

## **CHAPTER – III**

### **FINANCIAL MANAGEMENT IN DEPARTMENT OF MINES AND GEOLOGY**

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## CHAPTER III - FINANCIAL MANAGEMENT IN THE DEPARTMENT OF MINES AND GEOLOGY

The Department of Mines and Geology (DMG) is responsible for the levy and collection of mineral receipts based on the production and despatch of minerals. Receipts from minerals include royalty, dead rent, application fee, licence fee, permit fee, prospecting charges, penalties, interest on belated payment of dues, etc. In this chapter we discuss the procedure of budget estimates, additional resource mobilisation, preparation of Demand, Collection and Balance (DCB) statements, internal audit of the Department, assessment, levy and collection of revenue from the lease holders, deduction of royalty at source by other departments, etc., having a financial impact of ₹ 113.94 crore.

### 3.1 Trend of Revenue

Details of budget estimates, actual revenue realised and percentage of variation under the Head of Account “0853 – Non-Ferrous Mining and Metallurgical Industries” for the years 2006-07 to 2010-11 are as detailed below:

(₹ in crore)

Year	Budget estimates (BE)	Actual revenue	Excess/shortfall	Percentage of variation
2006-07	350.00	366.29	(+) 16.29	(+) 4.65
2007-08	600.00	472.35	(-) 127.65	(-) 21.28
2008-09	632.70	556.07	(-) 76.63	(-) 12.11
2009-10	670.64	859.50	(+) 188.86	(+) 28.16
2010-11	1000.00	1185.96	(+) 185.96	(+) 18.60
<b>Total</b>	<b>3253.34</b>	<b>3440.17</b>	<b>(+) 186.83</b>	<b>(+) 0.06</b>

The revenue realised from iron ore as furnished by the Department was ₹ 648.90 crore during the period 2006-07 to 2009-10. This was 29 *per cent* of the revenue realised during that period. The DMG did not furnish mineral wise revenue for the year 2010-11.

The variation between the BE and the actual ranged between (-) 21.28 *per cent* and 28.16 *per cent* indicating that the BE framed were not realistic.

During 2007-08 the collection of actual revenue was less by 21.28 *per cent* compared to the receipts estimated. After this being pointed out (September 2011), the DMG stated (January 2012) less collection during 2007-08 and 2008-09 was due to non-revision of rates of royalty in respect of major minerals. Excess revenue realised during 2009-10 and 2010-11, was stated to be, due to increased utilisation of minor minerals, auction sale of iron ore and receipts from licence fees.

### 3.2 Failure to recognise revenue mobilisation resource

We obtained turnover particulars (for the years for which assessments were completed) of three prominent companies in the State from the Income Tax Department to verify whether growth in revenue from royalty was

commensurate with the growth in the companies engaged in mining of iron ore. A comparative statement of turnover of these companies *vis-a-vis* royalty paid by them on iron ore despatched as per the records of the DMG is as under:

(₹ in crore)

Particulars	VS Lad & Sons (base year 2003-04 compared with the year 2007-08)		MSPL (base year 2004-05 compared with the year 2007-08)		Obalapuram Mining Company (base year 2005-06 compared with the year 2008-09)	
	Turnover	Royalty	Turnover	Royalty	Turnover	Royalty
For base year	18.28	2.96	576.25	4.15	207.99	2.46
For the year 2007-08/2008-09	768.71	4.75	2516.65	3.73	1522.68	7.40
Percentage variation	4205	160	437	(-) 10	732	300

It may be seen from the above that despite the accelerated growth in turnover of the mining companies from 2003-04 onwards, there was no upsurge in revenue from royalty. The growth in turnover of mining companies was incongruous with the revenue increase in the State by way of royalty. This indicates failure of the Government to recognise the revenue mobilisation opportunity in an industrial sector which was showing an exponential growth. The incongruity was occasioned by either low rate of royalty or by possible under reporting of actual quantities mined or a combination of both. The first problem has been addressed to some extent by the switching of royalty to ad valorem rates from 13 August 2009.

After this was pointed out (August 2012), the Department stated (October 2012) that the Central Government is empowered to fix/revise royalty rates and it had been the grouse of the State Government that ad valorem rates were not the actual rates and therefore the State Governments were not getting the due royalty from the miners. It is only after the Hon'ble Supreme Court order the royalty on iron ore has been collected at auction rates and thus the royalty collection significantly improved.

This indicates that the royalty rate collected by the State before auctioning of iron ore was lesser as the Indian Bureau of Mines (IBM) fixed sale price was far below the actual rates.

