

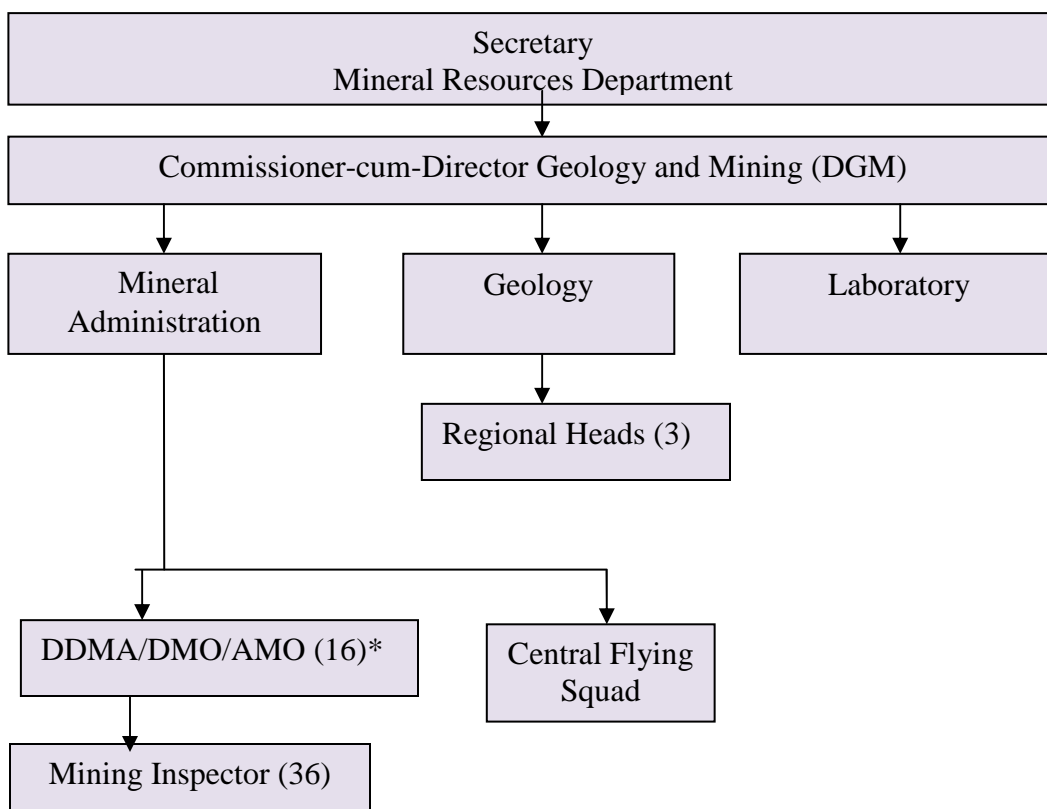
CHAPTER-II

FINANCIAL MANAGEMENT AND INTERNAL CONTROL

2.1 Organisational set-up

2.1.1 At the Government level, the Secretary, Mineral Resources Department and at the Directorate level the Commissioner-cum-Director, Geology and Mining (DGM) are responsible for administration and implementation of the related Mining Acts and Rules. The DGM is assisted by three Regional heads at Bilaspur, Jagdalpur and Raipur where qualitative analysis of minerals is done in the departmental chemical laboratories. The organisational set up of the Mineral Resources Department is given below:

2.1.2 The Mining offices are located at each District Collectorate under the direct control of the District Collector. There are 16 Deputy Directors Mining Administration (DDMA)/District Mining Officers (DMO). Mining Inspectors (MI) are responsible for assessment and collection of revenue, besides prevention of illegal excavation and dispatch of minerals and other activities leading to leakage of revenue from areas under their control. There is a Flying Squad which works under the control of DGM. However no targets have been fixed for the Flying Squad and action is taken by them on the basis of grievances received at the Government/DGM level.



2.2 Revenue contribution of Mining sector

2.2.1 Receipts from mines and minerals mainly consist of royalty which is levied either on specific or *ad valorem* basis on the type and quantity of mineral removed or consumed from the mines. Dead rent is levied on the area leased out for mining activity. Other receipts from mining are application fee, for various permits and licences, penalties and interest for delayed/belated payments of dues *etc.* Rates of royalty and dead rent in respect of major minerals are prescribed by the Central Government but these are collected and utilised by the State Government. Rates of royalty and dead rent in respect of minor minerals are determined and their collection and utilisation is also effected by the State Government itself.

The mining/quarry lease holders are required to pay either the dead rent or royalty, whichever is higher. The lessee removes, dispatches or utilises the minerals from the mines and quarries on valid transit passes. The lessee is required to maintain correct and regular accounts of all minerals excavated and dispatched and furnish monthly returns to the Department.

