturn by more efficient operation’ and that effective supervision at higher levels would substantially help to reduce wastage. The Cost Accounts Officer had also pointed out that ‘0.27 ton out of every ton of log fed into the mill has physically disappeared. The Committee would like Government to take, in the light of these findings, concerted steps to minimise wastage and leakage.”

“1.24. A more important point bearing on the working of the Saw Mill arises out of the findings of the Cost Accounts Officer referred to in an earlier section of the Report that it is intrinsically uneconomic for the Department to go in for the production and sale of sawn timber. The Committee would therefore like Government to consider how far the scale of operations of the mills could be rationalised and also whether the machinery in use in the mills should not be modernised to improve productivity.”

1.19. In their reply to these observations, the Department of Agriculture have stated in a note dated 5th December, 1969:

“As indicated in reply to para 1.12, the final report of the Cost Accounts Officer was received in this Ministry very recently and it is under active examination. The Public Accounts Committee’s remarks requiring Government to take concerted steps to minimise

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wastage and leakage would certainly be borne in mind by this Department and suitable action would be taken wherever necessary. However, it may be added with regard to the observation of the Cost Accounts Officer that '0.27 tons out of every ton of log fed into the mill has physically disappeared' is perhaps based on the difference of volume between the Quarter Girth Formula or the Hoppus Rule of Measurement of the British Timber Trade with the true volume considering the log a perfect cylinder. The ratio between the two is 4.3.1416 which works out to 0.27 per ton. The Quarter Girth Formula is adopted in all timber trades because of the reason that no log is truly perfect and cylindrical on account of inherent taper and other defects such as flutes, ridges, etc. So, for conversion purposes the Quarter Girth Formula is always applied so as to compensate the inherent defects in timber.

"As stated in reply to para 1.23, the report of the Cost Accounts Officer is under examination. The Department has taken note of the recommendations of the Committee requiring the Government to consider rationalisation of the operations of the saw mills and modernisation of mill machinery. The position is being reviewed carefully and necessary action will be taken."

1.20. The Committee observe from the Report of the Cost Accounts Officer, the following observation in regard to the wastage in the mills:

"The increasing wastage in the mills as revealed in the accounts are casually being attributed year after year to the inferior quality of the logs without ever attempting to review how far this is due to other factors such as inefficiency and wastage."

1.21. In regard to pilferages in the Chatham mill, the Cost Accounts Officer estimated that "about 15% of the timber fed to the mill has been lost due to pilferage and theft. The pilferage and theft may be either in the logs themselves, or more possibly in the sawn timber; it is not likely that fuel or saw dust is stolen as these have little or no value. It is not uncommon to see labourers walking away with one or two pieces of timber in their hands at the close of each shift in spite of watchmen at the gates relieving them of their burden at times. The pieces carried were perhaps fuel for their use and not sawn timber and such pilferages may perhaps amount to much. There may be other avenues of loss, more blatant though less visible"

### 1.22. The Cost Accounts Officer added:

"These pilferages and thefts have not been brought to light due to wrong accounting and manipulation in accounts. The wrong accounting arises because of the assumption that the end products would be equal to the intake though in actual fact it should be more as explained above. The manipulation in the accounts consists of exhibiting the quantities of some of the end products in such a manner that they add up to the total intake instead of exhibiting them on the basis of actual measurements."

"What is surprising is that the quantity accounts have been tallying every year in such a manner as to indicate that 1 ton of log produced exactly 1 ton of sawn timber and bye-products whereas the later figure should be more because of the difference in the modes of measurements of logs and sawn timber bye-products. The estimates of saw dust and the approximate formula adopted for conversion of cords into tons could never be so accurate as totally exactly year after year with the intake especially when the intake itself has been measured by a different method. This proves conclusively that these figures are manipulated without regard to actual facts."

1.23. Dealing with the question of spoilage due to inefficient operations, the Cost Accounts Officer stated:

"Another reason may be the intrinsic defects in some of the machinery used, the circular saw, by its very nature of functioning, spoils a larger proportion of timber than the band saw. This circular saw is an outmoded and obsolete machinery and I understand that it is not in use anywhere else. The Siliguri Saw Mills were having a similar circular saw but they condemned it a few years back because of its obsolescence. It is desirable to condemn the circular saw mill at Andamans also as its continued use results in huge losses. Sawing with the band saw alone will reduce the wastage to some extent. But the main improvement in the wastage position can and will be achieved only by better sawing and better supervision."

