

CHAPTER-VII: NON TAX RECEIPTS

7.1 Results of audit

Test check of records of concerned departmental offices, conducted during the year 2005-06, disclosed short realisation or loss of revenue amounting to Rs.716.39 crore in 90 cases, under the following broad categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
Dividends and Profits			
1	Dividends declared but not credited to Government account	1	0.80
	Total	1	0.80
Forestry and Wild Life			
1	Non/short recovery of lease rent	9	53.43
2	Non/short recovery of forest development tax	10	27.01
3	Compensatory afforestation	2	6.51
4	Other irregularities	5	0.05
	Total	26	87.00
Mineral Receipts			
1	Non/short levy of royalty, penalty, interest, dead rent, stamp duty etc.	31	39.75
2	Non registration and undervaluation of deeds	16	3.26
3	Misclassification of minerals and loss of revenue thereon	1	8.42
4	Short raising of demand	3	30.18

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
5	Non fixation of minimum bid amount for ordinary sand	5	2.74
6	Other irregularities	6	0.28
7	Review : Levy and collection of mineral receipts	1	543.96
	Total	63	628.59
	Grand Total	90	716.39

During the course of the year 2005-06, the departments accepted audit observations relating to underassessment of royalty, non levy of penalty, etc. involving Rs.57.97 crore in 45 cases and recovered Rs.6.66 crore in 36 of them which had been pointed out in audit in earlier years.

A few illustrative cases having monetary effect of Rs.551.49 crore including the results of a Review on **Levy and collection of mineral receipts** (Rs.543.96 crore) are given in the following paragraphs.

A. Mineral Receipts

7.2 Review on Levy and collection of mineral receipts

Highlights

Lack of co-ordination between Land Revenue and Mines and Geology departments resulted in illegal mining not being curbed. The estimated loss to Government was Rs.284 crore.

(Paragraph 7.2.9.1)

Incorrect classification of shale used in manufacture of cement resulted in short levy of royalty of Rs.6.98 crore.

(Paragraph 7.2.10)

Incorrect fixation of minimum bid amount for disposal of lease for quarrying ordinary sand resulted in loss of revenue of Rs.81.76 crore.

(Paragraph 7.2.14)

Non levy of penalty for despatching building stones without obtaining mineral despatch permits amounted to Rs.122.39 crore during 2000-01 to 2004-05.

(Paragraph 7.2.16)

Incorrect adjustment of payments towards royalty first instead of interest resulted in loss of interest of Rs.16.60 crore.

(Paragraph 7.2.18.2)

7.2.1 Introduction

Mineral receipts of the State mainly comprise royalty and dead rent from leases granted for extraction of major and minor minerals. The major minerals include iron ore, bauxite, copper ore, chromite, limestone, gold and silver while minor minerals include 'specified' minor minerals like ornamental stone and 'non specified' minor minerals like building stone, shahabad stone, brick earth, ordinary sand, etc. The levy of royalty and dead rent is governed by the Mines and Minerals (Development and Regulation) Act 1957 (MMDR Act), Mineral Concession Rules 1960 (MC Rules), Mineral Conservation and Development Rules 1988 (MCD Rules) in respect of major minerals and Karnataka Minor Mineral Concession Rules 1994 (KMMC Rules) in respect of minor minerals. While dead rent is payable in advance, royalty is payable at the time of removal of minerals from leased area. Unpaid amounts are also recoverable as arrears of land revenue under the Karnataka Land Revenue Act 1964. The mineral survey and investigation, granting of mining and quarry leases, collection of royalty and dead rent, penalty and other dues are looked after by the Department of Mines and Geology (DMG).

7.2.2 Organisational set up

DMG is under the purview of the Commerce and Industries Department. It is headed by a Commissioner-cum-Director who is assisted by Additional Director, Joint Directors, Deputy Directors and other staff. At the field level, revenue is assessed by Deputy Directors/Senior Geologists in 23 divisions through issue of audit reports²⁸ (AR) in respect of every lease after conducting annual inspections.

7.2.3 Audit objectives

To examine the adequacy and effectiveness of the system and procedures in the DMG for

- proper assessment and levy, timely raising of demands for royalty, dead rent, penalty, etc. and their prompt collection;
- prevention of loss or leakage of revenue through illegal extraction or exploitation of mineral wealth or other means of evasion; and
- ensuring adequacy of internal control mechanism to safeguard Government revenue.

