EXECUTIVE SUMMARY

Marginal increase in collection of revenue	In 2010-11, the collection of revenue from Mines and Minerals increased by 8.76 *per cent* over the previous year which was due to revision of royalty on coal and limestone from ₹ 165 and ₹ 45 to ₹ 290 and ₹ 63 respectively.
Internal audit not conducted	The department did not have an internal audit organisation. The internal audit organisation functioning under the Examiner of Local Accounts is responsible to conduct internal audit. However, audit of Mining and Geology Department had never been conducted to evaluate the system of working of the Directorate and to suggest ways and means to plug leakage of revenue.
Negligible recovery by the Department of observations pointed out by us in earlier years.	During the period 2005-06 to 2009-10, we had pointed out non/short levy, non/short realisation of royalty, cess etc on coal and limestone with revenue implication of ₹ 238.24 crore in 26 cases. Of these, the Department/ Government accepted audit observation in four cases involving ₹ 6.79 crore but recovered only ₹ 0.05 crore in one case. The recovery position as compared to acceptance of objections was negligible.
Result of audits conducted by us in 2010-11	In 2010-11, we test checked the records of three units relating to receipts from Mines and Minerals and found non/short realisation/levy of royalty cess, penalty etc involving ₹ 136.15 crore in 17 cases. The Department accepted non/short realisation/ levy of royalty, cess and other deficiencies of ₹ 52.65 crore in seven cases during the year 2010-11. An amount of ₹ 5.57 crore was recovered in one case during the year 2010-11.

What we have highlighted in this chapter	In this chapter, we present illustrative cases of ₹ 73.12 crore selected from observations noticed during our test check of records relating to collection of royalty, cess, penalty etc in the office of the Director of Mineral Resources (DMR), Divisional Mining Officer (DMO), Jowai and Williamnagar where we found leakage of revenue due to delay in implementation of revised rate of royalty and evasion of royalty on export of limestone and coal. It is matter of concern that similar 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 to prevent recurring loss of revenue. 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.
Our conclusion	The Department needs to improve the internal control system and internal audit system should be made functional. Inter departmental co-ordination should be strengthened to address the weakness in the system and avoid omission of the nature detected by us in future. It also needs to initiate immediate action to recover the royalty, cess, penalty etc, pointed out by us; more so in those cases where it has accepted our contention. Arrear revenue may be recovered as arrears of land revenue by initiating certificate proceedings.

CHAPTER VII: MINING AND OTHER NON-TAX RECEIPTS

A- MINES AND MINERALS

7.1 Tax administration

The State of Meghalaya is endowed with rich mineral deposits, particularly coal and limestone. Constitutionally, the State Government is the owner of the minerals and as such receives rent and royalty accruing from grant of prospecting and mining rights to individuals and firms. The Constitution of India, however, empowers the Parliament of India to make laws for regulation of mines and minerals. Under this power, the Central Government enacted the Mines and Minerals (Development and Regulation) (MMDR) Act, 1957, and the Mineral Concession (MC) Rules, 1960. Subsequently, the State Government introduced the Meghalaya Minerals Cess (MMC) Act, 1988 to mobilise additional revenue. In Meghalaya, the royalty and cess on coal were ₹ 165 and ₹ 55 per MT respectively, and royalty and cess on limestone were ₹ 45 and ₹ 20 respectively, with effect from 6 January 2009. The rate of royalty on coal was further revised to ₹ 290 per MT with effect from 1 September 2009 while the cess was withdrawn. The rate of royalty on limestone was revised from ₹ 45 to ₹ 63 per MT from 13 August 2009.

7.2 Trend of receipts

Actual receipts from Mining & Geology Department during the years 2006-07 to 2010-11 alongwith the non-tax receipts during the same period is exhibited in the following table and graph.