1.24. Pointing out that "the spoilage in the Government Saw Mill, Siliguri is only about 30% of their intake as against 50% to 60 per cent in the Andaman Mills" the Cost Accounts Officer has pointed out that there was need for better supervision over operation.

7 1.25. The Committee are distressed to learn from the report of the Cost Accounts Officer that "about 15 per cent of the timber fed into the (Chatham) mill" is lost "due to pilferage and theft". It is also unfortunate that "these pilferages and thefts have not been brought to light due to wrong accounting and manipulation of accounts". The

**matter calls for detailed and thorough investigation by Government to determine the extent of pilferages during the last few years in the mills (both at Chatham and Betapur), the loopholes in supervision and accounting that made such pilferages possible and responsibility for such slackness in accounting and supervision. In the meantime security measures will have to be tightened to prevent loss through pilferage.**

**1.26. Apart from pilferages, the operations of the mills would appear to have been affected by outmoded techniques of sawing and lack of adequate supervision. The Cost Accounts Officer has pointed out that wastages in the Andaman Mills amounted to 50 per cent to 60 per cent of intake as against 30 per cent in Government Saw-Mill, Siliguri and that this "casually being attributed year after year to the inferior quality of logs without ever attempting a review as to how far it is due to . . . other factors." The Committee hope that Government would take immediate steps to tone up supervision at the operational levels and rationalise the scale of operations by adopting better methods and installing up-to-date equipment.**

## **CHAPTER II**

### **RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT**

#### **Recommendation**

The Committee are concerned over the persistent shortfall in shipment of timber extracted by the Forest Department in Andamans. During the four years ending 1967-68, the shipment fell short of the annual targets fixed by about 25 per cent to 56 per cent. The short-falls occurred despite the scaling down of the targets for shipment from 42,400 tons to 34,000 tons. It is apparent that the shipping requirements of the islands for timber traffic are not being fully met. In consequence, the timber extracted had to be either sawn locally or just allowed to deteriorate, resulting in substantial losses to the Department. The Committee would like Government to take the following steps to remedy the situation:—

- (i) The requirements of the islands for additional ships should be carefully assessed and steps taken to augment the fleet for transport of timber. Government should in this connection take up with the Coastal Conference the question of improving the position in regard to availability of ships to the Islands. If necessary, the question of acquisition of additional ships by the Shipping Corporation may also be considered.
- (ii) The existing shipping space available should be fully and adequately used and the frequency of trips should be improved by taking concerted action to minimise delays in loading and unloading operations. Any substantial improvement in this regard would no doubt depend on provision of improved harbour facilities at Port Blair. The Committee note that the connected works are under way and hope that they will be completed as scheduled.
- (iii) The scope for maximising local consumption of timber should be explored and Government should take steps to

accelerate schemes for the setting up of wood-based industries in the islands. Such a step would also help to foster the economic development of the islands.

[Sr. No. 1 of 74th Report (Fourth Lok Sabha)].

#### **Action taken**

The steps suggested by the Public Accounts Committee to remedy the situation of shipment of timber have been noted. It may, however, be mentioned that since 1967-68, the shipping position has considerably improved as briefly indicated below:

- (i) A Timber Carrier having bale capacity of about 1,400 tons of timber was purchased by the Shipping Corporation of India and has been commissioned on the Andaman run since February, 1968. This ship has made already 5 trips upto August during the current financial year. Further, the Shipping Corporation has converted the Passenger-cum-Cargo station vessel, namely, M. V. Nicobar, into a cargo carrier. This ship is also utilised to transport timber from the Island to the mainland in addition to the other cargo. The suggestion of the Public Accounts Committee for acquisition of additional ships by the Shipping Corporation of India has been taken note of by any necessary action will be taken as and when considered necessary.
- (ii) As regards Public Accounts Committees suggestion that the existing shipping space available should be fully and adequately used and the frequency of trips should be improved by taking concerted action to minimise delay in loading and unloading operations, it is mentioned that, as recommended by the Committee, action has been taken for provision of improved harbour facilities at Port Blair. The work on improvement of Haddo jetty in Port Blair is going on in full swing and is likely to be completed by the end of 1971. Improvement of Chatham jetty at Port Blair is also under consideration.

Further to ensure quick turn-round of the ships, it has been decided in consultation with the Shipping Corporation of India to provide 6 numbers of 100-ton capacity lighters to be utilised for loading and unloading of the cargoes at Calcutta Port. This measure has already increased the rate of discharge of cargo at Calcutta Port.

