

CHAPTER VIII- MINING RECEIPTS

8.1 Result of audit

Test check of records relating to assessment and collection of mining revenue during the year 2005-06 revealed non/ short assessment of royalty, dead rent, non recovery of contract money, royalty, mineral area development cess and short levy of interest on belated payment of royalty etc. amounting to Rs.261.80 crore in 484 cases which can broadly be categorised as under:

(In crore of rupees)

Sl. No.	Category	Number of cases	Amount
1.	Non levy of dead rent and interest	54	0.17
2.	Short/ non levy of royalty and interest	47	20.80
3.	Short levy of Stamp duty and registration fee	18	0.16
4.	Review on “Assessment and collection of mining dues from major minerals”.	1	228.61
5.	Others	364	12.06
	Total	484	261.80

During the year 2005-06, the department accepted under assessment royalty of Rs.59.27 crore in 349 cases.

A few illustrative cases and a review on assessment and collection of mining dues from major minerals involving Rs.228.61 crore highlighting important cases are mentioned in the following paragraphs:

Geology and Mining Department

8.2 Review on: Assessment and Collection of Mining dues from Major Minerals

Highlights:

Royalty of Rs.15.12 crore was realised short.

(Paragraph 8.2.7)

Incorrect gradation of coal resulted in loss of revenue of Rs.209.93 crore.

(Paragraph 8.2.9)

Cost of mineral of Rs.23.11 lakh due to unauthorised extraction was not realised.

(Paragraph 8.2.11)

Stamp duty and registration fee of Rs.1.49 crore was realised short due to incorrect calculation of average royalty.

(Paragraph 8.2.15)

Recommendations:-

The State Government may consider implementation of the following recommendations to strengthen its system of assessment and collection

- internal control may be strengthened;
- extraction of minerals should be as per mining plan; and
- royalty should be recovered on mineral despatched from the leased area.

8.2.1 Introduction

Chhattisgarh is endowed with rich major minerals such as iron ore, coal, diamond, limestone, bauxite, tin ore, fireclay and corundum etc.

The exploitation of mineral wealth, assessment of royalty and collection thereof is governed under the provisions of Mines and Minerals (Regulation and Development) Act, 1957 (MMRD Act), Mineral Concession Rules, 1960, (MCR) and Mineral Conservation and Development Rules, 1988 (MCD Rules) and Madhya Pradesh Minor Mineral Rules 1996 (MPMMR).

8.2.2 Organisational set up

The Principal Secretary, Mineral Resources Department is incharge of Geology and Mining Department. The Director, Geology and Mining (Director) is the head of the department who is assisted by three Deputy Directors at regional level i.e. Bilaspur, Jagdalpur and Raipur. At district level mining officer (MO), assistant mining officer (AMO) and mining inspector (MI) are to administer mining activities involving processing of applications for leases, assessment, realisation of revenue, prevention of illegal mining and other activities leading to leakage of revenue. There is a flying squad which works under the control of Director.

8.2.3 Audit objectives

Detailed analysis of records was conducted with a view to:

- ascertain whether the rules and procedures prescribed in the MMRD Act, MCR and MCD Rules were being complied with and
- ascertain the effectiveness of the internal control mechanism for realisation of dues.

8.2.4 Scope of audit

Test check of records of six[©] out of 16 districts for the period from 2001-02 to 2005-06 was conducted between March 2006 to May 2006 to examine the correctness of assessment, collection and recovery of mining dues. The selection of units was done keeping in view the revenue collection and presence of deposits of major minerals in the area. The results of test check are detailed in succeeding paragraphs.

