



Chapter-V
Mineral Receipts

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5.1 Tax Administration

The responsibility for the management of mineral resources is shared between the Central and State Governments¹. The Mines and Minerals (Development and Regulation) (MMDR) Act, 1957, enacted by the Central Government, lays down the legal framework for regulation of mines and development of minerals². The Mineral Concession (MC) Rules, 1960, the Mineral Conservation and Development (MCD) Rules, 1988, and the Granite Conservation and Development Rules, 1999, have been framed for conservation and systematic development of minerals and for regulating grant of permits, licences and leases.

Legislations for exploitation of minor minerals have been delegated to the States. Accordingly, Karnataka Minor Mineral Concession (KMMC) Rules, 1994 were framed by the State Government.

5.2 Internal Audit

The Internal Audit Wing (IAW) is functional in the Department of Mines and Geology (DMG) since 1985. It is headed by an Accounts Officer on deputation from the State Accounts Department under the overall control of the Director of Mines and Geology.

As per the information furnished by the Department, out of 33 Offices to be audited during 2016-17, only one Office was audited by IAW. The shortfall in coverage of Offices was attributed to the shortage of staff in the Wing. Year- wise details of the number of objections raised, settled and pending along with tax effect were not furnished by the Department.

5.3 Results of Audit

In 2016-17, test check of the records of 13 Offices of DMG, showed non-levy of penalty for removing minerals without Mineral Despatch Permit, non/short recovery of royalty/dead rent and other irregularities involving ₹ 102.03 crore pointed out through 24 paragraphs, which fall under the following categories as given in **Table 5.1**.

Table 5.1
Results of Audit

Sl. No	Category	Number of paragraphs	(₹ in crore)
			Amount
1.	Thematic Audit on ‘Deduction of royalty on minor minerals by works executing departments/agencies’	1	45.60
2.	Non/short levy of penalty for transportation of minerals without obtaining Mineral Despatch Permits	11	52.17
3.	Non/short levy of royalty and dead rent	5	2.92
4.	Other irregularities	7	1.34
	Total	24	102.03

¹ Entry 54 of the Union list (list I) and entry 23 and 50 of the State list (list II) of the Seventh Schedule of the Constitution of India.

² Other than petroleum and natural gas and atomic minerals.

During the course of the year, the Department accepted under-assessments and other deficiencies of ₹ 18.11 crore in respect of three paragraphs. In nine paragraphs, an amount of ₹ 0.96 crore was also recovered as pointed out during earlier years.

Thematic Audit on ‘Deduction of royalty on minor minerals by works executing departments/agencies’ involving ₹ 45.60 crore and a few illustrative cases on non-levy of royalty and penalty involving ₹ 54.22 crore are mentioned in the following paragraphs.

5.4 Thematic Audit on Deduction of royalty on minor minerals by works executing departments/agencies

Highlights

Only 21 to 26 *per cent* of the quantity of minor minerals was directly assessed based on pit measurement against which royalty was demanded from the legal quarry lease/licence holders by DMG on minor minerals. Rest of the quantity of minor minerals were transported without Mineral Despatch Permits and royalty in turn was levied by the works executing departments/agencies (WEDAs) without ascertaining the source of quarrying. This indicated high likelihood of illegal quarrying in the State which needs to be investigated by DMG.

(Paragraph 5.4.2)

Out of ten Districts test checked, Nirmithi Kendras of seven Districts and M/s. Karnataka Rural Infrastructure Development Limited (KRIDL) in all the ten Districts were not deducting royalty. Four out of seven Nirmithi Kendras and six out of ten offices of KRIDL were not maintaining any account of minor minerals utilised in the works executed by them. Total non-levy of royalty under Nirmithi Kendras and KRIDL along with seven other defaulting WEDAs worked out to ₹ 3.66 crore.