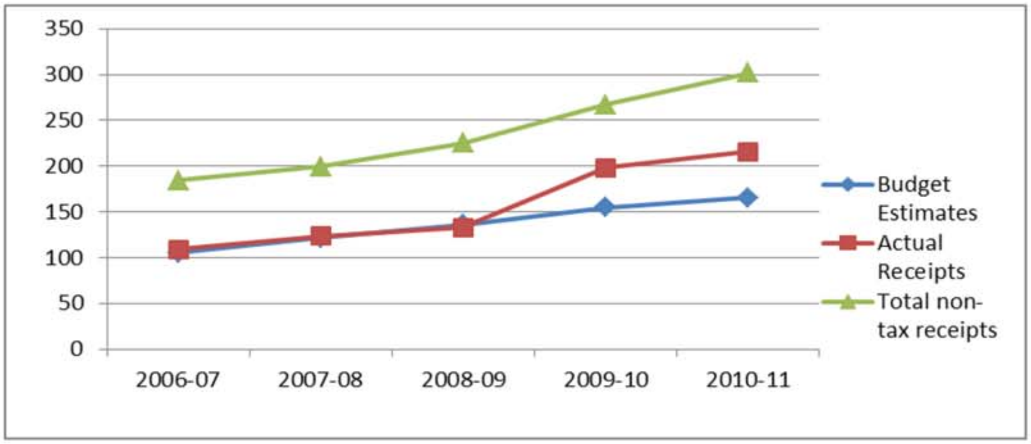
(₹in crore)

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
2006-07	105.00	109.03	(+) 4.03	4	184.37	59
2007-08	121.43	123.66	(+) 2.23	2	199.35	62
2008-09	135.69	132.73	(-) 2.96	2	225.31	59
2009-10	154.63	198.21	(+) 43.58	28	275.09	72
2010-11	165.44	215.58	(+) 50.14	30	301.69	71

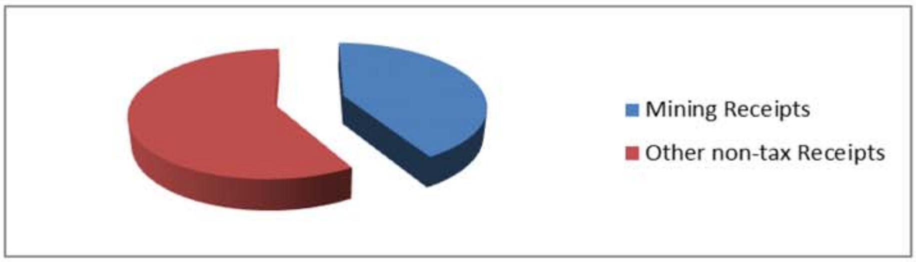
The wide variation between budget estimates and actual collection in the years 2009-10 and 2010-11 shows that the budget is not being realistically framed.

Mines and minerals receipts formed about 59-72 *per cent* of the total non-tax receipts of the State during the last five years.

A line graph of budget estimates, actual receipts and total non-tax receipts may be seen below:



Also a pie chart showing the position of actual mining receipts *vis-à-vis* the other non-tax receipts of the State during the 2010-11 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, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 301.60 crore in 32 paragraphs. Of these, the Department / Government had accepted audit observations in 9 paragraphs involving ₹ 53.30 crore and had since recovered ₹ 5.57 crore. 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
2006-07	4	13.80	1	0.19	-	--
2007-08	5	21.35	-	-	-	--
2008-09	5	41.12	-	-	-	--
2009-10	10	151.42	1	0.46	-	--
2010-11	8	73.91	7	52.65	1	5.57
Total	**32**	**301.60**	**9**	**53.30**	**1**	**5.57**

Thus, against the accepted cases involving ₹ 53.30 crore, the Department/ Government has recovered an amount of ₹ 5.57 crore which is 10.45 *per cent*.

We recommend that the Department needs to revamp its revenue recovery mechanism to ensure that they could recover atleast the amount involved in the accepted cases.

7.4 Results of audit

Test check of the records of Mining & Geology Department during the year 2010-11 revealed non-realisation of duties, royalties etc., amounting to ₹ 136.57 crore in 17 cases which can be categorised as under:

(₹in crore)

Sl. No.	Category	Number of cases	Amount
1.	Non-revision of royalty rate	02	15.22
2.	Leakage of revenue	02	55.98
3.	Non-realisation of royalty	05	5.58
4.	Other irregularities	08	59.37
Total		**17**	**136.15**

During the year, the Department accepted non/short realisation/levy of royalty, cess, penalty etc, of ₹.52.65 crore in seven cases, of which ₹ 5.57 crore was recovered in one case.

7.5 Non-compliance of the provisions of the Acts/Rules

The provision of the MMDR Act, 1957 , MC Rules, 1960 and MMC Act, 1988 require levy and payment of :

- Collection of royalty on coal and limestone at rate(s) as prescribed by the GOI from time to time.
- Collection of cess on limestone at prescribed rate.
- Interest at prescribed rate for default in payment of dues.
- Levy of interest due to default in payment of dues.