8.2.5 Trend of revenue

The budget estimates, actual receipts for the years from 2001-02 to 2005-06 was as under:

(In crore of rupees)

Year	Budget estimates	Actual receipts	Variation: increase(+)/ decrease(-)	Percentage
1.	2.	3.	4.	5.
2001-02	455.00	454.04	(-)0.96	(-)0.21
2002-03	539.41	538.14	(-)1.27	(-)0.24
2003-04	709.00	629.68	(-)79.32	(-)11.19
2004-05	700.00	679.83	(-)20.17	(-)2.88
2005-06	700.00	721.12	(+)21.12	(+)3.02

[©] Dantewada, Durg, Janjgir, Korba, Koria and Raipur.

8.2.5.1 Arrears

The arrears of revenue from major and minor minerals as on 31 March of each year were as under:

(In crore of rupees)

Year	Arrears
2001-02	8.39
2002-03	8.79
2003-04	1.97
2004-05	2.12
2005-06	1.91

Various stages at which the revenue was pending collection as on 31 March 2006 were stated to be as under:

(In crore of rupees)

Sl. No.	Reasons	Amount
1.	Recovery under stay: pending with Court or Government	0.29
2.	Recovery due from companies no more in existence	0.17
3.	Whereabouts of defaulters not known	0.05
4.	RRCs sent to the collectors of other states.	0.01
5.	RRCs sent to the collectors within state	0.72
6.	Recovery in progress	0.67
Total		1.91

8.2.6 Internal control mechanism

8.2.6.1 Non finalisation of periodical assessment of revenue

As per Director, Madhya Pradesh instructions issued in August 1966, assessment of royalty in respect of mining lease shall be done every six months i.e. in June and December every year. Director, Mining, Chhattisgarh also reiterated this in June 2001 and directed that a report of finalisation of assessment is to be sent by the MI before due date to MO for his approval.

Test check of records of six[√] district mining offices (DMOs) revealed that in case of 60 mines, assessments of royalty for the period from June 1994 to June 2005 were not finalised. This indicated that internal control instituted by the Director was not being complied with.

Further, test check of records of five out of 26 lessees of limestone in DMO, Durg revealed that six monthly assessments for the period 2001-2005 involving Rs.1.17 crore were not approved by MO though the MI had submitted their assessments. It is evident that six monthly assessments were being given scant attention by MO.

8.2.6.2 Non maintenance of demand and collection register

Demand and Collection Register (DCR) maintained by the Mining Department contains the names and addresses of lessees, area and period of lease etc. to keep

[√] Dantewada, Durg, Janjgir, Korba, Korla and Raipur

watch on quantity of minerals extracted and despatched, royalty payable and paid, dead rent payable and paid, demand raised after assessment and arrears of revenue etc.

Test check of records of DMOs, Durg, Korba and Korla revealed that DCRs were not maintained, in the absence of which the authenticity of assessed royalty and dead rent etc. could not be checked. It indicates that the DMOs were not in a position to assess the outstanding dues against the lessees.

After this was pointed out, the department stated that DCR would be maintained and intimated to audit. Failure to maintain DCR may result in non detection of cases such as non levy of dead rent and interest and non cancellation of idle mining leases etc.

8.2.6.3 Inadequate inspections

As per instructions of Director, Madhya Pradesh issued in March 1978 (as adopted by Chhattisgarh) MI is required to inspect mines in his area once in every six months between April to September and October to March each year to ensure that terms and conditions as laid down in the lease deeds are observed by lessee, extraction of mineral is not done outside the leased area and the leased area is properly demarcated.

In five[®] DMOs, it was observed that only 329 mines out of stipulated 795 mines were inspected by MI during the period from 2001-02 to 2005-06 as shown under:

Year	No. of mines	No of mines inspected	Shortfall	Percentage of non inspection
2001-02	150	51	99	66
2002-03	152	64	88	58
2003-04	166	70	96	58
2004-05	167	69	98	59
2005-06	160	75	85	53
	795	329	466	

The percentage of shortage of mines not inspected ranged between 53 to 66 *per cent*. Inspection report of mines conducted by MI were not produced to audit. In the absence of these reports, periodicity of inspections could not be ascertained.