(Paragraph 5.4.3.1)

Out of 87 WEDAs test checked;

- 19 WEDAs in ten Districts were not deducting royalty on the minor minerals obtained at the work site and utilised in the works (captive consumption) which resulted in non-deduction of royalty amounting to ₹ 39.56 crore;
- Nine WEDAs in seven Districts, had extracted 40.06 lakh cum of murrum during the course of execution of works. Usage/removal of the murrum extracted attracted a potential royalty of ₹ 12.02 crore, however, usage reports were not available with WEDAs or DMG; and
- 12 WEDAs in seven Districts had collected royalty at pre-revised rates which resulted in short levy of royalty of ₹ 2.38 crore.

(Paragraphs 5.4.3.2 and 5.4.4)

DMG failed to impose the condition of collection of penalty through WEDAs for transportation of minor minerals without the required Mineral Despatch Permits. Sources of minor minerals consumed at WEDAs were also not identified which indicated towards possibilities of illegal quarrying and unrestricted transportation of minor minerals without Mineral Despatch Permits.

(Paragraph 5.4.6)

5.4.1 Introduction

Government of Karnataka executes various works and projects relating to construction of dams, roads, buildings, etc. through different Departments/Agencies like Public Works Department, Nirmitti Kendras, Bruhath Bengaluru Mahanagara Palike, Bengaluru Development Authority, Zilla Panchayaths, Bengaluru Metro Rail Corporation Limited, etc. collectively known as Works Executing Departments/Agencies (WEDA). These WEDAs in turn assign the works to various contractors for execution. During the execution, contractors *inter alia* use minor minerals such as sand, size stones³, jelly⁴, murrum⁵, etc. which are procured from quarry leaseholders or in some cases brought by the contractors from their own quarries.

Minor minerals are classified as specified⁶ and non-specified⁷. As per the provisions of Karnataka Minor Mineral Concession (KMMC) Rules, royalty on all minor minerals should be paid in advance at source (quarries) and shall be transported after obtaining Mineral Despatch Permits (MDPs) from the Department of Mines and Geology (DMG). However, the cases of transportation of non-specified minor minerals without MDPs are common in the State. Hence, with a view to collecting royalty on minor minerals utilised in the works executed by various WEDAs, the Commerce and Industries Department issued Circulars (August 2003, May 2004 and December 2007), instructing the WEDAs to deduct royalty from the bills of the contractors executing works on the minor minerals for which no proof of payment of royalty i.e. MDPs was produced by the contractors.

Major part of the income from royalty on minor minerals was coming through WEDAs (deduction at consumption point); hence, any deficiency/lapse in deduction of royalty by the WEDAs would result in major erosion of revenue to the Government. This was the reason for taking up this Audit.

DMG is under the administrative control of the Secretary to the Government of Karnataka, Commerce and Industries Department and is headed by the Director of Mines and Geology. The Director is assisted by two Joint Directors (each in-charge of fields Offices in North and South Zone) and 31 Offices in 30 Districts (one Office in each District except Ballari, in which there are two Offices).

DMG is responsible for levy and collection of royalty on minor minerals from the quarry lease holders on removal of minor minerals from the quarries or through WEDAs who would remit to DMG the royalty deducted by them from the contractors' bills for the minor minerals consumed in the works executed by them.

In this Thematic Audit, the main objective of Audit was to ascertain whether the Department was able to effectively monitor and ensure correctness and timely realisation of royalty on minor minerals by the work executing

³ Building stone with bigger dimension.

⁴ Jelly - Crushed Stone.

⁵ Murrum - A form of laterite (clay material) used for road surfaces.

⁶ Specified minor minerals means minerals specified by the State Government from time to time. Ornamental and Decorative Building stones, such as granite, marble, felsite, quartzite, sandstone and syenites are examples of specified minor minerals.

⁷ Non-specified minor minerals mean minerals of low value such as building stone, sand, murrum, etc.

department/agencies. The Thematic Audit covered a period of five years from 2012-13 to 2016-17.

Out of the 31 Offices of the Deputy Directors/Senior Geologists, 10 District Offices⁸ (five District Offices in each Zone) were selected by Random Sampling method. Information regarding payments by WEDAs under the jurisdiction of each selected Office was collected and a sample of such WEDAs were visited to check the correctness of deductions of royalty made by them from the bills of the contractors.