Non-compliance of the provision of the Act/Rules in some cases as mentioned in the following paragraphs. This resulted in non/short realisation of ₹ 73.91 crore.

7.6 Evasion of royalty on export of coal and limestone

The Directorate of Mineral Resources (DMR), Government of Meghalaya (GOM) is vested with the sole responsibility in the State for the levy and collection, in advance, of (i) royalty on coal and limestone under Section 9(2) of the Mines and Minerals (Development and Regulation) Rules, 1957 and (ii) cess on limestone under Section 3 of the Meghalaya Minerals Cess Act, 1988. Further, in cases where coal has been unauthorisedly transported without prior payment of royalty, penalty in the form of additional royalty at 25 per cent of the royalty value of coal and including the due royalty on coal, is also to be levied and collected at the DMR checkposts.

Revenues from 'mining receipts'[1] made up 58.90, 72.05 and 71.46 *per cent* of the State's non-tax revenues in 2008-09, 2009-10 and 2010-11. Income by way of royalty and cess from coal and limestone *exported* to Bangladesh constituted 18.93, 12.19 and 8.11 *per cent*[2] of the 'mining receipts' in these years respectively and hence, was and continues to be, a significant contributor to revenue under this head.

Given the above position, it would be expected for the DMR to have in place adequate infrastructure by way of strategically located checkposts to prevent and detect irregular transportation and export of coal and limestone without payment of the due royalty and cess besides, established a well laid down procedures for cross verification and regular exchange of information with other governmental agencies to ensure revenue leakages and evasion on this account are minimised. Our past and current findings which are cited below, indicated that the position was otherwise.

7.6.1 Loss of revenue due to absence of a system of exchange and cross verification of information with other agencies

7.6.1.1 Borsora and Dawki villages in Jaintia Hills District have two checkposts each - one belonging to the DMR and the other to the Customs Department (CD), GOI. From data obtained from the CD checkposts at both places, we found that 9.55 lakh MT of coal and 2.48 lakh MT of limestone was exported to Bangladesh through these posts between April 2009 and September 2010. Our verification in October 2010 with the records of the Borsora and Dawki DMR checkposts for the same period however, showed that only 3.98 lakh MT of coal and 0.83 lakh MT of limestone was exported. The DMR checkposts showed less export of 5.57 lakh MT of coal and 1.65

[1] 'mining receipts' includes royalty / additional royalty on coal and royalty / cess on limestone
[2] Figures furnished by the DMR

lakh MT of limestone. This involving royalty of ₹ 16.15 crore[3]. Besides; penalty and cess was also leviable.

7.6.1.2 Mention was made in the Comptroller & Auditor General's Audit Reports (ARs) 2007-08, 2008-09 and 2009-10 of the GOM about the evasion of revenue on account of export of minerals through the checkpost as mentioned in the following table:

Quantity in lakh MT

AR / Para No.	Period	Quantity of minerals exported as per CD checkposts' records		Quantity of minerals exported as per DMR checkposts' records		Difference (Quantity)		Revenue evaded (₹ in crore)
		Coal	Limestone	Coal	Limestone	Coal	Limestone	
2007-08 6.13	Apr '05 to Mar '07	11.74	12.66	10.29	5.89	1.45	6.77	6.37
2008-09 7.6	Apr '07 to Mar '09	17.20	31.48	12.79	22.19	4.40	9.29	13.73
2009-10 7.7	Apr '09 to Oct '09	3.92	0.98	0.38	-	3.55	0.98	13.47
TOTAL		**32.86**	**45.12**	**23.46**	**28.08**	**9.40**	**17.04**	**33.57**

Thus we had reported the evasion of royalty, cess and penalty to the tune of ₹ 33.57 crore in the above Audit Reports. However the Department has not checked the evasion resulting in further loss of revenue of ₹ 21.51 crore[4] .

7.6.1.3 Our analysis revealed that during 2007-08 to 2010-11 showed that a total of 42.41 lakh MT and 47.60 lakh MT of coal and limestone had been exported through the CD checkposts, while the corresponding figures were 27.74 lakh MT and 27.44 lakh as per the records of the DMR checkposts. Thus, the extent of underreporting by the DMR checkposts was as high as 35.30 *per cent* for coal and 39.27 *per cent* for limestone.