8.2.6.4 Improper maintenance of daily classification register

A daily classification register is required to be maintained by the department to ensure that all payments of royalty claimed to have been made by lessees or remitted by department in treasury office have actually been deposited. At the end of each month the entries of daily classification register are required to be reconciled with list of remittances received from treasury officer.

Test check of the classification registers of DMOs, Durg, Korba, Korla and Raipur revealed that entries were made in the daily classification registers on receipt of list of remittances from the treasury officers instead of from the challans received from the lessees. The number and date of challans had also not been mentioned in these registers. In DMO Raipur, the register was not maintained from January 2005 onwards.

[®] Durg, Janjgir, Korba, Korla and Raipur

After this was pointed out, DMOs stated that copies of challans were not available in all cases and entries were made from treasury remittance lists received from treasury and reconciled with the challans received from lessees. The cases of non availability of challans in DMOs were required to be investigated which was not done. In view of this, chances of fraudulent payment claimed to have been made by the lessees and embezzlement by departmental employees could not be ruled out.

8.2.6.5 Internal audit

There was no internal audit wing (IAW) in the department to ensure effective control over timely assessment of revenue, inspection of mines etc.

After this was pointed out, department stated in October 2006 that IAW was constituted in August 2006.

8.2.7 Short realisation of royalty

As per MMRD Act and rules made therein, the holder of a mining lease shall pay royalty of any mineral removed or consumed by him or his agent or employees from the leased area, at the rates prescribed, before 20th day of the following month.

Test check of records of DMOs, Korba and Kororia revealed that a lessee[^] extracted and removed 128.61 lakh MT of coal from two collieries during the period between April 2001 to November 2002, January 2004 to December 2004 and April 2005 to March 2006 but paid royalty on 116.39 lakh MT of coal. This resulted in short realisation of royalty of Rs.15.12 crore on 12.22 lakh MT of coal. The short payment remained undetected as six monthly assessments had not been carried out by the DMOs.

8.2.8 Non realisation of royalty, dead rent and interest

As per MMRD Act, the holder of a mining lease shall pay every year dead rent for total leased area or royalty on the mineral extracted whichever is higher. Lessee is liable to pay dead rent in advance for whole year on or before 20th day of the first month of the ensuing year. Interest at the rate of 24 *per cent* per annum is leviable for belated payment of dead rent from the sixtieth day of the expiry of the due date till default continues.

8.2.8.1 Test check of records of DMOs, Korba and Kororia revealed that a lessee who was granted three leases for extraction of coal, between 1995 and 2002, extracted no coal from the mining areas. The lessee was liable to pay dead rent of Rs.82.04 lakh during the period from 2001-02 to 2005-06 but was not paid. In addition, interest of Rs.44.42 lakh was also leviable.

After this was pointed out, department replied that in two cases action would be taken after verification and in one case it was stated that action for surrender/ lapse of the mine had been taken up with Government.

[^] M/s South Eastern Coalfields Limited, Bilaspur

8.2.8.2 Test check of records of DMO, Durg revealed that a lessee (holder of limestone leases) made short payment of royalty of Rs.2.30 lakh during 2001 to 2005 and the department did not raise demand even after finalisation of assessment and interest of Rs.1.30 lakh upto February 2006 was also not levied. This resulted in non realisation of revenue of Rs.3.60 lakh.

8.2.9 Loss of revenue

As per the records of the DMO, Korba the grade of coal of Gevra area mines is F grade on ROM (run of mines). The DMO, Korba vide letter dated 15 July 2004 informed General Manager South Eastern Coal Fields Limited Gevra area that average production of steam coal (E-grade) and slack coal (F-grade) was in the ratio of 60 and 40 *per cent*. The rate of royalty of E-grade coal is Rs.85 per MT where as in the case of grade-F, it is Rs.65 per MT.