An Entry Meeting was held with Director, Department of Mines and Geology in April 2017 wherein the scope of audit, methodology and audit objectives including sampling were explained to the Department. The draft Audit Report was forwarded to the Government and the Department in August 2017 and was discussed in the Exit Meeting held in August 2017 with the Director, Department of Mines and Geology. Replies of the Department received have been incorporated in the respective paragraphs.

The Indian Audit and Accounts Department acknowledges the co-operation of the Department of Mines and Geology and the WEDAs in providing necessary information and records for Audit.

Audit Findings

5.4.2 Non-deduction of royalty at source is indicative of illegal quarrying in the State

Royalty directly assessed and demanded by DMG on minor minerals from the legal quarry lease/licence holders and the amount of royalty deducted by WEDAs from the bills of the contractors for the years 2012-2013 to 2016-2017 are detailed in **Table 5.2**.

Table 5.2
Percentage of royalty realised on minor minerals from WEDAs vis-à-vis total royalty assessed/demanded by DMG on minor minerals.

(₹ in crore)

Year	Total revenue assessed and demanded by DMG on minor minerals from the quarry lease/licence holders	Royalty through WEDAs	Total of royalty (2 + 3)	Percentage of revenue through WEDA vis-à-vis total royalty assessed on the basis of pit-measurement
1	2	3	4	5
2012-2013	133.66	449.41	583.07	77.08
2013-2014	149.84	433.14	582.98	74.30
2014-2015	204.37	632.32	836.69	75.57
2015-2016	235.01	708.21	943.22	75.08
2016-2017 ⁹	226.24	843.74	1,069.98	78.86

The above Table depicts that the royalty collected through WEDAs on minor minerals is 74 to 79 per cent of the total revenue from royalty.

⁸ North Zone: Bagalkote, Chitradurga, Dharwad, Kalaburgi and Koppal.
South Zone: Madikeri, Mysuru, Shivamogga, Tumakuru and Udupi.

⁹ Provisional figure as it was obtained from Management Information System of DMG and Demand, Collection and Balance Statements of all the field Offices are yet to be finalised.

According to Rule 36 read with Rule 42 of the KMMC Rules, royalty on minor minerals should be paid before removal/consumption of the mineral and no person shall transport or cause to be transported any minor mineral except under or in accordance with a Mineral Despatch Permit (MDP). Considering that royalty is levied at source based on the pit measurement and minor minerals transported are issued MDP after payment of royalty, significant proportion of minor minerals getting transported to WEDAs without MDPs is contrary to the system in place. As per the statistics, quantity of minor minerals removed from the legal quarries under DMG was far less than the total consumption of minor minerals in the State. This indicated high likelihood of illegal quarrying in the State which needs to be investigated by DMG. It is to be noted that the consumption at the WEDAs is for works undertaken by the Government Departments/agencies and private consumption is totally unaccounted, which indicates that the extent of illegal quarrying is even more than the statistics indicated in the **Table 5.2**.

Furthermore, though DMG was aware that major portion of royalty was being realised through WEDAs, no action was taken to ascertain the reasons for huge amount of royalty not being deducted at source i.e. from quarry lease/licence holders.

Audit brought this to the notice (November 2017) of the Director, Mines and Geology.

It is recommended that DMG may take action to ascertain the reasons for huge portion of royalty not being deducted at source.

5.4.3 Non-deduction of royalty

According to Rule 36 read with Rule 42 of the KMMC Rules, royalty on minor minerals should be paid before removal/consumption of the mineral and no person shall transport or cause to be transported any minor mineral except under or in accordance with a Mineral Despatch Permit (MDP). Further, as per the Circular instructions issued (December 2007) by the Department of Commerce and Industries, *“in case of minor minerals purchased from private sources like quarry lease holders or private quarry owners, if the documents/ Mineral Despatch Permits (MDPs) are produced in this regard, then the contractor is not liable to pay the royalty charges. Therefore, the contractor is required to produce the documents to prove that the minor minerals and construction materials, which were used by him, were purchased either from quarry lease holders or private quarry lease owners”*.