- (iii) The suggestion of the Public Accounts Committee regarding the scope for maximising local consumption of timber has also engaged attention of the Government. Three plywood factories—one in South Andaman and two in Middle Andaman, have already been set up during the past few years. Besides, one matchwood factory is also working at Port Blair. The question of setting up of wood-based industries in other areas is also under examination.

(Ministry of Food, Agriculture, C. D. & Cooperation (Department of Agriculture) Letter No. 8/6/69-FII, dated 4-12-1969].

#### **Action taken**

The Committee's observations, cover a period of four years ending 1967-68. Until 1967-68, only m.v. 'Andaman' and m.v. 'Nicobar' were plying on this service, as passenger-cum-cargo vessels, managed by the Shipping Corporation. Based on the recommendations of the Andaman Shipping Committee, an additional passenger-cum-cargo vessel, t.s.s. 'State of Bombay' was introduced in this service by the Corporation from June 1967. In order to cater effectively to the needs of cargo traffic, m.v. 'Nicobar', a passenger-cum-cargo vessel was converted into a cargo vessel and this vessel started plying as a cargo vessel from January 1968. In order to meet the special needs of timber log shipments from the Andaman Islands to the mainland, a special timber carrier M.V. 'Shompen' was acquired and was put into service from February 1968. After the introduction of the above additional vessels, the position has considerably improved.

2. The adequacy or otherwise of the existing shipping space in the sector for the transport of timber was examined carefully in consultation with the Andaman and Nicobar Administration. The targeted extraction of timber in the islands during 1969-70 has been fixed at 57,000 tons. Out of this, the quantity available for export during the year will be about 15,000 tons. The Andaman Administration have reported that for the transportation of this quantity, they would be able to manage with the existing vessel M. V. 'Shompen'. Any programme for additional extraction of timber is tied up with the resettlement policy during the remaining period of the Fourth Five Year Plan, which is under consideration of the Government of India. As soon as a decision in this regard has been reached, the provision of additional vessels if required will be considered.

As regards the observation of the Committee contained in sub-para (ii) that the existing shipping space available should be fully and adequately used and the frequency of trips should be improved, it may be mentioned that this question was also considered in detail at the meeting held in this Ministry on 18th December, 1968. The view was reiterated that the fulfilment of this objective was dependant on the provisions of improved harbour facilities at Port Blair. It was decided at this meeting that there should be two fully equipped permanent jetties for the vessels operating between the mainland and Port Blair. These should have all the necessary handling facilities like cranes, trollies, etc. to expedite the loading and unloading operations. It was further decided that apart from the Haddo Jetty, under construction, the existing temporary Chatham Jetty should be converted into a pucca jetty and equipped for serving the needs of cargo and passenger vessels plying in this sector.

The position with regard to the harbour facilities (alongside) proposed to be provided in Port Blair is as follows:—

(i) *Haddo Port Wharf*

The construction of this wharf which is 1200 ft. long, out of which 600 ft. will be for commercial use, has already been taken up by the Military Engineering Service and is likely to be completed by 1970—72. The foreshore works such as sheds, water supply and also installation of cranes, fork lifts and other equipment will be executed by the Chief Engineer, Andaman Laccadive Harbour Works. He has already initiated action in this regard and all the foreshore works will be completed by 1971-72.

(ii) *Construction of Permanent Jetty at Chatham*

This scheme has been prepared in two parts. The first part costing Rs. 9.88 lakhs has been sanctioned and the work is being taken in hand. The second part estimated to cost Rs. 64.86 lakhs is the main construction of permanent Jetty at Chatham. This estimate is now under financial scrutiny. The work will be taken in hand as soon as the estimate is sanctioned. The scheme is planned to be completed by 1972.

(iii) A wharf in Phoenix Bay to take alongside the inter-island ferry ships has been planned. The estimate is being examined by the Chief Engineer, Andaman Laccadive Harbour Works. The work is expected to be completed by 1972-73.

The provision of an addition berth in Port Blair, preferential berthing facilities at Calcutta, provision of additional barges and adequate labour at Port Blair, arrangements for bundling sawn timber, etc. would considerably help in the full utilisation of the existing shipping facilities and improving the frequency of trips.

[Ministry of Shipping and Transport (Transport Wing) O.M. SY-35(8)/59, dated 27-11-1969].