7.6.1.4 We would like to underscore the fact that all the above cases were detected by us through a simple cross-check of the information we requested for and obtained from the CD checkposts with the records of the DMR checkposts. We had therefore, accordingly recommended in **paragraph No 7.7** of the Comptroller and Auditor General's Audit Report, 2009-10 that "*the Government may consider putting in place a mechanism for coordination/reconciliation of the figures of the exports that were liable to pay royalty and were taking place through DMR checkposts and CD checkposts to check the evasion of royalty*." We also noted that in a meeting held on 19 August 2010 under the chairmanship of the Chief Secretary, GOM,

[3] 5.57 lakh MT @ ₹ 290 per MT = ₹ 16.15 crore

[4] ₹ 21.51 crore + ₹ 33.57 crore (It is a very conservative figure since the individual amounts were worked out only for specific periods ranging from seven to twenty four months).

the Principal Secretary (PS), Mining and Geology Department stated that "*coordination with the Forest Department and Customs authorities has been initiated with a view to obtaining the actual details on export of coal and limestone to Bangladesh*." However, we did not find any evidence in our subsequent audits of the DMR or its various checkposts that our recommendation had been implemented or that the assertion of the PS was true.

7.6.2 Loss of revenue due to non-establishment of checkposts

Checkposts are required at strategic locations across the State to ensure that no minerals are exported without payment of due royalty and cess.

7.6.2.1 We noted that since 1948, the CD had checkposts in Shella Bazar and Bholaganj - villages bordering Bangladesh in East Khasi Hills district. The DMR however, was yet to establish its checkposts at these locations. Information obtained by us from the CD with respect to Shella Bazar and Bholaganj checkposts showed that 28.47 lakh MT of limestone was exported to Bangladesh during the period from 01 April 2009 to 30 September 2010. Since the DMR did not have checkposts at these places[5], it was in no position to collect royalty and cess on limestone exported through these locations and consequently there was a revenue loss ₹ 20.35 crore[6] in just 18 months alone.

7.6.2.2 In CAG's Audit Reports, as indicated in the table below, we had also commented on the revenue loss due to the absence of DMR checkposts at Shella Bazar and Bholaganj.

AR /Para No.	Quantity of limestone exported through Shella Bazar and Bholaganj CD checkposts (MT in lakh)	Period	Revenue loss (₹ in crore)
2007-08 6.13	11.33	April 2005 to March 2007	5.67
2008-09 7.6	21.36	April 2007 to March 2009	10.68

Failure of the DMR to establish its presence even 63 years after the CD had set up its checkposts at these two places has led to a recurring loss of revenue for the State.

7.6.2.3 We noted that there are nine[7] CD checkposts in the State through which coal and limestone are exported to Bangladesh as against DMR checkposts at only four of these same locations[8]. The quantum of loss would

[5] Coal is not being exported through these two checkposts
[6] Upto 12.08.09 @ ₹ 45 per MT
From 13.08.09 @ ₹ 63 per MT.
[7] Dawki, Borsora, Shella Bazar, Bholaganj, Balat, Dalu, Mahendraganj, Baghmara, Gasuapara
[8] Borsora, Dawki, Gasuapara, Mahendraganj

therefore, be far higher if all the exports of coal and limestone that had taken place through the five CD checkposts where the DMR had none, is taken into account.

7.6.2.4 In 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10, the years in which the evasion and non levy of royalty, cess and penalty pointed out in paras **7.6.1.1**, **7.6.1.2**, **7.6.2.2** and **7.6.2.3** occurred, the total revenue earned by the State from the export of coal and limestone was ₹ 627.70 crore. The evasion of ₹ 91.78 crore, even though calculated with reference to the extent of the limited scope and period of audit coverage in these paras, represented 14.60 *per cent* of the total royalty collected from these two minerals in these five years.

We recommend that the Department may consider:

(i) instituting a mechanism for regular and timely exchange of information and data among the various concerned state/central Government agencies to stem revenue leakages and,

(ii) obtaining particulars from the CD of minerals exported through the five locations where the DMR does not have checkposts so as to be able to take a considered decision to set up this facility at these places.

After we pointed out the lapses, the Department stated in August 2011 that the MGD was examining the matter of opening more checkposts at all the trade routes to prevent leakage of revenue. The Government also, accepted the fact that export figure as maintained by the CD checkposts was more than that maintained by the MGD checkposts.

7.7 Revenue loss due to delays in issue of notifications

Section 9(3) of the Mines and Minerals (Development and Regulation) Act, 1957 confers upon the Government of India (GOI) the power to enhance or reduce the rate at which royalty shall be payable for any mineral with effect from such date as may be specified by the GOI.