### 3.3 Assessment of royalty

#### **Iron ore:**

#### 3.3.1 Non/short levy of royalty on iron ore

##### Three<sup>1</sup> Deputy Director Offices

MMDR Act, 1957 stipulates that the holder of a mining lease shall pay royalty in respect of iron ore removed or consumed from the lease area at the rate of 10 *per cent* of the sale price. The State-wise sale price published by the IBM shall be the basis for levy of royalty. The IBM publishes the sale value of iron ore for each month in the subsequent month. Further, during the period from 13 August 2009 to 9 December 2009, 20 *per cent* over and above the value published by IBM had to be taken as sale price of the mineral. With effect from 10 December 2009 the IBM sale price only is to be adopted.

We checked records of 73 major mining leases for years 2009-10 and 2010-11. We noticed in 28 cases that royalty was levied on the sale price published by the IBM as applicable to the month of issue of permits. However, in these

cases the lessees transported the iron ore in the subsequent months. The DD instead of applying rates applicable on the date of transportation applied rates applicable on the date of issue of permits. This resulted in short levy of royalty amounting to ₹ 10.20 crore.

After we pointed out (October 2010, September 2011 and November 2011), the DD, Hospet replied (January 2012) that demand notices for payment of differential amount of ₹ 8.16 crore in respect of 11 lessees were issued. The DD, Chitradurga replied (October 2010) that differential amount of ₹ 89.47 lakh was adjusted out of the credit available in one case. The DD, Tumkur replied (May 2012) that notices had been issued.

#### 3.3.2 Short levy of royalty on auctioned iron ore

##### Two<sup>2</sup> Deputy Director offices

We noticed seven auction sales of seized iron ore were held in 2008-09 and 2009-10. In these cases, royalty was levied on the sale price published by IBM which was available with the Department at the time of issue of permits. However, successful bidders transported the ore subsequently during 2009-10 and 2010-11. The relevant sale price for the month of transportation was published by IBM subsequently. The concerned DDs failed to obtain an undertaking from the successful bidders for recovery of additional liability which may arise due to publication of IBM sale price subsequently. This resulted in short levy of royalty of ₹ 23.86 lakh.

After we pointed out (November 2011), the DD, Hospet replied (November 2011) that as per the guidelines under Rule 64 D of MC Rules, if the sale price

<sup>1</sup> Chitradurga (all cases), Hospet (50 per cent), Tumkur (all cases)

<sup>2</sup> Chitradurga, Hospet.

for the State for a particular month was not published by IBM, the latest information available in the State shall be referred failing which the latest information for 'All India' shall be referred. Accordingly, royalty was collected based on the latest sale value available at the time of issue of permits since no guidelines were incorporated under 64-D to re-calculate royalty at subsequent stage.

In respect of lessees, the levy of royalty can be regulated and rectified annually at the time of assessment. However, in respect of auction cases such a precaution cannot be taken and a preventive clause should be added in the agreement for sale.

As the Rules did not provide to re-calculate royalty, we recommend that a system should be developed to regulate short levy of royalty arising due to late publication by IBM.

The Director, DMG stated (October 2012) that action has been taken to regulate recovery of royalty.

### **3.3.3 Short collection of value of the seized iron ore**

The Hon'ble Lokayukta noticed (February 2009) illegal mining activities by M/s.Lakshminarayana Mining Company (Mining Lease No.2487) in forest area outside its sanctioned lease area. A case was booked by the Forest Department and 84,622 cubic meters (m<sup>3</sup>) of illegally extracted iron ore was seized. The Forest Department released entire quantity of seized iron ore in December 2009 against the bank guarantee for ₹ 14 crore furnished by the lessee based on the IBM rates for September 2009. The bank guarantee was subsequently converted as revenue during September 2011. Though the ore was released between 13 August 2009 and 9 December 2009, we noticed that the Forest Department assessed the value of minerals without adding twenty per cent over and above the sale price published by IBM. This resulted in short collection of value of minerals by ₹ 2.67 crore.

The Deputy Conservator of Forests (DCF) (T), Bellary replied (April 2012) that the IBM rates as intimated by the Range Forest Officer were adopted for assessing the value of the minerals. Thus the failure of the Forest Department to ascertain the value of minerals from DMG resulted in loss of revenue to the Government.

