

## EXECUTIVE SUMMARY

<b>Marginal increase in collection of revenue</b>	<p>In 2011-12, the collection of revenue from forest receipts increased by 18.05 <i>per cent</i> over the previous year which was attributed by the department to increase in the enforcement activities and revision of rate of royalty on limestone from ₹ 45 to ₹ 63 per MT from 13 August 2009.</p>
<b>Internal audit not conducted</b>	<p>Audit of the Forest Department has never been conducted by the Examiner of Local Accounts. This resultantly had its impact in terms of weak internal controls in the Department leading to substantial leakage of revenue. It also led to the omission on the part of the Divisional Forest Officers remaining undetected till we conducted our audit.</p>
<b>No recovery by the Department of observations pointed out by us in earlier years.</b>	<p>During the period 2007-08 to 2011-12, we had pointed out non/short levy, non/short realisation of royalty, fee, fines <i>etc.</i>, with revenue implication of ₹ 114.88 crore in 21 cases. Of these, the Department/Government accepted audit observation in three cases involving ₹ 98.99 crore but no recovery was made.</p>
<b>Result of audits conducted by us in 2011-12</b>	<p>In 2011-12, we test checked the records relating to forest receipts and found non/short realisation/levy of royalty, fee, fines <i>etc.</i> involving ₹ 5.64 crore in 12 cases.</p> <p>The Department failed to respond to any of the irregularities brought to their notice and no recovery on the basis of our observations was made.</p>
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter, we present illustrative cases of ₹ 2.18 crore selected from observations noticed during our test check of records relating to assessment and collection of motor vehicle tax in the office of the Divisional Forest Officers where we found that the provisions of the Act/Rules were not observed.</p> <p>It is a matter of concern that similar</p>

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omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records, which were made available to us, the Department was unable to detect these mistakes.

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**Our conclusion**

The Department needs to redress the internal control system including strengthening of internal audit to prevent omissions of the nature detected by us in future.

It also needs to initiate immediate action to recover the short realisation of royalty, fees, fines *etc.*, pointed out by us; more so in those cases where it has accepted our contention.

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## CHAPTER-VII: FOREST RECEIPTS

### 7.1 Tax administration

The Principal Secretary, Forest and Environment Department is the head of the Forest Department at the Government level. At the Department level, the Principal Chief Conservator of Forests (PCCF) monitors the overall implementation of forest related projects including forest receipts. The implementing authorities at the district level are the Divisional Forest Officers (DFO). All forest related activities including revenue collection are regulated by the Meghalaya Forest Regulation (Application and Amendment) Act, 1973, the Assam Settlement of Forest Coupes<sup>1</sup> and *Mahals*<sup>2</sup> by Tender System Rules, 1967 (as adopted), the Meghalaya Forest (Ejection of Unauthorised Person) Rules, the Meghalaya Tree (Preservation) Act, 1976 and the Meghalaya Removal of Timber Regulation Act, 1981 and various Rules made thereunder.

### 7.2 Trend of receipts

Actual receipts from Forest Department during the years 2006-07 to 2010-11 along with the total non-tax receipts during the same period is exhibited in the following table and graph.

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation Excess (+)/ shortfall (-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non tax receipts
2007-08	17.85	15.60	(-) 2.25	13	199.35	8
2008-09	19.27	17.36	(-) 1.91	10	225.31	8
2009-10	20.35	20.03	(-) 0.32	2	275.09	7
2010-11	22.77	22.05	(-) 0.72	3	301.69	7
2011-12	25.05	26.03	(+) 0.98	4	368.24	7