²⁸ The assessment order regarding royalty and other dues prepared by the field officers is known as audit report in the department

7.2.4 Scope of audit

A test check of records of all the 23²⁹ divisions covering the period 2000-01 to 2004-05 was conducted between December 2005 and May 2006.

7.2.5 Trend of mineral receipts

A comparison of budget estimates (BE) and actual receipts of royalty and other dues of the department during 2000-01 to 2004-05 revealed variation ranging between 8 and 21 *per cent*.

(Rupees in crore)

Year	Mineral Receipts		Variation over BE excess (+)/ shortfall (-)	Percentage of variation
	BE	Actual realisation		
2000-01	149.13	136.86	(-) 12.27	(-) 8.23
2001-02	164.04	147.13	(-) 16.91	(-) 10.31
2002-03	180.45	157.55	(-) 22.90	(-) 12.69
2003-04	183.65	222.15	(+) 38.50	(+) 20.96
2004-05	252.01	290.02	(+) 38.01	(+) 15.08

The department stated in August 2006 that BE were prepared for each year considering the facts like the number of existing leases, number of leases likely to be granted during the year, estimated production from these leased areas, outstanding arrears and demand in market for the minerals. However, it would be seen from the above that except for the years 2000-01 and 2001-02, there was a huge variation between BE and actuals. It ranged from (-)13 to (+)21 *per cent* indicating therein that BE were not realistic.

After this was pointed out, the department stated that short realisation of revenue as compared to BE during the years 2000-01 to 2002-03 was due to non sanction of quarry leases in Kollegal taluk due to Veerappan problem and decline in demand for ornamental variety of granite of Karnataka in the international market. Sharp increase in realisation of revenue during 2003-04 and 2004-05 was due to increased demand in the international market for iron ore.

²⁹ Bangalore (North), Bangalore (South), Belgaum, Bellary, Bijapur, Chamarajanagar, Chikmagalur, Chitradurga, Dharwad, Gulbarga, Hassan, Hospet, Ilkal, Kanakapura, Kolar, Karwar, Koppal, Mandya, Mangalore, Mysore, Sedam, Shimoga, Tumkur

7.2.6 Arrears of revenue

As per the information furnished by the department, Rs.136.44 crore was pending collection as on 31 March 2005. The year wise details were as under:

(Rupees in crore)					
Year	Opening balance	Demand	Total	Collection	Balance
2000-01					
Major	54.27	63.75	118.02	52.68	65.34
Minor	22.15	26.35	48.50	22.70	25.80
2001-02					
Major	65.34	85.48	150.82	73.33	77.49
Minor	25.80	28.36	54.16	22.89	31.27
2002-03					
Major	77.49	96.39	173.88	84.00	89.88
Minor	31.27	32.47	63.74	26.98	36.76
2003-04					
Major	89.88	118.64	208.52	118.52	90.00
Minor	36.76	43.04	79.80	36.11	43.69
2004-05					
Major	90.00	158.32	248.32	152.90	95.42
Minor	43.69	35.00	78.69	37.67	41.02

Department did not have age wise break up of arrears. Hence the extent of arrears in the closing balance was not ascertainable to analyse the risk of non recovery of very old dues.

7.2.7 Recovery as arrears of land revenue

As per information furnished by the department, Rs.11.73 crore was outstanding as arrears of land revenue in 2,688 cases as on 31 March 2005 in 19³⁰ divisions. These were referred for recovery as arrears of land revenue between 1970-71 and 2004-05. Department did not have year wise breakup of additions and collections. During the year 2004-05, Rs.16.57 lakh (1.4 per cent) was recovered. Thus, the recovery rate was very meagre.

³⁰ Belgaum, Bellary, Bijapur, Chamarajanagar, Chikmagalur, Chitradurga, Dharwad, Gulbarga, Hassan, Hospet, Ilkal, Kanakapura, Karwar, Koppal, Mandya, Mangalore, Mysore, Sedam, Shimoga

Major minerals

Iron Ore

7.2.8 Escapement of royalty on iron ore

Under the MC Rules, every lessee shall furnish return of minerals extracted and despatched to the department. Similarly, under the MCD Rules, owner/lessee/manager of every mine shall submit monthly and annual returns to the Indian Bureau of Mines (IBM) and send a copy of the same to State Government.