## **3.4 Non/short collection of royalty by DMG due to incorrect opening/closing stock**

### **3.4.1 Major minerals (Iron ore)**

#### **Office of the Deputy Director, Hospet**

We observed from the annual audit reports and annual reports in respect of two lessees that the closing stock of minerals at the end of a previous year was not carried forward as opening balance for the subsequent year. The value of 3,24,334 MT of minerals short accounted was ₹ 27.72 crore and royalty recoverable worked out to ₹ 35.68 lakh as shown below:

Office, Name of the lessee and ML No.	Type of mineral	Quantity of ore short accounted (in MT)	Value (₹ in lakh)	Royalty amount at the minimum rate of ₹ 11/- per MT.	Remarks
Hospet/ Aswathnarayan Singh & Co: ML 2531	Iron ore fines	30,000	236.70	3.3	The lessee had short accounted closing stock of 147994 MT of dump workings and 30000 MT of iron ore fines during 2006-07. In addition, as against a production of 3 lakh MT of iron ore lumps during 2006-07, 2.111 lakh MT was despatched during that year. However, the balance quantities were not carried forward during 2007-08 and onwards.
	Iron ore lumps	83,900	701.42	9.78	
	Dump workings	1,47,994	1,167.67	16.28	
Hospet/ S.B.Minerals: ML 2559	Iron ore lumps	57,440	666.30	6.32	During 2007-08, the lessee produced 132440 MT of iron ore lumps and despatched 75000 MT. The balance of 57440 MT was however not carried forward by the lessee in the subsequent years.
	<b>Total</b>	<b>3,24,334</b>	<b>2,772.09</b>	<b>35.68</b>	

Note: Value of the minerals was adopted at ₹ 789 and ₹ 1,160 per MT for the years 2006-07 and 2007-08 respectively as per Mineral Year Book of IBM.

The Department replied (October 2012) that notices have been issued to the defaulting lessees and instructions have been given to the DDs to recover royalty with applicable penalties as per rules.

### 3.4.2 Minor minerals (stone)

#### Office of the Deputy Director, Ramanagara

Rule 18 (9) and (10) of the KMMC Rules, 1994 stipulates that every QL holder shall keep correct accounts and furnish annual returns regarding quantity of minerals produced, sold or despatched from leased area, quantity in stock, royalty paid, etc. No person shall transport any mineral except under or in accordance with MDP. Contravention of these rules attracts penalty at five times of royalty as stipulated in QL Deed.

We noticed from the annual stock returns and annual audit reports of seven Quarry Leases (QLs) for the years 2003-04, 2004-05, 2007-08 and 2008-09 that 1231.757 m<sup>3</sup> of granite was shown as closing stock. However, the same was not carried forward as opening balance during the subsequent years. This indicated possible transportation of granite without valid permit involving

royalty of ₹ 14.94 lakh. Besides, interest of ₹ 9.24 lakh and penalty of ₹ 74.69 lakh were also leviable.

After we pointed out (September 2011), the DMG stated (October 2012) that after notices were issued (January 2012) to the concerned lessees regarding short-accounting of stock, five out of the seven lessees replied that granite blocks are still lying in the quarry heads and not transported. The DD has been directed to verify the fact and send a detailed report to the Director.

### 3.5 Non- levy of interest

#### 3.5.1 Major Minerals.

##### Office of the Deputy Director, Hospet

Rule 64-A of MC Rules, 1960, stipulates levy of interest at 24 *per cent* per annum on dues not paid from the sixtieth day after the expiry of date fixed for payment of such dues.

We noticed in respect of two<sup>3</sup> Mining Leases (MLs) that royalty amounting to ₹ 158.92 lakh was demanded by the Department in the annual audit reports issued in

August/September 2010 for the assessment year 2009-10. The lessees paid the dues during March/April 2011. The delay in payment of royalty, beyond sixty days from the date of issue of demand notice was 122 and 198 days. However, interest amounting to ₹ 16.62 lakh was not levied by the Department.

The DD accepted (October 2012) our observation and issued a demand notice for entire amount. In one case interest of ₹ 6.52 lakh was recovered while in another case, the lessee had requested for adjustment of amount from his credit balance available with the department.

#### 3.5.2 Minor Minerals

##### Office of the Deputy Director, Ramanagara

Rule 41 of KMMC Rules, 1994, stipulates levy of interest at 15 *per cent* per annum on dues not paid from the sixtieth day after the expiry of date fixed for payment of such dues.

In one case<sup>4</sup> Department noticed that 193.68 cum of ornamental stone was extracted and transported by a lessee during January 2001. On

this illegal extraction and transportation of ornamental stone, department raised demand in January 2011 for ₹ 3.87 lakh towards value of the mineral. However, we noticed that interest at the rate of fifteen per cent per annum from 2001-02 (January 2001) to January 2011 amounting to ₹ 5.81 lakh was not levied and demanded by the Department.

<sup>3</sup> M/s. P. Balasubba Shetty and Sons (Mining Lease No. 2502), M/s.Gogga Gurushanthaiah and Brothers (Mining Lease No.2522).

<sup>4</sup> Sri.D.Venkataramanaswamy (QL No.636).



The DD, Ramanagara in response to our observation stated (January 2012) that demand notice for recovery of interest amount would be issued.