2.2.2 The budget estimates, actual receipts from mining, total non-tax revenue raised by the State Government and the percentage contribution by the mining sector towards non-tax revenue is given in the following table:

(₹ in crore)

| Year | Budget estimates | Actual receipts | Variation excess(+)/ short fall(-) | Percentage of variation | Total non-tax receipts of the State | Percentage of the mining receipts to total non tax receipts |
|---------|------------------|-----------------|------------------------------------|-------------------------|-------------------------------------|---|
| 2006-07 | 824.62 | 813.42 | (-) 11.20 | (-) 1.36 | 1,451.34 | 56.05 |
| 2007-08 | 983.52 | 1,031.55 | (+) 48.03 | (+) 4.88 | 2,020.45 | 51.05 |
| 2008-09 | 1,185.50 | 1,243.24 | (+) 57.74 | (+) 4.87 | 2,202.21 | 56.45 |
| 2009-10 | 1,685.40 | 1,660.87 | (-) 24.53 | (-) 1.46 | 3,043.00 | 54.58 |
| 2010-11 | 2,150.00 | 2,470.44 | (+) 320.44 | (+) 14.90 | 3,835.32 | 64.41 |

(Source: Finance Accounts 2010-11)

The contribution of mining receipts to the total non-tax revenue of the State during the last five years was between 51.05 and 64.41 *per cent*. The actual receipts during the above period exceeded the budget estimates except during 2006-07 and 2009-10. The Department attributed (August 2012) the huge increase in revenue with reference to budget estimates during the year 2010-11 to increase in the basic price of iron ore by Indian Bureau of Mines (IBM)¹. We do not agree as IBM had increased the basic price of iron ore with effect from 13 August 2009 which was already taken into consideration while formulating the BEs for the year 2010-11.

¹ The rate of basic price of iron ore is decided by the IBM (a multi-disciplinary Government organisation under the Department of Mines, Ministry of Mines, Government of India)

2.3 Arrears of revenue

The arrears of revenue as on 31 March 2011 as furnished by the DGM were ₹ 1.80 crore. The following table depicts the position of arrears of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

| Year | Opening balance | Addition during the year | Amount collected during the year | Closing balance |
|---------|-----------------|--------------------------|----------------------------------|-----------------|
| 2006-07 | 1.80 | 0.11 | 0.09 | 1.83 |
| 2007-08 | 1.83 | 0.01 | 0.08 | 1.76 |
| 2008-09 | 1.76 | 0.14 | 0.21 | 1.69 |
| 2009-10 | 1.69 | 0.55 | 0.14 | 2.10 |
| 2010-11 | 2.10 | 0.17 | 0.48 | 1.80 |

(Source: Office of the Director, Geology and Mining, Raipur)

Out of the total arrears of ₹ 1.80 crore, ₹ 1.39 crore pertained to the period prior to 1996 while ₹ 41 lakh pertained to the subsequent period.

During the Exit Conference, the Government intimated (February 2012) that most of the arrears pertain to the period prior to 1996 and the whereabouts of the lessees are not known as the leases have expired. However, efforts would be made to recover the arrears. Wherever it was not possible to recover the sums due, the cases would be taken up with the Finance Department for write off. Further report has not been received (August 2012).

2.4 Impact of audit

2.4.1: Position of IRs: During the period 2006-07 to 2010-11, Audit through its Local Audit Inspection Reports had pointed out non/short levy/realisation of royalty, dead rent, loss of revenue due to non-levy of interest, penalty etc. with revenue implication of ₹ 451.53 crore in 2,123 cases. Of these, the Department/Government had accepted audit observations in 1,443 cases involving ₹ 287.54 crore and had since recovered ₹ 5.74 crore. The details are shown in the following table:

(₹ in crore)

| Year of Inspection Report | No. of units audited | Amount objected | | Amount accepted | | Amount recovered | |
|---------------------------|----------------------|-----------------|---------------|-----------------|---------------|------------------|-------------|
| | | Cases | Amount | Cases | Amount | Cases | Amount |
| 2006-07 | 11 | 21 | 335.00 | 16 | 221.00 | 4 | 0.42 |
| 2007-08 | 13 | 640 | 68.09 | 470 | 56.62 | 5 | 0.29 |
| 2008-09 | 12 | 764 | 20.09 | 473 | 1.45 | 1 | 0.14 |
| 2009-10 | 7 | 396 | 4.64 | 335 | 2.33 | 45 | 4.83 |
| 2010-11 | 9 | 302 | 23.71 | 149 | 6.14 | 61 | 0.06 |
| Total | 52 | 2123 | 451.53 | 1443 | 287.54 | 116 | 5.74 |

The recovered amount constituted a very small quantum (2 per cent) of the accepted amount.