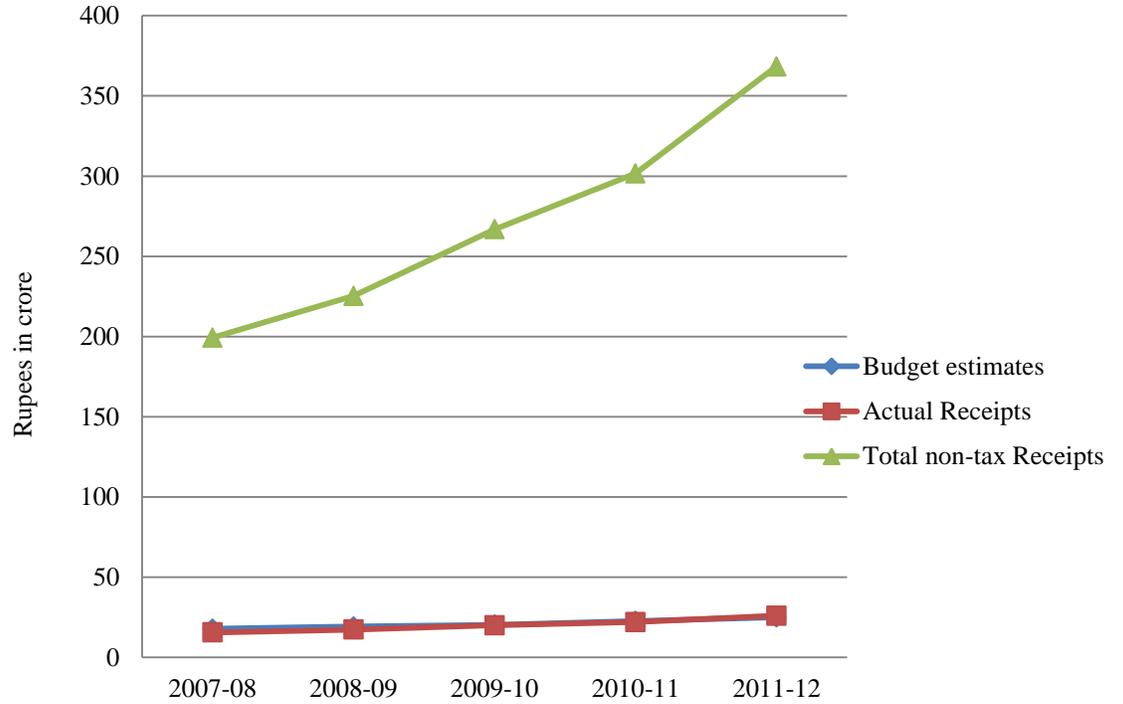
Thus, the percentage variation which was 13 *per cent* in 2007-08 has come down to an almost consistent level came down which indicates that the budget estimates are prudently framed.

Forest receipts formed about 7-8 *per cent* of the total non-tax receipts of the State during the period 2007-08 to 2011-12.

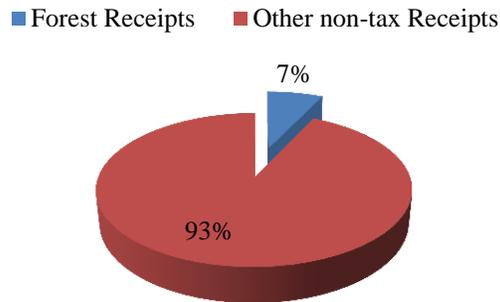
A line graph of budget estimates, *vis-à-vis* the actual receipts and total non-tax receipts of the State may be seen as follows:

<sup>1</sup> A compact area where a number of trees are pre marked for sale by way of auction or tender on condition of their removal within a specified period.

<sup>2</sup> A well defined area wherefrom certain types of forest produce are sold on condition of their removal within a specified period.



Also a pie chart showing the position of actual forests receipts *vis-à-vis* other non-tax receipts during the year 2011-12 may be seen below:



### 7.3 Impact of audit reports

During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation of royalty, fees *etc.*, with revenue implication of ₹ 114.88 crore in 21 paragraphs. Of these, the Department/ Government had accepted audit observations in three paragraphs involving ₹ 98.99 crore, in respect of which, no recovery has been made. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2007-08	6	9.93	-	--	-	--
2008-09	6	3.56	2	1.88	-	-

<b>2009-10</b>	5	2.10	-	--	-	-
<b>2010-11</b>	1	97.11	1	97.11	-	-
<b>2011-12</b>	3	2.18	-	-	-	-
<b>Total</b>	<b>21</b>	<b>114.88</b>	<b>3</b>	<b>98.99</b>	<b>-</b>	<b>--</b>

Though the Department/Government have accepted three paragraphs involving revenue of ₹ 98.99 crore, no recovery could be made during the past five years. This reflects that there is a need for the Department/Government to revamp the revenue recovery mechanism to ensure that at least the revenue involved in the accepted cases is recovered.

#### **7.4 Results of audit**

Test check of the records of 10 units relating to the Forest Department during the year 2011-12 revealed non-realisation of royalties, fees *etc.*, amounting to ₹ 5.64 crore in 12 cases which can be categorised as under:

<i>(₹ in crore)</i>			
<b>Sl. no.</b>	<b>Category</b>	<b>Number of cases</b>	<b>Amount</b>
<b>1.</b>	Non-realisation of fees	5	1.57
<b>2.</b>	Loss of revenue	4	1.51
<b>3.</b>	Other irregularities	3	2.56
<b>Total</b>		<b>12</b>	<b>5.64</b>

During the year 2011-12, the Department failed to respond to any of the irregularities brought to their notice.

A few illustrative audit observations involving ₹ 2.18 crore are mentioned in the succeeding paragraphs.