Consequent upon the enhancement or reduction notified by the GOI, it is the responsibility of the Mining and Geology Department (MGD), GOM to in turn, notify the revised rate in the State. It is hence, important that where the GOI enhances the rate of royalty, the MGD should promptly notify the same so to prevent any loss of revenue.

7.7.1 The GOI revised the royalty on limestone from ₹ 45 to ₹ 63 per metric tonne (MT) with effect from 13 August 2009. We observed however, that the MGD notified the revised rate only on 28 September 2010 after a lapse of 13 months, leading to a revenue loss of ₹ 6.05 crore as detailed below:

Sl. No.	Source of information	Quantity of limestone extracted September 2009 to August 2010 (MT in lakh)	Revenue loss[9] (₹ in crore)
1.	Directorate of Mineral Resources[10], GOM	30.93	5.57
2.	Forests & Environment Department[11], GOM	2.69	0.48
		Total	**6.05**

After we pointed out the case, the Department stated in August 2011 that ₹ 5.57 crore had been recovered. However, recovery of ₹ 0.48 crore was awaited.

7.7.2 The GOI revised the royalty on coal from ₹165 to ₹130 per MT plus five *per cent* of pithead price of coal with effect from 01 August 2007. In accordance with this formula, the GOM was required to revise the royalty on coal to ₹ 290 per MT[12]. The MGD only on 24 August 2009 however, notified the revised rate of royalty with effect from 01 September 2009. In para 7.6 of the CAG's Audit Report 2009-10, we had pointed out that as a result of this delay, there was a revenue loss of ₹ 130.78 calculated by us on the basis of Coal Transport Challans (CTC) for 104.62 lakh MT of coal issued by the DMR[13] during August 2007 to March 2009. Our update on this position subsequent to this period i.e. April 2009 to August 2009, showed that during this time the DMR had further issued CTCs for 13.55 lakh MT of coal at the pre-revised rate of ₹165 which resulted in an additional revenue loss ₹ 16.93 crore. Thus, the delay of 24 months on the part of the MGD to notify the revised rate of royalty on coal led to a total loss of ₹ 147.71 crore to the State.

In paragraph 5.11 of the CAG's Audit Report 2003-04, we had similarly pointed out that the GOI revised the royalty on coal from ₹ 120 to ₹ 165 per MT from 16 August 2002 but the MGD notified the applicability of the revised rate only from June 2003 which led to revenue loss of ₹ 18.56 crore.

Thus the habitual failure of the MGD to promptly notify the revised rates of royalty as announced by the GOI from time to time on limestone and coal was not in consonance with sound financial polices particularly considering that these two minerals account for the major share of non-tax revenue of the GOM.

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[9] Quantity extracted X (₹63 – ₹ 45)

[10] In Meghalaya, the Directorate of Forests and Environment collects royalty on limestone extracted from areas under its control. The Directorate of Mineral Resources collects royalty on limestone extracted from the remaining areas in the State.

[11] Upto March 2010

[12] ₹ 130 + 5% Pit head price =₹ 130 + 5% of ₹ 3200 =₹ 130 + ₹ 160 = ₹ 290.

[13] In Meghalaya, royalty on coal is collected by the Directorate of Mineral Resources only.

The Department stated in August 2011 that the delay was due to notification of the new formula by the GOI for fixation of royalty which contained two unknown components *i.e.*, the price and the grade of Meghalaya coal. The reply is not tenable as the new formula for fixation of royalty is applicable to all the States and the MGD should have had in place the price as well as the grade of Meghalaya coal.

We recommend that the Government may institute an enquiry to fix responsibility for the delays in notifying the revised rates of royalty on limestone and coal and evolve a mechanism to ensure the revision of rates of royalty on coal and limestone are promptly issued to prevent loss of revenue.

7.8 Short realisation of royalty on limestone

The Government of Meghalaya vide notification dated 14 October 2004, revised the rate of royalty on limestone from ₹40 to ₹45.

Scrutiny of annual return in Form H8 submitted by a lessee[14] revealed that the lessee paid royalty on limestone extracted at prescribed rate except during the intervening period between January and June 2009. The lessee extracted 69366.50 MT of limestone during the aforesaid period against which royalty of ₹ 31.21 lakh was payable. The lessee however, paid royalty of only ₹ 27.14 lakh. The DMR neither demanded from the lessee to pay the balance royalty nor did the lessee pay the amount. This resulted in short realisation of royalty of ₹ 4.07 lakh.