Besides, as per the Circular (March 2013), DMG had instructed the WEDAs to include an enabling clause in the contract to deduct penalty at five times of royalty, along with royalty, from the bills of the contractors, if MDPs were not furnished. WEDAs were also instructed to furnish details of the contractors who were entrusted with various works, along with the estimated quantity of materials required for such works.

Hence, as per the existing rules and instructions on the issue, wherever MDPs were not produced, royalty and penalty were to have been recovered by the WEDAs. This was to ensure recovery of royalty from minor minerals, on which MDP was not obtained and royalty was not realised. Further, non-production of

MDPs indicated the chances of existence of illegal quarrying and to curb the same, penalty at the rate of five times was instructed to be levied.

Deficiencies noticed by Audit in realisation of royalty through the WEDAs are as mentioned below:

5.4.3.1 Non-deduction of royalty on minor minerals by WEDAs from the bills of the contractors

- On a test check of records of WEDAs in 10 Districts, Audit found that Nirmithi Kendras of seven Districts¹⁰ were not deducting royalty. Furthermore, it was noticed that four out of seven Nirmithi Kendras were not maintaining any account of minor minerals utilised in the works executed by them;
- Similarly, on a test check of records of M/s. Karnataka Rural Infrastructure Development Limited in 10 Districts, it was noticed that no royalty was being deducted. Furthermore, no accounts of minor minerals utilised were maintained in six¹¹ out of 10 Districts;
- Besides, Audit noticed non-deduction of royalty in seven¹² other WEDAs in five Districts.

The resultant non-deduction of royalty in the aforesaid cases, wherever details of consumption were available, amounted to ₹ 3.66 crore for the period from 2012-13 to 2016-17. Details are given in the **Table 5.3** below:

Table 5.3
Details of non-levy of royalty

(₹ in lakh)			
Name of minor minerals	Quantity utilised in cubic metre	Rate of royalty per cubic metre	Non-levy of royalty
2012-13 to February 2014			
Building Stone (size stone)	6,752.11	79	5.33
Building Stone (jelly, aggregates, metal, etc.)	60,223.67	54	32.52
Ordinary Sand.	33,683.88	52	17.52
Murram	76,679.92	15	11.50
March 2014 to March 2017			
Building Stone (size stone)	23,555.82	158	37.20
Building Stone (jelly, aggregates, metal, etc.)	1,56,649.63	108	169.18
Ordinary Sand.	59,968.05	104	61.77
Murram	1,01,607.68	30	30.48
Total			365.50

The money value shown in the Table is indicative as accounts of usage of minor minerals were not available with several WEDAs as mentioned above, and hence, the actual non-levy may work out several folds higher than the figures included in **Table 5.3**.

¹⁰ Bagalkote, Dharwad, Kalaburgi, Koppal, Mysuru, Shivamogga and Tumakuru.

¹¹ Chitradurga, Dharwad, Koppal, Mysuru, Tumakuru, Udupi.

¹² Central Public Works Department - Bengaluru, Bus Rapid Transit System - Dharwad, Panchayath Raj and Rural Development (Dharwad and Kalaburgi), Public Works Department (Kalaburgi, Koppal and Udupi).

Furthermore, in all these cases, penalty at five times of royalty was leviable since the contractor did not produce MDPs. However, this was not enforced by the WEDAs nor did the DMG follow-up the cases which resulted in illegal transportation of minor minerals.

5.4.3.2 Non-deduction of royalty on captive consumption of murrum

As per the Circular¹³ instructions issued (February 2015) by DMG, based on the judgement of Hon'ble Supreme Court of India in *State of Orissa vs Union of India* (AIR 2001 SC 410 (2001) 1 SCC 429 dated 24 November 2000), royalty is payable on the minor minerals available on the work site/obtained from the site and captively utilised by the contractors in the works executed.

Audit noticed that these instructions were circulated internally in the Department and not issued to any of the WEDAs and the WEDAs were not deducting royalty on the captive usage of minor minerals by the contractors in the works, especially in the embankment works.