Test check of records of DMO, Korba revealed that in Gevra Colliery area a lessee despatched 17,64,63,988.86 MT of coal during 2001-02 to 2005-06 which included 9,12,100.44 MT of E-grade coal (0.52 *per cent*) and 17,55,51,888.42 MT of F grade coal on which royalty of Rs.1,083.20 crore was paid. In view of the ratio of steam coal (E grade) and slack coal (F grade) production/ despatched of coal E grade and grade F should have been 10,58,78,393.32 MT and 7,05,85,595.54 MT respectively, whereas after partial screening only 9,12,100.44 MT E grade coal was despatched. As such there was less screening of 10,49,66,292.88 MT E grade coal. This resulted in loss of royalty of Rs.209.93 crore.

After this was pointed out, the department replied that action will be taken after receipt of guidelines from Directorate/ Government.

8.2.10 Non cancellation of idle mining leases

As per MCR, if any, lease holder does not commence mining operation within one year from the date of execution of the lease deed or the operation is discontinued for a continuous period of one year after commencement of such operations, the State Government, shall, by an order declare the mining lease as lapsed.

Test check of records of DMO, Raipur revealed that 12 lessees who were granted leases between April 1987 and October 2002, had discontinued mining operations between January 1996 and July 2003 but no action was taken by the department to terminate the leases and allot the same to other lessees. Had the leases been sanctioned afresh, royalty upto Rs.4 crore would have accrued on the basis of mineral extracted by lessees during previous years or anticipated extraction as per approved mining plans.

8.2.11 Mining without sanction

As per MMRD Act, wherever any person extracts without any lawful authority, any mineral from any land, Government may recover from such person the mineral so extracted or where such mineral has already been disposed of, the price thereof. The concerned person is liable to pay rent, royalty or tax, as the case may be for the period during which land occupied by such person without any lawful authority.

Test check of records of DMO, Raipur revealed that lease of a mine was transferred to a lessee for the period from 1 July 2003 to 14 November 2020. It was, however, noticed that lessee had extracted 8,850.41 MT limestone unauthorisedly during the period from 1 January 2003 to 30 June 2003 and paid royalty of Rs.3.44 lakh during the period in which he was not holding the lease. The lessee was liable to pay the cost of mineral of Rs.26.55 lakh instead of royalty. This resulted in short realisation of revenue of Rs.23.11 lakh.

8.2.12 Excess extraction against mining plan led to violation of MCD Rule

As per MCD Rules, every holder of mining lease shall carry out mining operations in accordance with the approved mining plan with such conditions as may have been prescribed.

Test check of records of DMO, Durg for the period 2001-2005 revealed that as per mining plans a lessee[&] was allowed to consume 6.50 lakh MT limestone per year from its captive mines at Jamul and Pathriya II to manufacture cement. It was, however, observed that the lessee had consumed 40.55 lakh MT limestone during the period 2001-02 to 2004-05 against 28 lakh MT which resulted in excess consumption of 12.55 lakh MT limestone as shown under :-

Sl. No.	Name of mines	Period	Actual consumption per year (in MT)	Permitted consumption per year (in MT)	Excess Consumption (in MT)
1.	Jamul	January 2001 to December 01	7.07	5.00	2.07
		January 2002 to December 2002	7.33	5.00	2.37
		January 2003 to December 2003	7.07	5.00	2.07
		January 2004 to December 2004	6.57	5.00	1.57
		January 2005 to December 2005	6.28	5.00	1.28
2.	Patahriya II	January 2003 to December 2003	3.49	1.50	1.99
		January 2005 to December 2005	2.74	1.50	1.24
		Total	40.55	28.00	12.55

After this was pointed out, the department replied that royalty was paid by lessee on the excess quantity of limestone extracted. Reply is an acceptance of the fact that the department was agreeable to excess extraction of mineral by the lessee in

& *M/s Associated Cement Company Limited, Jamul*

contravention of MCD Rules provided the royalty was paid. However, the rules had been framed for long term conservation of mineral wealth.