The Department stated that out of ₹ 3.87 lakh the lessee has paid ₹ 50,000 and the lease period had expired on 9 May 2009. The lessee had applied for renewal and the DD agreed to recover arrears along with interest before considering the request for renewal.

### 3.6 Deduction of royalty by other departments

The Hon'ble High Court of Karnataka held (March 2007) that the work executing departments should deduct royalty from the bills of the contractors if they fail to produce proof of payment of royalty to the concerned departments. The DMG issued (December 2007) circular instructions to the work executing departments in this regard and also to remit royalty to the Head of Account "0853-102-1-05 – Non Ferrous Mining and Metallurgical Industries" as per Rule 37 of KMMC Rules. 1994.

We noticed that the work executing departments were sending cheques/ Demand Drafts in respect of total royalty deducted from the bills of the contractors without indicating the type of mineral, total quantity consumed,

rate of royalty recovered, etc.

The Director, DMG, Bangalore after observing that the work-executing departments were adopting different conversion factors for arriving at the rates of royalty per m<sup>3</sup> recoverable from the bills of the contractors, circulated (Oct 2010) rates of royalty per m<sup>3</sup> by specifying relevant conversion factors in respect of these minor minerals. Subsequently, the Director, DMG, Bangalore, after noticing (July 2011) that the conversion factors circulated in October 2010 were incorrect, issued another circular (July 2011) revising the rates as detailed below.

(Amount in ₹)

Type of mineral	Rate as per circular dated 26.10.2010		Rate as per circular dated 15.07.2011		Difference	
	Per MT	Per m <sup>3</sup>	Per MT	Per m <sup>3</sup>	Per MT	Per m <sup>3</sup>
Building stone	30	45	30	79	0	34
Jelly/metal	30	45	30	54	0	9
Sand	30	51.60	30	52	0	0.40
Soil/earth	20	20	20	30	0	10

We also noticed that there was lack of co-ordination between work executing departments and DMG in ascertaining the correctness of the amounts collected as royalty by these departments and prompt credit of such collections to the Government, as discussed in the following paragraphs:

#### 3.6.1 Short deduction of royalty

We obtained information regarding royalty deducted from contractors' bills from Public Works Department, Karnataka Neeravari Nigam Limited, Cauvery Neeravari Nigam Limited, etc. We noticed that as against ₹ 11.74 crore royalty deductible in respect of building stone, sand, jelly and murrum

consumed for works in nine<sup>5</sup> offices during the period from 2008-09 to 2010-11, an amount of ₹ 6.87 crore was deducted. This resulted in short deduction of royalty by ₹ 4.87 crore as detailed below.

(₹ in lakh)

Name of the minor mineral	Total quantity consumed (in m <sup>3</sup> )	Rate of royalty per m <sup>3</sup>	Royalty due to be deducted from the bills	Royalty actually deducted	Short deduction of royalty
Building stone	254740.43	79	201.24	66.88	134.36
Sand	572274.60	52	297.58	212.54	85.04
Jelly	894096.72	54	482.81	315.75	167.06
Murram	1287793.50	15	193.17	92.19	100.98
<b>Total</b>			<b>1174.80</b>	<b>687.36</b>	<b>487.44</b>

The basis on which the amount of royalty was collected or deducted was not furnished.

Thus, the absence of a system to check the correctness of the royalty being deducted by the other departments in DMG resulted in short collection of royalty.

The Department while accepting the audit observation stated (October 2012) that efforts would be made to recover the differential royalty from the concerned Departments.

### 3.6.2 Short remittance of royalty by Karnataka Warehousing Corporation Limited

On verification of the annual accounts/ledger accounts of Karnataka Warehousing Corporation Limited, Bangalore for the years 2006-07 to 2010-11, we noticed that out of ₹ 1.23 crore deducted from the bills of the contractors towards royalty during 2006-07 to 2010-11 an amount of ₹ 1.20 crore was not remitted (November 2011) to the Government account. The interest leviable on the amount not remitted to the Government Account worked out to ₹ 38.47 lakh (December 2011) as detailed below:

(₹ in lakh)

Sl.No.	Year	Amount of royalty deducted from the bills of the contractors	Interest to be charged for the months (upto December 2011)	Interest leviable at the rate of 15 per cent per annum
1	Upto March 2006	6.32	69	5.45
2	2006-07	5.44	57	3.87
3	2007-08	20.79	43	11.18
4	2008-09	21.77	31	8.44
5	2009-10	17.17	19	4.08
6	2010-11	48.48	9	5.45
	<b>Total</b>	<b>119.97</b>		<b>38.47</b>

<sup>5</sup> Cauvery Neeravari Nigam Limited - Gorur, Mandya and Ramanagara Offices, Karnataka Neeravari Nigam Limited - Ranadurga, Ranebennur and Ron offices, Executive Engineer (Rural Water Supply Division), Tumkur, Executive Engineer (PWD), Koppal and Executive Engineer (PWD Building Division), Bangalore.