During test check of records of 87 WEDAs, Audit noticed that the contractors executing works related to roads and canals for 19 WEDAs¹⁴ in 10 Districts¹⁵, had utilised the available minor minerals such as soil/murrum in the same works executed. However, these WEDAs were not deducting royalty on the minor minerals available at the work site and utilised in the works. This resulted in non-deduction of royalty amounting to ₹ 39.56 crore¹⁶.

Further, Audit noticed that from the running account bills of nine WEDAs¹⁷ (out of 87 WEDAs) in seven Districts¹⁸, 40.06 lakh cum of murrum was extracted during the course of execution of works. However, it was not forthcoming from the records whether the murrum so extracted was utilised in any other works executed or was disposed of in any other manner. As per the Rules, the utilisation/removal of the murrum attracted levy of royalty. However, DMG did not obtain such information from the WEDAs concerned and hence the usage of

¹³ Circular No.DMG/DCB/Works-01/2014-15 dated 27 February 2015.

¹⁴ Bagalkote Town Development Authority (BTDA), M/s.Cauvery Neeravari Nigama Limited, Deputy Commissioner, District Urban Development Cell (DUDC) – Bagalkote and Mysuru, Directorate of Urban Land Development (Bus Rapid Transit System), Karnataka Health System Development and Reform Project, M/s. Karnataka Power Corporation Limited, M/s. Karnataka Rural Infrastructure Development Limited, Karnataka Rural Road Development Agency, Karnataka State Highway Development Project, Karnataka State Highway Improvement Project, Karnataka Urban Water Supply and Drainage Board, Minor Irrigation-Kalaburgi, Municipal Corporation (Kalaburgi, Mysuru and Udupi), National Highway Authority of India - Bengaluru, Chitradurga and Kalaburgi, Panchayat Raj Engineering Division, Public Works Department, Rural Development and Panchayat Raj, University of Horticultural Sciences, Bagalkote, Water Resources Department – Hemavathi Project.

¹⁵ Bagalkote, Bengaluru, Chitradurga, Dharwad, Kalaburgi, Koppal, Mysuru, Shivamogga, Tumakuru and Udupi.

¹⁶ Quantity of 8.16 lakh cum at the rate of ₹ 15 per cum from April 2012 to February 2014 and a quantity of 127.77 lakh cum at the rate of ₹ 30 per cum, thereafter till March 2017.

¹⁷ M/s. Cauvery Neeravari Nigam Limited, Deputy Commissioner, Mysuru (District Urban Development Cell), Karnataka Health System Development and Reform Project, M/s. Karnataka Road Development Corporation Limited, Karnataka State Highway Development Project, Karnataka State Highway Improvement Project, Mysuru Urban Development Authority, Public Works Department-Mysuru, Rural Development and Panchayati Raj.

¹⁸ Bengaluru, Chitradurga, Dharwad, Koppal, Mysuru, Shivamogga and Udupi.

such mineral was not being ensured by DMG. Audit points out that the usage/removal of the murrum extracted as aforesaid would have fetched a potential royalty of ₹ 12.02 crore.

After this was pointed out in Audit, DMG endorsed circulars/instructions regarding captive consumption of minor minerals to 67 WEDAs.

Audit concludes that the likely reason for non-deduction of royalty mentioned in paragraphs 5.4.3.1 and 5.4.3.2 was absence of a mechanism for collection of information about the utilisation of minor minerals by WEDAs.

5.4.4 Short deduction of royalty due to adoption of pre-revised rates

As per the Notification of the Commerce and Industries Department, the royalty rates for minor minerals were revised with effect from 5 March 2014. The revised rates of royalty for murrum, ordinary sand, building stone and size stone per cum were ₹ 30, ₹ 103, ₹ 108 and ₹ 158 respectively. During test check of records of 87 WEDAs in 10 selected Districts, Audit noticed that 12 WEDAs¹⁹ in seven Districts²⁰ had recovered royalty at pre-revised rates as against the rates prescribed for size stone, jelly, ordinary sand and murrum in the Notification issued by Commerce and Industries Department (5 March 2014) from the bills of the contractors in respect of various works executed for the period 2014-2017.