Cross verification of departmental records in respect of production of iron ore with that of the IBM for the years 2000-01 to 2003-04 revealed difference of 364.18 lakh tonnes in production of iron ore. This resulted in escapement of royalty of Rs.89.22 crore as detailed below:

Year	Production as per IBM (tonnes)	Production as per department (tonnes)	Difference (tonnes)	Escapement of royalty at Rs.24.50 per tonne (Rs. in crore)
2000-01	1,89,02,000	1,20,94,000	68,08,000	16.68
2001-02	2,25,95,000	1,03,50,000	1,22,45,000	30.00
2002-03	2,47,97,000	2,43,15,000	4,82,000	1.18
2003-04	3,16,35,000	1,47,52,000	1,68,83,000	41.36
Total	9,79,29,000	6,15,11,000	3,64,18,000	89.22

After this was pointed out, Government endorsed the reply of the department in November 2006 that the difference in production details furnished by the lessees to IBM and the department would be verified in each case and action, if necessary, would be taken to recover the difference of royalty.

7.2.9 Absence of rules for major Minerals

MMDR Act empowered State Government in December 1999 to make rules for prevention of illegal mining, transportation and storage of minerals. Department stated in August 2006 that draft rules proposed by department were under consideration of Government. However, State Government has not framed rules so far (September 2006).

7.2.9.1 Illegal extraction of iron ore

As per the MMDR Act, whenever any person raises, without any lawful authority, any mineral from any land, State Government may recover from such person the mineral so raised, or where such mineral has already been disposed of, the price thereof. In addition, it may also recover from such person, rent, royalty or tax, as the case may be, for the period during which the land was occupied by such person without any lawful authority.

It was noticed that the tahsildars of Hospet and Sandur taluks had forwarded to Deputy Commissioner (DC) in October 2005 list of 680 cases of illegal mining in 3,776.28 acres of land held by private persons in the taluks.

Of these, in four cases, tahsildar, Hospet estimated the quantity of iron ore stacked as 23,000 tonnes in 16.04 acres. Royalty of Rs.2.53 lakh and minimum value of mineral recoverable was Rs.86.25³¹ lakh.

In the remaining 676 cases of illegal extraction in 3,760.24 acres of land, no estimates of quantity of ore removed were done by the Land Revenue (LR) department. However, in 57 other cases, DMG estimated 5.30 lakh tonnes of ore available in 270.78 acres of patta land. Based on this, iron ore mud illegally extracted in these 676 cases would work out to 73.60 lakh tonnes. Royalty of Rs.8.10³² crore was recoverable. The value of the mineral illegally extracted works out to Rs.276³³ crore which was also recoverable under the Act.

Cross verification in audit revealed that no leases were granted by DMG in these cases. Moreover, LR department did not transmit these cases to DMG. This resulted in non registration of offence cases in these instances and non recovery of revenue due to Government. Hence, there is a need for timely co-ordination between LR department and DMG to safeguard Government revenue.

After this was pointed out in June 2006, department reported in August 2006 that district level taskforce chaired by DC of the district concerned and State level taskforce at Government level were constituted in November 2005 to curb illegal mining. However, details of number of offence cases booked, seizures of minerals made or value of minerals recovered, if any, were not furnished (November 2006).

³¹ At Rs.375 per tonne for lowest grade iron ore mud/laterite as per a State Government company.

³² at Rs.11 per tonne as applicable to iron ore fines having iron content less than 65 per cent

³³ 73,59,950 tonnes x Rs.375 = Rs.276 crore

Limestone

7.2.10 Short levy of royalty on shale

Under the MMDR Act, 'limestone' attracts royalty under two categories. The rate of royalty was Rs.50 per tonne for LD grade (less than 1.5 per cent silica content) and Rs.40 per tonne for 'Limestone – others'.

In Gulbarga division, a cement company, holder of a mining lease extracted 19.94 lakh tonnes of shale during the period April 2000 to September 2004 for captive consumption in manufacture of cement. Royalty of Rs.1 crore was paid by the lessee at the rate of Rs.5 per tonne which was accepted as such in the ARs. Since, shale was used in the manufacture of cement, it was liable to royalty of Rs.7.98 crore at the rate of Rs.40 per tonne as 'limestone- others'. This resulted in short levy of royalty of Rs.6.98 crore.