## **CHAPTER III**

### **RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES OF GOVERNMENT**

#### **Recommendation**

In para 2.22 of their Fifty-fourth Report (Third Lok Sabha) the Committee had expressed dissatisfaction at the slow progress in the settlement of disputes arising out of the contracts with North Andaman licensee. The Committee regret to observe that two out of three arbitration cases in this regard are still to be finalised. The Committee observe from the information furnished to them that due to "procedural difficulties" final arrangements for the appointment of arbitrators are still to be made in these cases. A Committee of Secretaries which was appointed pursuant to the recommendations of the Public Accounts Committee to review the working of these contracts came to the conclusion that "it is not desirable to continue spending public funds on prolonged litigation and arbitration proceedings." Besides, in the arbitration case, which has been decided, Government's claim against the licensee for royalty on short-falls has not been sustained. As this is the main issue under arbitration in the remaining cases also, the Committee would like Government to examine whether it would be worthwhile to continue the proceedings in this regard any further.

[Sr. No. 4 of 74th Report (Fourth Lok Sabha)].

#### **Action taken**

The Public Accounts Committee has observed that the Government should examine whether it would be worthwhile to continue the proceedings in the two pending arbitration cases. They have observed that in the first arbitration case which has been decided, Government's claim against the licensee for royalty on short-falls has not been sustained. In the second and third arbitration cases also this is the main issue. So in view of the decision in the first arbitration case disallowing Government's claim in regard to short-falls on royalty and the observations of the Secretaries Committee that "it is not desirable to continue spending public funds on prolonged litigation and arbitration proceedings" the Committee has made these observations. In this connection, it may be pointed out that Clause 33 of the North Andaman Agreement of Licence dated

31st August, 1951 provides for settlement of disputes, differences, etc. arising between the parties on account of breach or non-observance of any of the conditions, terms, covenants, etc. of the Agreement by arbitration. Disputes and differences have arisen from time to time and certain disputes were referred to arbitration. The Ministry of Law whose advice was sought in this regard have expressed the opinion that "the award in the First Arbitration Case is an unreasoned award. One of the main claims of the Government was in respect of royalty on short-falls. This was disallowed by the Arbitrators. However, being an unreasoned award, the reasons for rejecting the claim are not known. The Second Arbitration Case for the period 1961-62 to 1962-63 and the Third Arbitration Case for the period 1963-64 (1st April, 1963 to 31st March, 1964) are pending before the arbitrators, Shri J. K. Narayan and nominee of ~~the Government~~ Company. The Company delayed appointment of its Arbitrator and Shri J. K. Narayan was consequently appointed as Sole Arbitrator with effect from 26th December, 1968. The Company, however, went in an appeal to the Calcutta High Court challenging appointment of the Sole Arbitrator and, therefore, Shri Narayan's appointment as Sole Arbitrator was rendered ineffective. The case was, however, pursued from Government of India's side and the Calcutta High Court in its judgment of 3rd October, 1969 called upon the Company to appoint its Arbitrator within a fortnight of the judgment. The Company has in its letter of 13th October, 1969 intimated the appointment of Shri Rebatl Raman Chaudhury as its Arbitrator. Now that both the Arbitrators are in position, the arbitration proceedings in both the cases are now expected to be processed shortly. In the first arbitration case there are claims and counter-claims by the Government and the party. In the second and third arbitration cases also the same is the position. The main claims of the Government and the Company are that in the Second Arbitration Case. Government's claim is of the order of Rs. 100.90 lakhs and that of the Company of Rs. 89.44 lakhs. Again, in the Third Arbitration Case, the Company has filed a claim for Rs. 39.53 lakhs. The Government's claim has yet to be filed and the claim is estimated to the tune of Rs. 53.51 lakhs. The question is whether it is worthwhile to continue these two arbitration cases. Disputes and differences have to be settled by arbitration under clause 33. The contract has been cancelled on 21st February, 1968. Still, the disputes which had already arisen can be settled only by arbitration in view of clause 33. The findings in the First Arbitration Case will not operate as *res judicata* nor will the arbitrators be entitled to look into them. The Second and Third Arbitration Cases