After we pointed out the case, the Department stated in August 2011 that a demand notice had been issued to the KLMCL. Recovery of the amount is however, awaited.

7.9 Non-levy of interest

Rule 64A of the Mineral Concession Rules, 1960 provides that if the dues payable by the lessee are not paid within the time specified, simple interest at the rate of 24 per cent per annum may be charged on the amount remaining unpaid from the sixtieth day of the expiry of the date fixed for payment of such dues.

Our scrutiny of the records of the DMR in November 2009 revealed that M/S Lafarge Umiam Mining Private Ltd. (LUMP) company transported 10,57,893 MT of limestone between July and December 2009 for which it was liable to pay royalty and cess of ₹ 9.87 crore on or before 31 January 2010. LUMP paid ₹8.38 crore within the due date and the balance of ₹ 1.49 crore was paid belatedly on 10 June 2010 *i.e.*, seventy days after the sixtieth day from the due date of 31 January as specified in the aforesaid rule. For the belated

[14] Komorrah Limestone Mining Company Limited

payment, interest of ₹ 6.84 lakh though leviable was not levied.

After we pointed out the case, the Department stated in August 2011 that a demand notice had been issued to LUMP. Recovery of the amount is, however, awaited.

7.10 Irregular removal of limestone

Section 6(2) of the Meghalaya Minerals Cess Act, 1988 stipulates that no person shall remove or transport any minerals from any mine in the State unless tax due under the Act has been paid. Section 7 of the Act lays down that if any person defaults in payment of the tax, the prescribed authority may impose a penalty not exceeding the amount of the tax in arrears. Section 8 of the Act states that if the tax including penalty is not paid within the time prescribed, the authority shall realise the amount by selling the minerals belonging to such person and if the sum cannot be realised then the same is recoverable as arrears of land revenue. Cess on limestone has been fixed at ₹ 5 upto 05 January 2009 and ₹ 20 thereafter.

While auditing the records of the Divisional Mining Officer (DMO), Jowai in December 2010, we noticed that two cement manufacturing companies transported limestone from the mines without payment of cess.

M/s Cement Manufactur-ing Company Ltd extracted 9,13,851.256 MT[15] of limestone between January 2009 and June 2010, on which cess of ₹ 1.82 crore[16] was not paid. Besides, M/s Hills Cement Company Limited purchased 71,878.87 MT of limestone between August 2009 and June 2010 from private parties. The Company paid cess on 44,182 MT of limestone and the balance 27,696.87 MT of limestone was transported without payment of cess of ₹ 5.54 lakh[17].

The irregular action of the two companies led to evasion of cess of ₹ 1.88 crore. Moreover for default in payment of the cess, the companies were also liable to pay penalty of ₹ 1.88 crore. After being point out by us the Director of Mineral Resources (DMR) in September and December 2010 informed the company about the non-payment of the cess. As of April 2011, the DMR had also not taken action to recover the dues. Thus failure of the DMO to initiate

[15] From own leased area = 256316.36 MT
From private owner = 657537.896 MT
913854.256 MT

[16] Cess payable
8414.376 MT @ ₹ 5 per MT = ₹ 2,072
905439.88 MT @ ₹ 20 per MT = ₹ 1,81,08,798
Total = ₹ 1,81,50,870

[17] Cess payable @ ₹20 per MT X 27,696.87 MT = ₹ 5,53,937

prompt action to recover the dues led to non realisation of revenue of ₹ 3.76 crore including plenty of 1.88 crore

After we pointed out the cases, the Department stated in August 2011 that action had already been initiated against both the companies for payment of cess. The progress made in recovery of the dues is however, awaited.

7.11 Evasion of royalty on coal

Section 9(2) of the Mines and Minerals (Development and Regulation) Act, 1957 stipulates that every licensee or permit holder or lessee shall pay royalty as per rates prescribed in the Act in respect of any mineral removed or consumed by him otherwise, additional royalty at 25 per cent of the royalty is to be charged from him at the checkposts in addition to the royalty.

In Umkiang in Jaintia Hills District and Dainadubi in East Garo Hills, the checkposts of the Taxation Department (TD) are adjacent to the checkposts of the Mines and Minerals Department (MMD). The responsibility of the TD checkpost is to collect *tax* while that of the MMD checkpost is to collect *royalty* due to coal, limestone, etc. The checkposts of both the Departments maintain independent records of the quantity of these minerals transported through them, royalty/tax collected, etc.