After this was pointed out, department stated in August 2006 that no specific classification for shale existed either in the schedule to the MMDR Act or the KMMC Rules and hence royalty was charged as applicable to other minerals not specified in the MMDR Act. The reply was not tenable as shale was used in manufacture of cement and should have been classified as low grade limestone.

7.2.11 Escapement of royalty on limestone

It was noticed that as per ARs of five lessees in Ilkal division, 64,748 tonnes of limestone and dolomite were extracted during the period 2000-01 to 2002-03 and royalty paid accordingly. Cross verification of assessment records of lessees in the division with copies of inspection reports of mines conducted by IBM which were endorsed to the division revealed production of 1,05,849 tonnes of limestone and dolomite by the lessees during these years. This resulted in short declaration of 41,101 tonnes by the lessees to the department. This resulted in escapement of royalty of Rs.16.44 lakh.

After this was pointed out, the department reported in August 2006 that information would be collected from IBM and action taken to collect difference of royalty. Even though copies of inspection reports of IBM were endorsed to the division, division failed to take cognizance of these reports either at the time of finalising the ARs or subsequently, resulting in escapement of royalty.

Gold

7.2.12 Short levy of royalty on gold

Royalty on primary³⁴ gold is payable at 1.5 *per cent* of the London Bullion Exchange price (London price) of contained gold metal in ore produced while royalty on a by product gold is 2.5 *per cent* of the London price of gold metal actually produced.

Test check of records of Koppal division revealed that a lessee declared gold production of 58,640.82 grams valued at Rs.2.68 crore in the return for the year 2001-02 furnished in July 2002 and paid royalty of Rs.6.69 lakh at 2.5 *per cent* by classifying the mineral as a by product gold. In June 2003, the lessee filed revised return declaring gold production as 2,21,788.46 grams valued at Rs.9.41 crore. On this quantity, royalty payable at 1.5 *per cent* as primary gold was Rs.14.11 lakh. However, the division failed to revise the assessment for royalty. This resulted in short levy of Rs.7.42 lakh.

After this was pointed out, department reported in August 2006 that revised AR would be issued to the company.

Bauxite

7.2.13 Short levy of royalty on bauxite

Royalty on bauxite was 0.35 *per cent* of the London price of the contained aluminium metal in ore produced. With effect from October 2004, royalty on bauxite used in alumina and aluminium metal extraction was 0.40 *per cent* of London price and in case of use of bauxite for other than alumina and aluminium metal extraction and for export, royalty was 20 *per cent* of sale price.

It was noticed that, in Mangalore division, a lessee paid royalty at 10 *per cent* of the sale price of bauxite during the years 2003-04 and 2004-05. This was

³⁴ Primary gold is where leases are granted exclusively for extraction of gold. By product gold is when leases are granted for extraction of other minerals and the lessees come across small quantities of gold deposit which are extracted

accepted by the department instead of levying royalty as prescribed. This resulted in short levy of royalty of Rs.13.17 lakh.

After this was pointed out, the department accepted the audit observation in August 2006 and stated that action would be taken to revise ARs.

Minor minerals

7.2.14 Incorrect fixing of minimum bid amount

Under the KMMC Rules, as amended in October 2000, annual lease for quarrying ordinary sand was to be granted through auction. The current rates of royalty were to be taken as the floor rate for fixing the minimum bid amount. Royalty on sand was Rs.15 per tonne upto June 2003 and Rs. 25 per tonne thereafter.

In 18³⁵ divisions, during the years 2000-01 to 2004-05, 1,271 leases for extraction of sand upto a depth of one meter (3.28 feet) in 6,939 acres 07 guntas were granted realising Rs.7.43 crore through auction. It was noticed that, the minimum bid amount, in these cases was fixed taking dead rent instead of royalty as floor rate. As per norms in schedule of rates of Public Works department, availability of sand in one acre at a conservative depth of three feet would work out to 6400³⁶ tonnes. Based on this, the minimum bid amount per acre (at 3 feet depth) was to be Rs.0.96 lakh upto June 2003 and Rs.1.60 lakh thereafter. Accordingly, the minimum bid amount for 6,939 acres 07 guntas worked out to Rs.89.19 crore. Against this, the department auctioned the bids for Rs.7.43 crore only. Thus, incorrect fixing of minimum bid amount resulted in short realisation of revenue of Rs.81.76 crore.