are fresh cases and the position of these cases will depend on evidence produced before the arbitrators in these cases. Further the decision in the First Arbitration Case is an unreasoned award and we do not know for what reasons the claim in respect of royalty on short-falls was disallowed. The fact that the claim in this regard was rejected by the arbitrators in the First Arbitration Case will not necessarily mean that the Arbitrators in the Second and Third Arbitration Cases will also disallow the claim. The decision will depend on the strength of the Government's claim and the evidence that can be adduced to support the claim. All the records of the case are with the Counsels in charge of the arbitration cases. Apart from this, Government has also to consider the technical procedural aspects of not continuing the arbitrations. The reference has been made jointly by the parties concerned. The Government has put in the claims and the Company has put in counter-claims. Without effecting the settlement one way or the other it will not be possible for the Government to unilaterally withdraw from the reference. If we withdraw our claim the Company will certainly prosecute its counter-claim further. This will not at all be advantageous to the Government. There is perhaps also no chance of the Company agreeing to withdraw its counter-claim if Government withdraws its claim. There is also probably no chance of the Company agreeing in settlement in regard to the Government's claims. The total claim of the Government in the Second Arbitration Case is Rs. 100.90 and out of this the short-falls on royalty is only Rs. 97.35 lakhs. Similarly the total claim of the Government in the Third Arbitration Case is estimated to be Rs. 53.51 lakhs and the claim on account of short-falls is Rs. 48.82 lakhs. If Government does not proceed with the arbitration cases, then all these claims will be lost. This is also a matter to be considered. With respect to the observations of the Committee of Secretaries, it may be pointed out that the observations of the Committee are made in the context of the desirability of cancelling the contract. What appears to have been stated is if the contract is continued till its expiry by efflux of time and having regard to the way in which the party has been performing, we will have to go in for arbitration every year in regard to the disputes arising out of breach by the party. Secondly, the forest wealth will not be exploited and all that the Government will get is a series of litigations before the arbitrators. In this context, the Committee considered the possibility and desirability of cancelling the contract. Once the contract is cancelled then the matter could be settled subject to the Company's going in for litigation and Government will have to go in for arbitration only in respect of the disputes till the date of cancellation. This again does not overlook the fact that if

the party challenges the cancellation the legality of the cancellation will also have to be settled by arbitration. This is the stand we have taken in the case filed by the Company while challenging the cancellation. It may also be pointed out that in terms of clauses 6 and 7 of the Agreement, the Government is entitled to short-falls on royalties. If we give up the claim by not prosecuting the matter in arbitration we will be losing the claim for all time. The fact that in the First Arbitration Case Government's claim on account of short-falls on royalty was rejected by the arbitrators would not alone be any justification for not prosecuting the claims after 1961. Incidentally, it may also be mentioned that the Company had filed a suit on 13th June, 1968 for the losses of profit alleged to have been suffered by the Company on account of wrongful, improper and illegal interference caused by the Union of India by imposing on the Company the Defence of India Rules, etc. In the affidavit-in-opposition filed by the Union of India, it has been stated *inter alia* that the matters in dispute raised by the Company in the suit are wholly covered by the Arbitration Clause No. 33 under the Agreement of Licence. In other words, the proceedings in the said suit filed by the Company have been stayed under the arbitration Clause No. 33. The only remedy open to Government to resolve the disputes and differences arising from the Agreement of Licence for the period, prior to the cancellation of the Agreement, viz. ending 21st December, 1968 is, therefore, by way of arbitration and, therefore, the arbitration proceedings may have to be processed."

[Deptt. of Agriculture Letter No. 8-6/69, F-II, dated 4-12-69].

#### Recommendation

The Committee would also like disciplinary proceedings to be speedily initiated against officials who have been found by the Committee of Secretaries to be responsible for various lapses in connection with the drafting of the agreements executed with the licensee.

[Sr. No. 6 of 74th Report (Fourth Lok Sabha)]

#### Action taken

The case for initiating disciplinary proceedings against officials concerned had been considered by Government in consultation with the Central Vigilance Commissioner. It was ultimately decided that no action was possible against the officers concerned at this distance of time and the Government decided to close the case.

(Ministry of Food, Agriculture, Community Development and Co-operation (Deptt. of Agriculture) Letter No. 8-6/69 F-II, dated 4-12-1969.]

## CHAPTER IV

### RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

#### Recommendation

The Committee observe that according to the Report of the Cost Accounts Officer the proforma accounts of the Forest Department as at present prepared are an 'unscientific jumble' of figures on which 'no dependable decision on any worthwhile policy matters could safely be based'. The Committee note that 'the Cost Accounts Officer is now engaged in the work of rationalising these accounts. The Committee desire that early action should be taken in this respect, in consultation with Audit. While overhauling the accounts, the following points mentioned in the preliminary report of the Cost Accounts Officer should receive special attention—

- (i) The correct determination of capital employed;
- (ii) The correct computation of depreciation on assets;
- (iii) A scientific basis for the allocation of general overheads amongst the various activities of the Department;
- (iv) The determination of correct rates of royalty on timber extracted by the Department. The practice adopted in this regard in saw mills on the mainland should also be ascertained.