7.11.1 We noted from information obtained from the Umkiang TD checkpost that 8,99,764 MT of coal was transported between April 2008 and March 2010 through the checkpost. Our cross verification of this figure with the records of the Umkiang MMD checkpost however showed that 8,66,930 MT of coal was transported through this checkpost during the same period. Thus, 32,834 MT of coal on which royalty and additional royalty was required to be collected, escaped the notice of the MMD checkpost. This resulted in evasion of royalty of ₹ 1.19 crore.

7.11.2 We also noticed during test check of the records of the Divisional Mining Officer (DMO), Williamnagar in March 2011 that 55,602 trucks carrying 10,36,673 MT of coal crossed the Dainadubi MMD checkpost between September 2009 and March 2010. We cross verified these figures with those of the Dainadubi TD checkpost at and found that 59,393 trucks carrying 11,23,055 MT of coal crossed the TD checkpost during the aforesaid period. Thus, 86,382 MT of coal passed undetected through MMD checkpost resulting in loss of revenue of ₹ 3.13 crore.

7.12 Short realisation of royalty

The royalty on limestone was ₹ 45 per MT upto 12 August 2009 and ₹ 63 per MT thereafter. In addition, cess is also leviable on sale of limestone under Section 3 of the Meghalaya Minerals Cess Act, 1988.

We noticed during scrutiny of records of the DMO, Jowai in December 2010 that 1,112 trucks carrying 16,680 MT of coal pertaining to 12 dealers were allowed to cross Mookyndur checkpost between 01 September and 07 October 2009 on the strength of CTCs issued earlier instead of MTCs. The officer-in-charge of the checkpost neither insisted on production of MTCs nor realised the differential amount of royalty at ₹ 125 per MT and additional royalty at 25 *per cent* of the revised rate of royalty from these trucks which crossed the checkpost. This resulted in short realization of royalty (including additional royalty) of ₹ 32.94 lakh[18].

After we pointed out the case, the Department stated in August 2011 that the demand notices had already been issued to all the 12 dealers for payment of royalty at revised rate. Payment of royalty is, however, awaited.

7.13 Non-realisation of royalty on limestone

The Government of Meghalaya, Mining and Geology Department revised the rate of royalty on coal from ₹ 165 to ₹ 290 with effect from 01 September 2009. Accordingly, the Director of Mineral Resources (DMR) directed all coal traders to surrender the unused Coal Transport Challans (CTC) issued earlier and obtain new Mineral Transport Challans (MTC) on payment of royalty at the revised rate.

We noticed during audit of the DMO, Williamnagar in March 2011 that as per Cess Collection Register, 1.10 lakh MT of limestone was extracted and removed by permit parties between April 2008 and March 2010 on which cess amounting to ₹ 14.59 lakh was realised. However we cross-verified the entries made in the Royalty Collection Rgister and found that royalty under section 9(2) of the rules ibid was not realised by the DMO before dispatch of the limestone. Thus, due to non-realisation of royalty, there was non-relisation of revenue of ₹ 54.32 lakh[19].

[18] Royalty @ ₹ 125 X 16680 MT =₹ 2085000
Additional royalty = 25 % of (₹ 290 X 16680 MT) = ₹1209300
Total=₹ 3294300

[19] 82012 MT upto August 2009 @ 45 per MT = ₹ 36,90,540
27645 MT between September 2009 and March 2010 @ 63 per MT = ₹ 17,41,635
Total = ₹ 54,32,175 i.e., ₹ 54.32 lakh

After we pointed out the case, the Department stated in August 2011 that action had already been initiated to realise royalty as well as cess on limestone. Recovery has not been intimated.

B- STATE LOTTERIES

7.14 Impact of audit reports

During the last five years (including the current year's report), audit through its audit reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, with revenue implication of ₹ 7702.14 crore in one paragraph. Of these, the Department/Government had accepted audit observations in one paragraph and 4 sub-paragraphs involving ₹ 1563.69 crore and had since recovered ₹ 2.62 crore. 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
2006-07	1	6,088.95	--	29.31[20]	--	2.62[21]
2007-08	--	--	--	--	--	--
2008-09	--	--	--	--	--	--
2009-10	--	--	--	--	--	--
2010-11	1	1613.19	1	1534.38	--	--
Total	**2**	**7702.14**	**1**	**1563.69**	**--**	**2.62**

Thus, against accepted cases involving ₹ 1563.69 crore, the concerned departments/Government recovered an amount of ₹ 2.62 crore only, which is only 0.17 *per cent*.