After this was pointed out, department stated in August 2006 that sand deposit will not be uniform in any given piece of land and it was not estimating the availability of sand in the block to be auctioned while fixing floor rate. The reply is not tenable since the KMMC Rules clearly stipulated current rates of royalty as floor rate for fixing minimum bid amount.

³⁵ Belgaum, Bellary, Bijapur, Chamarajanagar Chikmagalur, Chitradurga, Dharwad, Gulbarga, Hassan, Ilkal, Kanakapura, Kolar, Koppal, Mandya, Mysore, Sedam, Shimoga, Tumkur

³⁶ 1 acre at 3 feet depth = 3699 cubic meters
3699 cubic meters x 1.73 (density of sand as per PWD) = 6400 tonnes

7.2.15 Illegal quarrying

Under the KMMC Rules, no person shall undertake any quarrying operation in respect of any minor mineral in any land except under or in accordance with the terms and conditions of a quarrying lease or quarrying permit granted under these rules.

It was noticed from the land revenue records of Hospet division that 166 cases covering 2,015.19 acres were under illegal quarrying for ordinary building stones. Cross verification with records of DMG revealed that no leases were granted in these cases. The minimum loss of revenue for quarrying building stones amounted to Rs.1.01 crore in the form of dead rent.

Revenue department did not refer the cases to the DMG. Lack of co-ordination between the LR department and DMG resulted in loss of Government revenue.

After this was pointed out, department stated in August 2006 that the Deputy Director had taken steps to issue notices to regularise quarrying operations in his jurisdiction and that such action could not be taken during the previous years due to lack of technical officers in his office.

7.2.16 Non levy of penalty

The KMMC Rules prescribe that no person shall transport or cause to be transported any mineral except under or in accordance with a mineral despatch permit (MDP) issued by the competent authority showing, among other things, quantity of minerals to be transported and royalty paid. As per the terms and conditions of lease deed, failure to obtain MDP attracts penalty at five times the royalty due.

In 19³⁷ divisions, 12,011 leases were granted during the period 2000-01 to 2004-05 for quarrying building stones. It was noticed in audit that none of the lessees had obtained MDP for transportation of the minerals. The total royalty realised in these cases was Rs.24.48 crore. No action had been taken to levy penalty in any of the cases. Penalty leviable for not obtaining MDP worked out to Rs.122.39 crore.

After this was pointed out, the department stated in August 2006 that the leased areas were situated in far off places, the lessees were illiterate and unable to come to the division office for obtaining MDPs.

³⁷ Belgaum, Bellary, Bijapur, Chamarajanagar, Chikmagalur, Chitradurga, Dharwad, Gulbarga, Hassan, Hospet, Ilkal, Kanakapura, Karwar, Koppal, Mandya, Mangalore, Mysore, Sedam, Shimoga

7.2.17 Escapement of royalty on minerals supplied to cement factories

As per KMMC Rules, laterite attracts royalty at Rs.15 per tonne as limestone (non-cement).

In Sedam division, two cement companies procured laterite from lease holders in the area for use as additive in the manufacture of cement. Cross verification of procurement details of the companies with the assessment records of the lease holders of laterite in the division revealed short accounting of despatch of 2.93 lakh tonnes of laterite by four lessees during 2000-01, 2002-03 to 2004-05. This resulted in escapement of royalty of Rs.43.87 lakh. Besides, penalty at five times amounting to Rs.2.19 crore for transporting the mineral without permit was also leviable.

After this was pointed out, the department accepted the audit observation in August 2006 and stated that action had been initiated to realise the difference of royalty.

Other points of interest on major and minor minerals

7.2.18 Levy of interest

Under the MC Rules, simple interest at 24 *per cent* per annum is leviable on belated payment of dead rent or royalty, beyond 60 days from the due date.

7.2.18.1 Short levy of interest

Three companies defaulted in payment of dead rent and royalty during the years 2000-01 to 2004-05 in four³⁸ divisions. These companies were assessed in next financial year. However, the assessing authorities instead of charging interest from the beginning of the year in case of dead rent and from the date of removal of material in case of royalty, charged interest from the month of June of the next financial year. This resulted in short levy of interest of Rs.1.39 crore.