[Sr. No. 2 of 74th Report (Fourth Lok Sabha)].

#### Action taken

The final report of the Cost Accounts Officer was received in this Ministry towards the end of October, 1969. A copy of this report is also enclosed as desired by the Convenor, Action Taken Sub-Committee of the Public Accounts Committee. At the outset, it is observed from this report that the rationalisation suggested by the Cost Accounts Officer indicating revised system of accounts, is a major departure from the existing system of accounts which has

been prescribed by the Audit. The approval of the Audit *viz.* Comptroller and Auditor General of India, would, therefore, be necessary before the procedure suggested by the Cost Accounts Officer is adopted in the Andaman Forest Department.

The points suggested by the Public Accounts Committee requiring special attention would certainly be given due consideration and necessary action taken in consultation with the authorities concerned, *viz.*, the Ministry of Finance and the Comptroller and Auditor General of India.

[Department of Agriculture Letter No. 8-6/69, F-II, dated 4-12-1969].

### **Recommendation**

The Committee observe that the working results of the Department for 1966-67 as reflected in the Accounts as recast by the Cost Accounts Officer showed a loss of Rs. 62.40 lakhs. The Committee would like action to be taken expeditiously to eliminate these issues through proper programming of extraction work, more intensive exploitation of timber in coupes, grading of logs, fixing of prices on the basis of grades instead of on the average quality of logs, and then "chasing" and control over overhead expenses, as suggested by Cost Accounts Officer. One important point emanating from the Cost Accounts Officer's examination also deserves mention. A substantial portion of the losses incurred by the Department arises out of sale of sawn timber. The Cost Accounts Officer had suggested that the production and sale of sawn timber should be curtailed and the Department should concentrate on production and sale of logs. The Committee would like this suggestion to be examined for implementation. If sale of sawn timber is undertaken in mainland markets, the Department should ensure that the sales are confined to markets where they have been relatively more remunerative.

[Sr. No. 3 of 74th Report (Fourth Lok Sabha)].

### **Action taken**

The Cost Accounts Officer's Report has recently been received. His suggestions regarding proper programming of extraction work, more intensive exploration of timber, grading of logs, fixation of prices on the basis of grades instead of on the average quality of logs, and then 'Chasing' and control over the overhead expenses are being examined in detail. Action will be taken on these points, wherever considered necessary.

While it is agreed that a substantial portion of the losses incurred by the Department arises out of sale of the sawn timber, as pointed out by the Cost Accounts Officer, most of these losses are due to the present accounting system which takes into account the royalty on logs, chargeable at the rate applicable to M/s. \_\_\_\_\_ & Co. the erstwhile North Andaman Licensee, and heavy indirect overhead charges a major portion of which consists of interest on a huge amount payable by M/s. \_\_\_\_\_ and Co., which has been treated as Capital-at-charge.

These points are already engaging the attention of the Government and action will be taken in this regard in the light of the recommendations of the Cost Accounts Officer.

The suggestion to curtail production of sawn timber is under examination. However, despatch of sawn timber to the mainland for sale has been considerably reduced.

[Deptt. of Agriculture Letter No. 8-6/69, F-II, dated 4-12-1969].

#### **Recommendation**

The Committee are not happy about the performance of the Government run saw mill at Chatham. The wastage in the mills which was 55 per cent in 1966-67 increased to 58 per cent in 1967-68. The Cost Accounts Officer who examined the working of the Mill came to the conclusion that "the mill should be able to give a better outturn by more efficient operation" and that effective supervision at higher levels would substantially help to reduce wastage. The Cost Accounts Officer had also pointed out that "0.27" ton out of every ton of log fed into the mill has physically disappeared. The Committee would like Government to take, in the light of these findings, concerted steps to minimise wastage and leakage.

[Sr. No. 7 of 74th Report (Fourth Lok Sabha)].