### 3.6.3 Non-collection of royalty by Railways

On scrutiny of the information obtained from the office of the Principal Director, Railway Audit, Hubli, we noticed that 3274976 m<sup>3</sup> of stone ballast was procured by SWR during the period from 2007-08 to 2009-10 for open line and construction works from the contractors. Royalty at the rate of ₹ 54 per cum amounting to ₹ 17.68 crore was not deducted from the bills of the contractors for supplying the stone ballast.

After this was pointed out (January 2012), the Director, DMG, Bangalore stated (May 2012) that the Department was negotiating with SWR authorities to deduct royalty in respect of stone ballast from the bills of the contractors for the works executed between the years 2007 and 2010.

## 3.7 Non-collection of processing fee

### 3.7.1 Minor minerals

As per amendment (June 2007) to Rule 42 of KMMC Rules 1994, any person who desires to transport minor minerals by road, by rail or any other means of transport shall apply in Form-AP along with ₹ 50/- as processing fees for each MDP/Trip sheet for specified or non-specified minor mineral to the concerned competent authority.

As per the information furnished by the DMG (pertaining to 25 offices out of 31 offices), we noticed that 3.25 crore MT of building stone were transported without obtaining MDPs during the years 2007-08 to 2010-11.

Failure of the Department to enforce transportation of building stones with MDPs resulted in foregoing revenue amounting to ₹ 9.55<sup>6</sup> crore.

### 3.7.2 Major minerals

Section 23-C of the MMDR Act empowers the State Government to make regulations in respect of transportation of minerals.

We noticed that there was no levy of processing fee in respect of major minerals as in the case of minor minerals for

transportation, though similar incidental charges towards issue of computer-generated MDPs and printing/issuing of trip sheets in triplicate for the corresponding quantity of major minerals were incurred by the department. Provision for collection of nominal processing fee for each MDP/trip sheet, atleast on par with the amount levied in respect of minor minerals, should have been made by the department, in consultation with the Central Government, in respect of major minerals.

We noticed in the three<sup>7</sup> test checked offices, 12.87 crore MT of iron ore was transported during the years from 2007-08 to 2009-10. Taking into account 17 MT as the maximum quantity of iron ore permitted per truck for

<sup>6</sup> Total quantity transported with out MDP = 3.25 crore MT

1 MDP = 17 MT

Fee for the MDPs = 3.25 crore MT/17 MT = 19.11 lakh x 50 = 9.55 crore

<sup>7</sup> Chitradurga, Hospet, Tumkur.

transportation, 75.70 lakh trip sheets were issued for transportation of 12.87 crore MT of iron ore. Non-collection of processing fee at the time of issue of trip sheets for transportation of iron ore thus resulted in potential loss of revenue amounting to ₹ 37.85 crore.

During exit conference, the Director stated that processing fee of ₹ 10 was collected per trip sheet issued for major minerals from April 2012 and agreed to enhance the same on par with minor minerals in consultation with the Central Government.

The Department stated (October 2012) that there will be no revenue loss in future since the mineral administration of the department has been computerised and online e-permit system has been introduced.

### **3.8 Non-maintenance of records of waste rocks in respect of ornamental stone quarries**

#### **Four<sup>8</sup> Deputy Director offices**

As per Rule 31 of Granite Conservation and Development Rules 1999, the overburden, waste rock and non-saleable granite generated during prospecting or mining operations for granite shall be stored separately in properly formed dumps. Further, Rule 22(2) of the rules stipulates that the small granite blocks from such non-saleable granite can be used for the manufacture of bricks as well as flooring or wall tiles. In addition, as per Schedule II of KMMC Rules 1994, royalty at ₹ 30 per MT was leviable on irregular shaped waste rocks.

We noticed that the information relating to total quantity of waste rock generated during the quarrying operations, its proper storage and consequent utilisation towards backfilling or for commercial purposes such as tiles, etc., was not available in any of the lease files. The lessees also

did not maintain the account of waste rocks generated. In the absence of any account regarding wastes generated, audit could not ensure whether royalty at the rate of ₹ 30 per MT prescribed for such waste rocks was collected or not from the lessees.

We also noticed that the Department did not fix any norms regarding generation of waste in the production of ornamental stones.

After we pointed out (September 2011, October 2011, December 2011 and January 2012), DMG stated (September 2012) that though large quantity of waste rock is generated in ornamental stone quarries, maintenance of such accounts is not possible. Useful material out of the waste rock was identified as khandas and royalty for the same was collected. The reply is not in line with the provisions of Rule 31 which stipulates proper maintenance of accounts and levy of royalty for the waste rocks as provided in the Rules.