**7.5 Non realisation of royalty at the revised rate**

**Royalty on 78,393.40 MT of limestone was collected at the rate of ₹ 45 per MT instead of ₹ 63 per MT resulting in a short realisation of ₹ 14.11 lakh.**

Scrutiny of records (December 2011) of the Range Forest Officer (RFO), Southern Range under the Divisional Forest Officer (DFO), Khasi Hills Territorial Division<sup>3</sup> (KHTD), Shillong revealed that between 01 October 2010<sup>4</sup> to 31 December 2010, 78393.40 MT of limestone was extracted from the Range on which royalty of ₹ 49.39 lakh at the revised rate of ₹ 63 per MT was realisable. However, the RFO realised royalty of ₹ 35.28 lakh at the pre-revised rate of ₹ 45 per MT, thereby resulting in short realisation of royalty of ₹ 14.11 lakh<sup>5</sup>.

*The Mining & Geology Department, Government of Meghalaya (GOM) revised the rate of royalty on limestone from ₹ 45 per MT to ₹ 63 per MT with effect from 28 September 2010.*

The matter was reported to the Forests and Environment Department, GOM in December 2011; reply was awaited (March 2013).

**7.6 Non-realisation of royalty on clay**

**A company purchased 63,555.80 MT of clay from suppliers on which royalty amounting to ₹ 19.55 lakh had not been realised.**

The certified Annual Accounts of the Mawmluh Cherra Cements Limited<sup>6</sup> (company) for the years 2006-07 to 2010-11 disclosed that the company purchased 63,555.80 MT<sup>7</sup> (61,111.35 cum.) of clay between April 2006 and March 2011 from local suppliers. A cross-check of this information with the records of the DFO, KHTD, Shillong (December 2011) revealed that neither had any permits/passess been issued for extraction/removal of clay nor had any royalty been realised from the suppliers. The company also did not deduct any royalty from the suppliers before payment of the suppliers' bills.

*Section 2(a) under Chapter 5 (Transit Rules) of the Rules framed under Assam Forest Regulation, 1891 stipulates that no forest produce shall be extracted/removed from a forest area unless a permit/pass is granted by the forest officer on realisation of royalty in full. The Forests and Environment Department, GOM fixed the rate of royalty on clay at ₹ 32 per cubic metre (cum.) with effect from 12 November 1998.*

<sup>3</sup> Out of the 8 Ranges under the KHTD, limestone is extracted only in Southern Range.

<sup>4</sup> Audit could not work out the short realisation of royalty on limestone extracted from 28<sup>th</sup> to 30<sup>th</sup> September 2010 as the RFO, Southern Range was only submitting to the DFO, KHTD a consolidated month-wise statement of limestone extracted.

<sup>5</sup> Royalty realisable = 78393.40 MT @ ₹ 63 per MT = ₹ 49.39 lakh  
Royalty realised = 78393.40 MT @ ₹ 45 per MT = ₹ 35.28 lakh  
Royalty less realised = ₹ 14.11 lakh

<sup>6</sup> A state government owned cement manufacturing company.

<sup>7</sup> 1040 kg clay = 1 cum. as per the *Indian Practical Civil Engineers' Handbook (P.N. Khanna)*

Thus, the unauthorised extraction of clay without payment of royalty led to a revenue loss of ₹ 19.55<sup>8</sup> lakh.

**Recommendation:** Audit observed that the unauthorised extraction and supply of clay and consequent loss of revenue was possible because the Department has not prescribed procedures to ensure that Government departments and parastatals only consume forest produce on which royalty has been paid. It is recommended that the Department address this issue.

The matter was reported to the Forests and Environment Department, GOM in May 2012; reply was awaited (March 2013).

### 7.7 Non-remittance of forest royalty

**Three agencies deducted royalty totalling ₹ 1.84 crore from contractors' bill which was not remitted into the Department's account.**

*All consuming departments/agencies of minor minerals like sand, stone, boulders etc., are liable to pay royalty and other charges as applicable on the minor minerals used by them. The royalty and other charges on such minerals are deducted by the consuming departments/agencies from the bills of the contractors according to the quantity so consumed and paid to the Forest Department.*

A check of the records of three Government agencies who executed construction projects through contractors revealed that they had deducted royalties totalling ₹ 1.84 crore due on various forest produce (stone, sand, aggregates, etc) utilised in their projects, as shown in

the table below.

Name of the Agency	Royalty deducted (₹ in lakh)	Royalty deducted upto
Meghalaya Urban Development Authority	6.94	March 2008
State Sports Council	36.10	March 2011
Meghalaya Government Construction Corporation	141.36	March 2010
<b>Total</b>	<b>184.40</b>	

As of April 2012 these agencies had however, not remitted the above amounts to the Forests and Environment Department.

We reported the case to the Forests and Environment Department, GOM in May 2012; reply was awaited (March 2013).

<sup>8</sup> 61,111.35 cum. X ₹ 32 per cum. = ₹ 19.55 lakh