Royalty to be deducted on size stone (0.15 lakh cum), jelly (2.24 lakh cum), ordinary sand (0.45 lakh cum) and murrum (4.73 lakh cum) utilised in works at revised rates worked out to ₹ 4.54 crore²¹, whereas an amount of ₹ 2.16 crore only was deducted which resulted in short deduction of royalty of ₹ 2.38 crore.

Though DMG had instructed the WEDAs (Circular of 23 March 2013) to furnish information regarding the quantity of various minor minerals utilised in the works executed by them, no mechanism existed to collect such information. Besides, DMG did not take any follow-up action to insist that the WEDAs comply with the instructions. Due to this, DMG could not ascertain the nature and quantity of minor minerals consumed and the rate at which royalty was deducted by the WEDAs. This resulted in short deduction of royalty, which escaped the attention of the DMG.

Furthermore, though penalty at five times was leviable, as per the Circular issued by DMG (March 2013), it was not levied on the contractor for transportation of minor minerals without MDP.

It is recommended that DMG may put in place a mechanism to collect information from WEDAs relating to minor minerals such as types of minor

¹⁹ District Urban Development Cell, Chitradurga, Executive Engineer–Pancayath Raj Engineering Divison (Madikeri and Kalaburgi), Executive Engineer–Project Division (Chitradurga, Dharwad, Koppal, Tumakuru and Udupi), M/s.Karnataka Power Transmission Control Limited, Hosangdi, Udupi, National Highway Authority of India, Dharwad, Nirmithi Kendra, Chitradurga and Public Works Department and Inland Water Transport Division, Udupi.

²⁰ Chitradurga, Dharwad, Kalaburgi, Koppal, Madikeri, Tumakuru and Udupi.

²¹ Royalty: Size Stone: 14538.75 X ₹ 158/- = ₹ 22,97,123/-, Jelly: 224339.37 X ₹ 108/- = ₹ 2,42,28,652/-, Ordinary Sand: 45399.52 X ₹ 103/- = ₹ 46,76,151/- and Murrum: 472926.08 X ₹ 30/- = ₹ 1,41,87,782/-.

minerals, consumed/extracted, rate at which royalty has been deducted and source of minor minerals as supplied by different contractors to WEDAs.

5.4.5 Delayed/non-remittance of royalty by the WEDAs to DMG

According to Article 4 of the Karnataka Financial Code (KFC), all transactions to which any Government servant in his official capacity is a party, without any reservation, are to be brought to account, and all moneys received should be paid in full without undue delay, in any case within two days into the Government treasury.

Audit noticed that DMG did not have any monitoring mechanism to ascertain the timeliness of the payment of royalty deducted by the WEDAs. On a review of records of the WEDAs, Audit noticed the following:

- Royalty of ₹ 1.46 crore deducted by Kalaburgi Mahanagara Palike from the bills of the contractors for the period from 2009-10 to 2013-14 was remitted to DMG during January 2015 after delay ranging from 57 months to nine months;
- Royalty of ₹ 2.37 crore deducted by M/s. Karnataka Warehousing Corporation Limited, Bengaluru, during 2006-07 to 2014-15 was remitted to DMG from January 2014 to June 2014 after a delay ranging from 85 months to 15 months;
- Besides, royalty amounting ₹ 6.06 lakh deducted by Town Municipal Council, Wadi, during 2014-15 was not remitted to DMG.

Here also, the present system is not helping DMG in identifying the deduction of royalty by the WEDAs and hence could not ensure its timely payment to the Government Account. As mentioned above, Audit noticed that royalty collected by certain WEDAs were retained by them for long periods and hence, there were chances of utilising this money for other purposes which is tantamount to temporary misappropriation of Government money. Probability of such events was considerable enough as the DMG was not aware of the details of the deductions.

Besides, Audit noticed that there was no penal provision in the KMMC Rules, 1994, to levy interest for delay in remittance of royalty by WEDAs similar to that of the Section 9-A (7) of the Karnataka Value Added Tax Act, 2003, in which interest at the rate of 1.50 *per cent* per month is levied for delay in payment of tax deducted at source on works contracts by various Department/Agencies.