<sup>8</sup> Bangalore (Rural), Chamarajanagar, Ramanagar, Tumkur.

### 3.9 Unrealistic assessment of production of building stone

#### Six<sup>9</sup> Deputy Director/Senior Geologist offices

Rule 40 of KMMC Rules, 1994 envisages that the competent authority i.e. Geologist, Senior Geologist and DD shall conduct inspection of register and accounts of production, despatch and stock maintained by a quarry lease holder for issue of annual audit reports. Further, as per Part-VI Clause 2 of the quarry lease deed, the quarry lease holder shall maintain correct account of mineral produced, despatched and stock of the mineral.

We noticed that no books of accounts relating to production, despatch and closing stock of the building stone were maintained by the quarry lease holders and permits were also not obtained for transportation of building stone. Due to non-maintenance of

accounts, assessment of the actual quantity of production of building stone could not be ascertained by the department.

The Department replied (October 2012) that since most of the quarry holders were illiterate, maintenance of books of accounts could not be insisted upon. It was further replied that the assessment of production and despatch of the building stone was done during spot inspection in Bangalore (Rural), Chamarajanagar and Ramanagar divisions during the years 2006-07 to 2009-10 by taking into account the number of labourers employed while in Chitradurga and Hospet divisions, it was done based on local enquiry.

Thus, the assessment of royalty in respect of building stone without taking measurements of pits was not realistic.

A circular was issued by DMG in April 2010 instructing to record the length, breadth and depth of the quarried area in the assessment order called Audit Reports. In this regard, we observed these measurements were not recorded in the Audit Reports during the year 2010-11 in Ramanagar and Chamarajanagar districts. The DMG stated that that the pit measurements would be recorded in future.

The Department accepted (October 2012) our audit observation and stated that the accounts and auditing process are computerised from 2011-12 and the lessees are being instructed to file the quarterly reports by e-mail.

### 3.10 Demand, Collection and Balance (DCB) statements

As per the Departmental Manual DCB statements are prepared by the Divisional Offices indicating the actual position of dues outstanding at the beginning of the year, demands raised, amounts realised and closing balance at the end of the year against each lessee. The DCB statements are required to be submitted to the Director, DMG in the first week of July of the following year. As per the guidelines issued (August 2002) by the Director, DMG, Bangalore, at least twenty *percent* of the arrears should be collected along with advance royalty in cases where huge balances are outstanding. Further, issue of

<sup>9</sup> Bangalore (Rural), Chamarajanagar, Chitradurga, Hospet, Ramanagara, Tumkur.

Revenue Recovery Certificates (RRC) may be resorted to for ensuring prompt recovery of arrears even from ongoing leases.

We noticed (July 2012) that the consolidated DCB statements for the years 2006-07 to 2010-11 were not prepared by DMG. After we called for the DCB, the information in respect of major minerals only was compiled (excluding details from Hospet, Udupi and Karwar Divisions) and furnished to us. A perusal of the statement revealed difference in closing balance and opening balance of the subsequent year as detailed below:

(₹ in crore)

Year	Opening balance	Demand	Collection	Actual closing balance	Closing balance arrived by DMG	Difference in closing balance
2006-2007	100.65	95.36	92.04	103.97	108.17	4.20
2007-2008	104.44	104.83	103.83	105.44	115.61	10.17
2008-2009	139.75	115.40	96.52	158.63	164.18	5.55
2009-2010	160.28	196.58	182.35	174.51	184.16	9.65
2010-2011	194.50	251.91	243.21	203.20	216.68	13.48

We also noticed that the arrears had doubled from ₹ 100.65 crore at the beginning of the year 2006-07 to ₹ 216.68 crore as at the end of 2010-11.

Further scrutiny of DCB statements of major minerals in two test-checked divisions also revealed differences between the closing balance of the arrears of previous years and opening balance of arrears in the subsequent year is given below:

(₹ in lakh)

Office	Year	Closing balance of arrears at the end of the previous year	Opening balance of arrears at the beginning of the year	Difference
Chitradurga	2007-08	22.14	19.71	2.43
	2008-09	29.74	24.13	5.61
	2009-10	10.62	4.65	5.97
	2010-11	151.78	150.71	1.07
Tumkur	2007-08	38.31	38.85	-0.54
	2008-09	16.34	13.85	2.49
	2009-10	73.73	39.50	34.23
	2010-11	74.80	52.81	21.99
<b>TOTAL</b>				<b>73.25</b>

Therefore the DCB statements prepared by the Department were not reliable.