8.2.13 Application of incorrect rate of royalty

As per MMRD Act, the holder of a mining lease shall pay royalty in respect of any mineral removed from the leased area at the rate for the time being specified in the second schedule in respect of that mineral. The rate of iron ore lump and iron ore fine (less than 12.5 mm) was Rs.24.50 per MT and Rs.17 per MT respectively upto 13 October 2004 and Rs.27 per MT and Rs.19 per MT respectively thereafter.

Scrutiny of records of DMO, Dantewada revealed that as per monthly returns a lessee^N had been despatching iron ore as lump after blending with iron ore fines. During the period from January 2004 to March 2006, the lessee had despatched 72.66 lakh MT iron ore lump after blending 6.37 lakh MT iron ore fine and paid royalty on iron ore lump and iron ore fines separately on extraction (production). As the lessee had actually despatched iron ore lump as per returns, the royalty on 6.37 lakh MT Iron ore was recoverable at the rates prescribed for lumps. This resulted in short realisation of royalty of Rs.49.84 lakh.

8.2.14 Short levy of stamp duty and registration fee

IS Act, provides that in case of mining lease granted by or on behalf of Government in which royalty cannot be ascertained on the date of execution it shall be sufficient if the amount of royalty is estimated by the collector for the purpose of stamp duty. As per guidelines issued by MP Government in march 1993, the basis of estimation of royalty in the case of renewal of mining lease is to be done on average royalty paid by lessee in the preceeding three years or on the quantity of minerals expected to be extracted by him as declared in the application for sanction of mining lease or as shown in mining plan whichever is higher.

Test check of records of DMO, Dantewada revealed that a lease agreement was executed in October 2005 for renewal of lease for the period from 13 September 1995 to 12 September 2005. The average royalty paid by lessee during 2002-03 to 2004-05 as per guidelines of Government worked out as Rs.12.64 crore instead of Rs.8.86 crore as shown by him in the agreement. This resulted in short levy of stamp duty and registration fee of Rs.1.49 crore.

8.2.15 Conclusion

It would be seen that department failed in ensuring timely assessment and collection of mining revenue. The assessments were pending for considerable periods. The classification of iron ore is required to be revised as per the classification made by Indian Bureau of Mines. The internal control mechanism though in existence was not followed by the department as various returns and registers were not maintained by them.

8.2.16 Acknowledgment

Audit findings as a result of review were reported to department/ Government on 1 August 2006. The Additional Chief Secretary Mineral Resource Department was requested on 27 October 2006 to attend the meeting of Audit Review Committee (ARC) on the topic so that the views of the department/Government were taken into

^N M/s National Mineral Development Corporation, Hyderabad

account while finalising the review. No reply has been received so far (November 2006).

8.3 Non realisation of dead rent and interest thereon

According to the provisions of the Madhya Pradesh Minor Mineral Rules, 1996, (as adopted by Chhattisgarh Government) and terms of lease deed, lessee shall be liable to pay royalty or dead rent, whichever is higher, on mineral extracted from the lease area at the rates specified in Schedule-II and IV to the rules. Dead rent is, however, required to be deposited in advance on or before 20 January of each year except for first year of lease. If lessee fails to pay the dead rent/ royalty due in time, he shall be liable to pay interest at the rate of 24 *per cent* per annum for the period of default.

Test check of records of DMO, Durg revealed in September 2005 that in seven cases the lessees did not pay dead rent for the period between April 1997 and March 2006. The department had also not raised any demand of dead rent of Rs.3.91 lakh including interest for the period from January 2001 to March 2006.

After this was pointed out in September 2005, Mining Officer, Durg stated that audit will be intimated after examination of the cases. Further reply of the department had not been received (October 2006).

The matter was reported to the Director of Geological and Mining Resources and Development and Government (November 2005); their reply had not been received (October 2006).

Raipur

The:

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