It is recommended that DMG may take deterrent measures to prevent delay/remittance of royalty.

5.4.6 Failure to identify the sources of minor minerals and transportation of minor minerals without MDP

According to Rule 3 of the KMMC Rules, 1994, no person shall undertake any quarrying operation in respect of any minor mineral in any land without a valid lease/licence granted under the Rules. Besides, Rule 42 of the aforesaid Rules states that no mineral shall be transported without obtaining MDP.

As per clause 5 of a Circular issued during March 2013, DMG had instructed all WEDAs to collect MDPs from the contractors to confirm that royalty was paid

on the minor minerals utilised in the works executed by the contractors. Further, as mentioned in Para 5.4.3, penalty at five times of royalty was recoverable from the bills of the contractors, if MDPs were not furnished.

Audit noticed that WEDAs had not followed the Circulars/instructions of DMG including the aforesaid clause in the contracts. As seen from the records of the WEDAs audited, the contractors were not furnishing MDPs or any other proof, such as invoices from quarry lease holders or other dealers like crushing units, etc. Besides, WEDAs were not maintaining the details regarding the sources of minor minerals utilised in the works executed by them. In addition to this, no follow-up efforts were made by DMG to collect such information from the WEDAs. Due to this, the Department was unable to identify the source of these minerals and to verify whether the sources were legal or not.

Audit points out that identification of sources was important not only in curbing illegal mining but also in mitigating adverse effects of quarrying on the environment and the related eco-systems.

5.4.7 Conclusion

Royalty collected through WEDAs significantly outweighed the direct collection of royalty by DMG leading us to conclude that illegal quarrying thrives in the State in a considerable proportion. There was no system in the Department to identify the incidences of consumption of minerals in the State to ensure the realisation of revenue through royalty deduction. DMG could only receive whatever payments of royalty made by the WEDAs and was not in a position either to identify whether all the WEDAs who deduct royalty were paying the same to the Government or to ensure the correctness of such deductions and/or the timeliness of the payments made by the WEDAs. DMG neither collects any information regarding the various works undertaken in the State nor does it collect any information on the quantities of minor minerals consumed in the State. Besides, the DMG failed in collecting information regarding sources of minor minerals consumed through the WEDAs. This resulted in non-identification of illegal quarrying and consequent failure to curb such illegal activities.

5.5 Non-levy of royalty on minor minerals transported without obtaining Mineral Despatch Permits

Rule 36 of the KMMC Rules, 1994, stipulates that the holder of a quarrying lease or licence shall pay royalty on minor mineral removed or consumed at the rates specified in Schedule-II of the Rules. Rule 42 (1) of the KMMC Rules, 1994, requires that no person shall transport, or cause to be transported, any minor mineral, except under or in accordance with a computerised MDP generated in electronic form (*e-permit or m-permit*). Additionally, as per Part-V, Clause-4 of the quarrying lease deed, the lease holder will be liable for penalty at five times of royalty for transporting minor mineral without obtaining MDP. Further, the Director of Mines and Geology has issued (May 2016) circular²² instructions to all the Offices of the Department to levy penalty at five times of royalty for transporting minor mineral without obtaining MDP.

During test check of DCB Statements, assessment records relating to production, permit issue registers and e-permits obtained by quarry lease holders in the three²³ DD and one²⁴ SG Offices of Department of Mines and Geology between November 2016 and March 2017, Audit noticed that 4,52,527.20 metric ton (MT) of building stone and 39,007 square metre of shahabad stone were transported without obtaining MDP during 2015-16 by the quarry lease holders for which penalty at five times of royalty was levied. However, royalty amounting to ₹ 2.77 crore²⁵ was not levied.

When Audit pointed out these cases during November 2016 and March 2017, DDs-Chitradurga and Hosapete stated that penalty at five times of royalty was levied as per the Circular of Director issued during May 2016 with DD-Hosapete adding that the position of levy of royalty in addition to penalty would be clarified with the Director of Mines and Geology. Audit pointed out that the levy of royalty on any minor minerals before removal/consumption is clear as per Rule 36 of KMMC Rules and the same has been omitted to be levied in all the cases brought out in the paragraph.