Regarding balances not carried forward to the subsequent year amounting to ₹ 73.25 lakh, the DMG had not taken any action to reconcile the accounts. Hence, a probable loss to the tune of ₹ 73.25 lakh not carried forward to the subsequent year cannot be ruled out.

The Department replied (October 2012) that all out efforts will be initiated for the early recovery of arrears. Regarding differences in closing balance figures, the Department replied that the differences occurred due to non-incorporating any revisions in demands in the DCB statement. The Department is developing new software for systematic accounting of the demand raised, amount collected and the closing balance of the arrears and statistical positions in DCB statements to avoid any ambiguity. It was further replied that all efforts will be made to outsource the accounting process to Chartered Accountants as is being done in Gujarat.

### **3.11 Arrears of revenue**

As per provisions of Section 9 of the MMDR Act, royalty has to be paid at the time of despatch of mineral from the lease area which permits no arrears of revenue on minerals despatched. However, we noticed that arrears in revenue accumulated on account of dispute in assessment of royalty on limestone, differential royalty on sale price due to delayed notification of sale value of mineral by the IBM, with retrospective effect, non-payment of dead rent by the idle leases etc.

The arrears of revenue included arrears from existing leases and from expired leases. We noticed (October 2011, November 2011 and March 2012) that no mechanism existed to ensure recovery of arrears in respect of expired leases on priority and that the arrears position of revenue up to the year ending March 2011 was not analysed and documented in the department. In the absence of the same, the possibility of recovery of old arrears is doubtful.

The Department stated (October 2012) that the consolidated position of arrears pending collection as at the end of March 2011 could not be prepared due to non-preparation of DCB statements in Gulbarga and Hospet. Further, it was also stated that the periodical position of arrears pending recovery was not prepared and this would be assessed and documented from 2011-12 onwards after issuing directions in this regard to all the field officers.

Scrutiny of DCB statements and position of arrears in the test checked divisions revealed that the recovery of arrears was not monitored Directorate as the consolidated position of arrears was not prepared.

#### **3.11.1 Arrears in respect of expired leases**

Analysis of the data available in the DCB statements of 2006-07 to 2010-11 revealed that an amount of ₹ 9.29 crore was pending recovery from 857 expired leases in six test-checked offices. There is no time limit within which arrears of revenue should be declared as arrears as land revenue.

We noticed (September to December 2011 and March 2012) that the cases were not referred to Land Revenue Department for recovery as arrears of land revenue. Accumulation of arrears in respect of expired blocks indicates that the Department did not take effective action to collect the revenue periodically before closure of the lease period.

The Department stated (October 2012) that the arrears would be referred to Revenue Department for recovery through Revenue Recovery

Certificate (RRC) and assured that due care would be taken in future for systematic recovery of arrears before the closure of lease period.

### 3.11.2 Arrears referred to RRC

In five test-checked offices, arrears amounting to ₹ 10.18 crore were pending recovery under RRC as per the latest DCB statements. In respect of Tumkur, details of cases pursued for recovery through RRC was not exhibited in the DCB statements. Further, out of these, only ₹ 15.12 lakh was collected under RRC during 2006-07 to 2009-10 indicating inadequate action by the Department in pursuing the recovery process.

The Department stated (October 2012) that persons in default were not traceable and details of fixed assets held by them, if any, were not available in many cases and hence the department was unable to recover the dues. Due to this, the Department issued a circular (June 2011) for submission of TIN number and fixed assets details from the lease holders. It was also replied that the arrears at present will be pursued through Revenue Department. Further, it was replied that non accounting of RRC details in Tumkur has been rectified.

### 3.11.3 Delay in issuing demand notices

As per Rule 40 of KMMC Rules, 1994, the annual assessment of royalty or dead rent shall be issued before the end of June of the year next following the financial year. The Rules do not stipulate any time limit for issue of demand notices.

We noticed in six test-checked offices that in respect of 233 leases where spot inspections of quarries were conducted, demand notices for royalty and dead rent, etc., amounting to ₹ 8.18 crore were issued after

delay ranging from two days to

490 days. The Department attributed (October 2012) the delay to shortage of staff and work load. However, the reply failed to justify the corresponding delay in realising government revenue due to belated raising of demands.

The Department stated (October 2012) that after computerisation, permits are issued after checking the royalty credit of the lessee and demand notices will be issued in respect of old and idle mines.

## 3.12 Internal audit

Internal Audit is an important mechanism to ensure that the departmental operations are carried out according to the applicable laws, regulations and approved procedures in an economical, efficient and effective manner.

**3.12.1** The Internal Audit Wing (IAW) is functional in the Department since 1985. It is headed by an Accounts Officer on deputation from State Accounts Department under the overall control of the Director. However, Internal Audit Manual codifying the

practices and procedures relating to conduct of internal audit was not in place



in the Department. It was stated (October 2012) that the drafting of the Manual is under process.