2.4.2: Position of Audit Reports: In the Audit Reports 2005-06 to 2009-10, cases of non/short levy and realisation of royalty, dead rent, interest and underassessment of stamp duty and registration fees involving ₹ 235.73 crore were indicated. The Department accepted observations of ₹ 8.50 crore of which an amount of ₹ 1.54 crore only was recovered till March 2011 as shown in the following table:

(₹ in crore)

| Sl. No. | Year of the Audit Report | Total money value of observations raised | Amount accepted | Recovery made up to March 2011 |
|---------|--------------------------|--|-----------------|--------------------------------|
| 1 | 2005-06 | 228.61 | 1.49 | 1.42 |
| 2 | 2006-07 | 0.87 | 0.76 | 0.04 |
| 3 | 2007-08 | 4.33 | 4.33 | 0 |
| 4 | 2008-09 | 0.42 | 0.42 | 0.08 |
| 5 | 2009-10 | 1.50 | 1.50 | 0 |
| | Total | 235.73 | 8.50 | 1.54 |

We recommend that the Department revamp its revenue recovery mechanism to ensure that recovery is effected, at least in the accepted cases.

2.5 Results of audit

We conducted a Performance Audit on "Assessment, levy and collection of major and minor mineral receipts" during the period April 2011 to December 2011. The Performance Audit revealed a number of deficiencies relating to non-assessment/short assessment of revenue and non-raising of demand etc. involving financial effect of ₹ 294.54 crore as mentioned in the succeeding chapters of this Report.

After the cases were pointed out in the Performance Audit, the Department recovered ₹ 21.41 crore in seven cases.

2.6 Internal control mechanism

2.6.1 The internal control mechanism is intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. Internal controls also help in creation of reliable financial and management information systems for prompt and efficient service and for adequate safeguards against evasion of Government revenue.

2.6.2 Internal Audit

The Internal Audit (IA) is a vital component of the internal control mechanism and is generally defined as the control of all controls. It enables the organisation to assure that the prescribed systems are functioning reasonably well.

We noticed (April 2011) that there was no Internal Audit Wing in the Department. The Directorate intimated (September 2011) that Internal Audit is conducted by the Secretary of the Department, the Director and Joint Directors and furnished

the details of Internal Audit conducted during the period 2006-07 to 2010-11 as shown in the table below:

| Sl. No. | Year | No. of units | No. of units inspected | Percentage (%) |
|---------|--------------|--------------|------------------------|----------------|
| 1 | 2006-07 | 16 | 0 | 0 |
| 2 | 2007-08 | 16 | 6 | 37 |
| 3 | 2008-09 | 16 | 4 | 25 |
| 4 | 2009-10 | 16 | 2 | 12 |
| 5 | 2010-11 | 16 | 3 | 19 |
| | Total | 80 | 15 | |

During the Exit Conference the Government stated that an IAW has since been established.

2.6.3 Inadequate inspections by Mining Inspector

As per instructions of the Director (Geology and Mining), Chhattisgarh issued in May 2008, the Mining Inspector (MI) is required to inspect all major and minor mines in his jurisdiction once in every six months to ensure that the terms and conditions as laid down in the lease deed are observed by the lessee, extraction of mineral is not done outside the leased area and the leased area is properly demarcated.

During test check of the mining lease case files and information collected from 10 DDMA/DMOs, we noticed that in only four mining offices² information was furnished to Audit regarding inspection of mines for the period 2008-09 to 2010-11. The shortfall in inspection of mining leases in three³ districts ranged between 53 and 70.2 *per cent* while in case of quarry leases it was between 50 and 96.6 *per cent*. We further noticed that no inspection was conducted by the MI in Korea District. In six⁴ DMOs neither were any records maintained in the office

nor were the DMOs able to furnish information regarding inspections done by the MIs. Further, we noticed that only five to 12 inspectors were posted during the period 2006-07 to 2010-11 as against the sanctioned strength of 24.

During the Exit Conference, the Government accepted the audit observation and stated that due to shortage of staff, inspection of mines had not been done regularly. It was further stated that recruitment of Mining Inspectors was in progress.

² Durg, Korba, Korea and Raipur

³ Durg, Korba and Raipur

⁴ Bilaspur, Dantewada, Janjgir Champa, Raigarh, Rajnandgaon and Surguja

2.6.4 Inadequacy of weighbridges

Under the MMDR Act, State Governments have been delegated powers to make rules for preventing illegal mining, transportation and storage of minerals. Such rules may provide for establishment of weighbridges to measure the quantity of minerals being transported. The Government of Chhattisgarh framed the Chhattisgarh Minerals (Mining, Transportation and Storage) Rules, 2009 which provides for checking of the quantity of minerals being transported at the weighbridges.

From the information furnished by the DGM, DDMA Korba and DMO Raigarh we noticed that only five weighbridges have been set up in two⁵ out of 18 districts. During the period 2006-07 to 2010-11, 110 cases of overloading were detected in Korba district by the DDMA and royalty along with penalty amounting to ₹ 12.39 lakh was recovered. In Raigarh district no such case was noticed. In absence of Government weighbridges, weighments were done at the private weighbridges leaving scope for leakage of revenue.

During the Exit Conference, the Government stated that five new weighbridges would be established in 2012-13 and a centralised monitoring system would be implemented.

2.7 Recommendation

- *Internal Audit may be conducted on a regular basis for detecting weaknesses in the system, leakage of revenue and ensuring compliance of rules and provisions of the Act and Rules.*

⁵ Korba and Raigarh