#### **Action taken**

As indicated in reply to para 1.12, the final report of the Cost Accounts Officer was received in this Ministry very recently and it is under active examination. The Public Accounts Committee's remarks requiring Government to take concerted steps to minimise wastage and leakage would certainly be borne in mind

by this Department and suitable action would be taken wherever necessary. However, it may be added with regard to the observation of the Cost Accounts Officer that "0.27 tons out of every ton of log fed into the mill has physically disappeared" is perhaps based on the difference of volume between the Quarter Girth Formula or the Hoppus Rule of Measurement of the British Timber Trade with the true volume considering the log a perfect cylinder. The ratio between the two is 4:3.1416 which works out to 0.27 per ton. The Quarter Girth Formula is adopted in all timber trades because of the reason that no log is truly perfect and cylindrical on account of inherent taper and other defects such as flutes, ridges, etc. So, for conversion purposes the Quarter Girth Formula is always applied so as to compensate the inherent defects in timber.

[Deptt. of Agriculture Letter No. 8-6/69, F-II, dated 4-12-1969]

#### **Recommendation**

A more important point bearing on the working of the saw mill arises out of the findings of the Cost Accounts Officer referred to in an earlier section of the Report that it is intrinsically uneconomic for the Department to go in for the production and sale of sawn timber. The Committee would, therefore, like Government to consider how far the scale of operations of the mills could be rationalised and also whether the machinery in use in the mills should not be modernised to improve productivity.

[Sr. No. 8 of 74th Report (Fourth Lok Sabha)].

#### **Action taken**

As stated in reply to para 1,23, the report of the Cost Accounts Officer is under examination. The Department has taken note of the recommendations of the Committee requiring the Government to consider rationalisation of the operations of the saw mills and modernisation of mill machinery. The position is being reviewed carefully and necessary action will be taken.

[Deptt. of Agriculture Letter No. 8-6/69, F-II, dated 4-12-1969].



## **CHAPTER V**

### **RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

#### **Recommendation**

The Committee note from the information furnished to them that a sum of Rs. 19.41 lakhs (out of a claim amounting to Rs. 2.24 crores referred to the arbitrator) is due for realisation from the licensee as a result of the findings of the arbitrator in one of the three cases. They would like to be informed of the steps taken to realise this sum from the licensee.

[Sr. No. 5 of 74th Report (Fourth Lok Sabha)]

#### **Action taken**

The First Arbitration Case for the period 1952—61 was decided and the joint Arbitrators made on 18th March, 1967 an award in favour of Government for the sum of Rs. 19.41 lakhs being the arrears of royalty and other dues. The said award was duly filed in the High Court at Calcutta to make it a rule of Court. In the meantime, the Company moved an application to set aside the said award which was dismissed with costs by the Calcutta High Court on 29th April, 1969; and a decree was passed in terms of the said award. The Company has again preferred an appeal against the said judgment and decree; but as there is no stay of the execution of the decree, steps are under way for its execution. The Ministry of Law and the Councils incharge of this case, whose advice is being sought from time to time in this regard, have expressed the opinion that, for realisation of the decretal dues, the Government should proceed as follows:—

- (i) Government should first forfeit and utilise the security deposit of Rs. 10 lakhs furnished by the Company;
- (ii) Thereafter, the Government should appropriate the interest accrued on the security deposit and adjust the same against the balance of the decretal dues;
- (iii) For the balance of the decretal dues, the Government should make an application to the High Court for transfer

of the decree for execution in a competent court in Andamans against movable and immovable properties of the company situated there;

- (iv) If all the above courses still leave a part of the decretal dues unsatisfied, the Government can thereafter take steps under the Companies Act to have the company liquidated.

Accordingly, the Company has been served with notice that the President of India appropriates the security of Rs. 10 lakhs (Rupees Ten Lakhs) only towards pro-tanto satisfaction of the amount of decree for Rs. 19,41,299.17P made by the Calcutta High Court in the First Arbitration Case.

[Deptt. of Agriculture Letter No. 8-6/69, F-II, dated 4-12-1969].

NEW DELHI;

January 24, 1970

Magha 4, 1891 (S).

ATAL BIHARI VAJPAYEE,

Chairman,

Public Accounts Committee.