DD, Kalaburgi and SG, Haveri stated that the issue would be examined.

Audit brought these cases to the notice of the Director of Mines and Geology and to the Government during April and May 2017. Reply is still awaited (November 2017).

5.6 Non-levy of penalty for unauthorised transportation of minor minerals

As mentioned in paragraph 5.5, no person shall transport, or cause to be transported, any minor mineral, except under or in accordance with a computerised MDP generated in electronic form (*e-permit or m-permit*). Further, as per the conditions of the lease agreement, the lease holder will be liable for penalty at five times of royalty for transporting minor mineral without obtaining MDP.

²² Circular No.M&G:DCB/SQL-1/22/DCB Section/2016-2017 dated 3 May 2016.

²³ Chitradurga, Kalaburgi and Hosapete.

²⁴ Haveri.

²⁵ Rate of royalty for building stone and shahabad stone is ₹ 60/- per MT and ₹ 15/- per square metre respectively.

During test check of Demand, Collection and Balance (DCB) Statements, assessment records relating to production, permit issue registers and e-permits obtained by quarry lease holders in the two²⁶ DD and seven²⁷ SG Offices of Department of Mines and Geology between November 2016 and March 2017, Audit noticed that during the years 2012-13 to 2015-16, 33,87,255 MT, 27,800 MTs and 62,524 MTs of building stone, murram and ordinary clay respectively were transported by the quarry lease holders. The quarry lease holders had, however obtained permits for transportation of only 13,49,909 MTs, 2,500 MTs and 50,370 MTs of building stone, murram and ordinary clay respectively. Therefore, 20,37,346 MT of building stone, 25,300 MT of murram and 12,154 MT of ordinary clay were transported without obtaining MDPs. Though royalty has been levied in all these cases, penalty at five times of royalty amounting to ₹ 58.22 crore was to be levied for transportation without MDPs as per provisions under the lease agreement. However, Audit noticed that six²⁸ Offices had not levied any penalty while the other three²⁹ Offices had levied penalty of ₹ 6.77 crore during 2013-14 and 2015-16. This resulted in non/short levy of penalty amounting to ₹ 51.45 crore.

Audit had pointed out similar lapses on earlier occasions³⁰ too and the Department had consistently maintained that the provisions of Rule 42(1) of KMMC Rules, 1994, are not applicable to non-specified minor minerals. Audit had not accepted the contention and pointed out that the issue of MDP is a regulatory measure which is essential to control the transportation of minerals. Eventually, the Director of Mines and Geology acceded to the view of Audit and issued a Circular (May 2016) emphasising the levy of penalty at five times of royalty for transportation of minerals without MDP.

When Audit pointed out these cases during November 2016 and March 2017, DD, Belagavi and SG, Dharwad replied that penalty at five times of royalty was levied as per the Circular issued (May 2016) by the Director of Mines and Geology. However, penalty was found to be actually levied at four times since the remaining one portion was adjusted towards royalty in the Demand, Collection and Balance Register. The contention is therefore not acceptable since the provisions of the lease agreement and the Circular issued by the Director, required levy of penalty at five times of royalty and according to Rule 36 of KMMC Rules, any mineral has to suffer royalty at the rates specified under schedule II of the Rules.

In all other cases, DD/SGs replied that the matter would be examined.

Audit brought these cases to the notice of the Director of Mines and Geology and to the Government during February and May 2017. Reply is awaited (November 2017).

²⁶ Belagavi and Hosapete.

²⁷ Ballari, Dharwad, Davanagere, Gadag, Koppal, Raichuru and Yadgir.

²⁸ Ballari, Davanagere, Hosapete, Koppal, Raichur and Yadgir.

²⁹ Belagavi, Dharwad and Gadag.

³⁰ Paragraph No.6.6 of the Audit Report 2014-2015 (Report No.3 of 2015) and Paragraph No.6.4 of the Audit Report 2015-2016 (Report No.5 of 2016).