We recommend that the Department revamp its revenue recovery mechanism to ensure that at least the revenue involved in the accepted cases is promptly recovered.

7.15 Non-compliance of the provisions of the Acts/Rules

The provisions of the Act[22] and Rules made thereunder require levy and payment of:

- Total prize money not less than 50 *per cent* of the total value of the tickets printed for each draw.

Non compliance of the provisions of the Act/Rules as mentioned in the following paragraph resulted in non/short realisation of ₹ 78.81 crore.

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[20] 4 sub-paragraphs of the review on "Receipts under State Lottery"
[21] 1 sub-paragraph of the review on "Receipts under State Lottery"
[22] The Lottery Regulation Act, 1998

7.16 Loss of revenue due to execution of faulty agreement

The Lottery (Regulation) Act, 1998 enacted by the GOI lays down the conditions under which state lotteries are to be organised and for this purpose, empowered the state governments to make rules to carry out the provisions of the Act ibid. The Meghalaya State Lottery Rules, 2002 framed as a consequence of this Act inter alia stipulate that

- *the category of lotteries to be organised by the GOM were to be* ***daily*, *weekly*** *or* ***bumper*** *[Rule 2(m)(ii)];*

Our scrutiny of the records of the Director of State Lotteries (DSL), Meghalaya in April 2009 revealed that due to an agreement entered into in August 2004 by the DSL with M/s J.C. Enterprise (distributor) who was appointed as a lottery distributor resulted in loss of revenue to the public exchequer as detailed below:

7.16.1 Schedule-I of the agreement required the distributor to pay the Government ₹ 600 per draw for organising weekly draws and ₹ 20,000 per draw for all other schemes.

We obtained information from the DSL, which indicated that the distributor organised 40,627 daily draws of 13 different schemes between April 2004 and March 2008 and paid ₹ 2.44 crore to the Government at ₹ 600 per draw. Since the distributor did not organise weekly draws, he was liable to pay ₹ 81.25 crore at ₹ 20,000 per draw instead of ₹ 600. This resulted in short payment of ₹ 78.81 crore by the distributor.

The DSL disagreed (June 2011) with our contention stating that all draws conducted by the distributor were weekly draws. The reply is not acceptable as the sales accounts submitted by the distributors irrefutably proved that the distributor had organised daily draws and therefore, he was liable to pay ₹ 20,000 per draw.

7.16.2 Loss due to inconsistency of the agreement with Meghalaya State Lottery Rules

We further noted that clause 18(ix) of the agreement with the distributor stipulated that the total prize money of each draw shall not be less than 50 *per cent* of the of sale proceeds of tickets of each draw. This clause was not in consonance with Rule 9(1) of the Meghalaya State Lottery Rules, 2002 which required that the total prize per draw including bonus incentive to Stockists /Agents/Sellers shall not be less than 50 *per cent* of the total value of the tickets printed for each draw.

We observed that the distributor organised 49,185 draws between April 2004 and March 2008 in respect of 18 lottery schemes and printed 3.05 crore tickets valued at ₹ 4676.18 crore for different lottery schemes for the aforesaid period and disbursed ₹ 803.71 crore as prize money, against ₹ 2338.09 crore as per Rule. Thus the execution of a faulty agreement resulted in the distributor getting an undue benefit of ₹ 1534.38 crore. However, since Rule 12(5) of the Meghalaya State Lottery Rules, 2002 provide that all unclaimed prize money shall be the property of the GOM and this condition was also incorporated as clause 18(ix) of the agreement with the distributor, the DSL should have taken steps to recover this amount.

The DSL (June 2011) while admitting to the above fact failed to intimate the action being contemplated to recover the amount from the distributor.

7.16.3 We further noted that the DSL had invited offers for the distribution of the State's lotteries on 27 June 2003 and M/s J.C. Enterprise was one of the five lottery distributors appointed on that occasion. Since the agreements entered into by the DSL were all exactly identical with the one entered into with M/s J.C. Enterprise, we had, in May 2011, called for from the DSL the details of lottery draws organised by the four other distributors. The DSL in June 2011 expressed its inability to furnish the information stating that the *"same are not available in the office"*.

We reported the matter to the Excise, Registration, Taxation & Stamps Department, GOM in June 2011; reply was awaited (September 2011).

Shillong
The

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Countersigned

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