## APPENDIX

(Summary of Conclusions/Recommendations)

Sl. No. 1	Para 2	Ministry Concerned 3	Recommendations 4
1	1.9	Deptt. of Agriculture	In paragraph 1.12 of their Seventy-Fourth Report (Fourth Lok Sabha), the Committee had stressed the need for rationalising the system of accounts adopted by the Forest Department, Andamans. In that connection, the Committee had drawn attention to the suggestions made in a preliminary report prepared by a Cost Accounts Officer, who had been asked to go into these accounts and suggest improvements therein. The Committee now observe from the final report of the Cost Accounts Officer that, while these accounts give a lot of "superfluous details", they do not provide "essential" data required for management control. The Committee would like Government now to consider, in consultation with the Comptroller and Auditor General, how best the accounts can be rationalised to serve as an efficient management tool to check performance, in the light of the suggestions made in the Cost Accounts Officer's report. The points mentioned in para 1.12 of the Committee's Seventy-Fourth Report (Fourth Lok Sabha) merit special attention in this connection.
2	1.10	-do-	The Committee would like particularly to invite the attention of Government to the observations of the Cost Accounts Officer that the present method of computing royalty on timber acts as a "built-in disincentive which discourages improvements in the work-

30

ing of the Department." Apparently, the rates of royalty are based on sale prices fetched "by a negligibly small proportion of logs extracted" and do not take adequate note of difference in the quality of various species of timber. The unrealistic rates of royalty, by magnifying losses on sales, have not only made it disadvantageous to market certain categories of logs, but also removed any incentive for the Department to organise their sales more efficiently so as to fetch better prices for the logs sold.

3. I. 11 -do-

The Committee are distressed to note this lack of profit consciousness in the Forest Department.

4. I. 12 -do-

The Committee trust that in the light of the findings of the Cost Accounts Officer, Government will realise the urgency of the need to simplify and rationalise the existing system of accounting in the Forest Department, Andamans.

5. I. 15 -do-

The Committee have already stressed the need for proper programming of the work of extraction of timber in the Andamans. They trust that, in the light of the findings of the Cost Accounts Officer, action would be taken to ensure that the maximum area is covered in the course of extraction and that 'mid-girth' specifications for purposes of extraction are realistically drawn up, in the light of practices in the mainland, so that there is no wastage of commercial timber.

6. I. 16 -do-

The Cost Accounts Officer has also drawn attention to the inadequacies of the existing system of grading of logs and the defective storage and transport arrangements which have contributed to

Deptt. of Agriculture wastages on a fairly large scale. Certain observations made by the Cost Accounts Officer would bear repetition: "At present the Department does not even know what time a particular log took to reach the final point of disposal from the time it was extracted. One log might reach within a month whereas another might take an year. The logs are handled at different points (*viz.*, the extraction site, the camp depot, the ghat depot and the export depot) and there is no fool-proof system of sending off the logs at these points on the basis of 'first came first sent' They are just dumped at these points and sent on when transport is available." The Committee consider this to be an unsatisfactory state of affairs and would like to impress on Government the need to evolve a scientific procedure for grading, storage and transport of logs and for adequate supervision at all these stages.

No less important is the need to organise efficiently the sales operations of the Department, both in the mainland and local markets. The Cost Accounts Officer has pointed out that there is underpricing of logs and that auction is not necessarily the best way of selling the logs in the mainland. In regard to sawn timber, he has pointed out that, owing to failure of the Department to gather adequate market intelligence, adequate quantities are not canalised to markets capable of yielding better returns. The Committee would

like Government to have proper surveys carried out and lay down guidelines to be followed by the Department in the matter of pricing, method of sales and choice of markets and varieties of logs to be sold therein.

8. 1.25 -do-

The Committee are distressed to learn from the report of the Cost Accounts Officer that "about 15 per cent of the timber fed into the (Chatham) mill" is lost "due to pilferage and theft". It is also unfortunate that "these pilferages and thefts have not been brought to light due to wrong accounting and manipulation of accounts". The matter calls for detailed and thorough investigation by Government to determine the extent of pilferages during the last few years in the mills (both at Chatham and Betapur), the loopholes in supervision and accounting that made such pilferages possible and responsibility for such slackness in accounting and supervision. In the meantime security measures will have to be tightened to prevent loss through pilferage.

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9. 1.26 -do.

Apart from pilferages, the operations of the mills would appear to have been affected by outmoded techniques of sawing and lack of adequate supervision. The Cost Accounts Officer has pointed out that wastages in the Andaman Mills amounted to 50 per cent to 60 per cent of intake as against 30 per cent in Government Saw-Mill, Siliguri and that this "casually being attributed year after year to the inferior quality of logs without ever attempting a review as to how

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Dept. of Agriculture far it is due to...other factors." The Committee hope that Govern-  
ment would take immediate steps to tone up supervision at the ope-  
rational levels and rationalise the scale of operations by adopting  
better methods and installing up-to-date equipment.

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