**3.12.2** The details of number of offices due for audit and the number of offices audited by IAW during the years 2006-07 to 2010-11 as furnished by the DMG is mentioned below:

Year	Total Number of offices	Number of offices due for audit	Number of offices audited	Shortfall (percentage)
2006-07	23	23	13	10 (43.47)
2007-08	23	23	15	08 (34.78)
2008-09	24	24	06	18 (75.00)
2009-10	24	24	09	15 (62.50)
2010-11	31	31	01	30 (96.77)

**3.12.3** The shortfall in coverage of offices by IAW varied from 35 per cent to 97 per cent. The Department stated that the sanctioned staff strength of the IAW was based on the organisation structure as existed in the year 1985. Subsequent expansion of the Department by formation of new divisional offices and increase in the volume of operations rendered the staff strength of IAW inadequate to cover the internal audit work of the entire department. Where shortfall is 97 per cent, it was stated that the records were not available for examination as they were taken over by Lokayukta and CEC for investigation and the majority of the staff were deputed to assist these investigating agencies.

The year-wise details of the number of objections raised and settled by IAW along with money value during the years 2006-07 to 2010-11 as furnished by the Department are detailed below:

(₹ in crore)

Year	Objections raised		Objections settled		Objections pending	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Up to 2006-07	1576	302.49	1394	294.41	182	8.08
2007-08	14	0.52	-	-	14	0.52
2008-09	03	0.03	-	-	03	0.03
2009-10	18	16.09	-	-	18	16.09
2010-11	04	4.10	-	-	04	4.10
<b>Total</b>	<b>1615</b>	<b>323.23</b>	<b>1394</b>	<b>294.41</b>	<b>221</b>	<b>28.81</b>

As seen from the above, 221 cases involving money value of ₹ 28.81 crore were pending for settlement out of which 182 cases are pending for over five years. It was replied that the objections pending settlement up to 2006-07 include the cases referred to RRC and in legal disputes. However, the fact remains that not a single observation has been settled after 2006-07.

The Department stated (October 2012) that additional posts for internal audit have been sanctioned by the Government and the State Accounts Department has been requested to post officials against sanctioned posts.

### **3.13 Conclusion**

We noticed that despite the accelerated growth in turnover of the mining companies from 2003-04 onwards, there was no upsurge in revenue from royalty. This indicated that the Government did not recognise the revenue mobilisation opportunity in an industrial sector which was showing an exponential growth. There was short levy and collection of royalty on value of minerals auctioned or removed due to incorrect adoption of sale price published by IBM. The annual returns submitted by the lessees were not checked correctly as the closing stock of minerals at the end of a previous year was not carried forward as opening balance for the subsequent year resulting in escapement of royalty. We noticed lack of coordination between the Departments responsible for collection of royalty at source and DMG in ascertaining the correctness of the amounts collected by the work executing Department and prompt credit of such collections to the Government. The unrealistic assessment of the quantity of extraction of the minor minerals, non-fixing of norms for arriving at the waste rocks generated and the non-collection of processing fee for issue of permits resulted in loss to the State exchequer. The DCB statements of major minerals available in the Department revealed differences between the closing balance of the arrears of previous years and opening balance of arrears in the subsequent year indicating that the DCB statements prepared by the Department were not reliable. We also noticed that the arrears of revenue pending collection had doubled from 2006-07 to 2010-11. There was delay in raising of demands and lack of monitoring in recovering the arrears.

Internal Audit Manual codifying the practices and procedures relating to conduct of internal audit was not prepared by the Department. The shortfall in coverage of offices by IAW varied from 35 per cent to 97 per cent. We found that 221 cases involving ₹ 28.81 crore were pending for settlement out of which 182 cases are pending for over five years and not a single observation was settled after 2006-07. Thus, not only was the coverage of internal audit but also the compliance to internal audit objections was poor.

### **3.14 Recommendations:**

We recommend that;

1. The Department may ensure proper maintenance of DCB Register for all minerals.
2. A system may be established for proper coordination with the departments responsible for deducting royalty at source to ensure that the royalty due is collected and remitted in an efficient manner.
3. The Government may fix norms for waste rock generation in ornamental stone quarries apart from directing the Department for maintaining proper accounts as per Rules.
4. The Government may consider prescribing a time limit for declaring the cases of arrears involved in expired leases as arrears of land revenue and stipulate a fixed time limit for issue of demand notices after finalisation of annual assessments.

5. Internal Audit Manual codifying the practices and procedures relating to conduct of internal audit may be prepared by the Department. The coverage of internal audit may be enlarged and timely compliance ensured.