³⁸ Ilkal, Hospet, Kolar, Koppal

7.2.18.2 Incorrect adjustment of payments towards principal

Under the Karnataka Financial Code as amended by a notification dated March 2001, any amount paid shall be first adjusted towards the interest due on the tax/revenue due and then towards arrears and finally towards current demand.

Two companies holding mining leases in Sedam division were in arrears of royalty of Rs.19.29 crore and interest of Rs.14.31 crore as of April 2000. During the years 2000-01 to 2004-05, fresh demands for royalty of Rs.117.07 crore and interest of Rs.17.59 crore were made. During this period, the lessees paid Rs.117.08 crore in eight instalments. However, the payments were first adjusted towards arrears of principal. This resulted in loss of interest of Rs.16.60 crore.

Department accepted audit observation in August 2006 and stated that adjustment of payments made would be revised.

7.2.18.3 Incorrect reduction of interest

In Sedam division, in respect of a lessee, interest of Rs.22.12 crore was outstanding as on 31 March 2004 as per the AR issued by the department. But while finalising the assessment for the year 2004-05, the department incorrectly adopted the opening balance of outstanding balance of interest as Rs.15.08 crore in the AR resulting in reduction of demand of interest of Rs.7.04 crore.

After this was pointed out, Department reported in August 2006 that the AR would be revised and discrepancy rectified.

7.2.19 Non forfeiture of security deposit for default

Under the MC Rules, an applicant when granted a mining lease was required to furnish security deposit of Rs.2,000 per acre (Rs.1,000 upto September 1986) before execution of the lease deed. Similar provision exists in the KMMC Rules; the amount of deposit varies from Rs.2,500 to Rs.5,000 for specified/non specified minerals. If a lessee defaulted payment of dead rent or royalty beyond 60 days after issue of notice of demand, the State Government was authorised to determine the lease and forfeit the whole or part of the deposit.

Arrears, if any, could be recovered as arrears of land revenue by referring the cases to the concerned revenue officers who would issue revenue recovery certificates against the defaulters and monitor the recovery.

7.2.19.1 4,099 mining lessees/quarrying lessees in 19³⁹ divisions defaulted in payment of royalty during the years 2000-01 to 2004-05. No action had been initiated for determination of the lease and forfeiture of security deposit of Rs.1.94 crore available with the department.

7.2.19.2 In 19³⁹ divisions, arrears of Rs.13.86 crore were outstanding as of March 2005 in respect of 2,696 cases of surrendered and terminated leases. These cases had neither been pursued by the department nor referred to Revenue Department for recovery as arrears of land revenue. Security deposit of Rs.88.23 lakh available with the divisions had also not been forfeited for default in payment of arrears. This resulted in short realisation of Government revenue of Rs.88.23 lakh.

After these were pointed out, department accepted audit observations in August 2006 and stated that action would be initiated to forfeit security deposit and recover dues as arrears of land revenue after giving final opportunity to the lessees.

7.2.19.3 In 19³⁹ divisions, arrears of Rs.11.27 crore were pending recovery against 2,688 lessees. Security deposit of Rs.52.97 lakh available with the department was liable to be forfeited for default in payment of arrears. However, it was noticed in audit that the department incorrectly adjusted this security deposit against arrears due before referring the cases as arrears of land revenue. Since the security deposit was to be forfeited to Government, the adjustment was incorrect and resulted in short raising of demand of Rs.52.97 lakh.

After this was pointed out, the department accepted audit observation in August 2006 and stated that directions were being issued to review the cases for the incorrect adjustment.

7.2.20 Loss of stamp duty

Under the Karnataka Stamp Act, 1957, a lease granted for a term of one year attracts stamp duty at the rate of five *per cent* on the average annual rent reserved under it.

³⁹ Belgaum, Bellary, Bijapur, Chamarajanagar, Chikmagalur, Chitradurga, Dharwad, Gulbarga, Hassan, Hospet, Ilkal, Kanakapura, Karwar, Koppal, Mandya, Mangalore, Mysore, Sedam, Shimoga

In 19⁴⁰ divisions, 1,369 leases for quarrying ordinary sand were granted during the years 2000-01 to 2004-05. The total amount collected as royalty from the lessees was Rs.6.43 crore. None of these leases had been stamped. This resulted in loss of stamp duty of Rs.32.14 lakh.

After this was pointed out, department stated in August 2006 that these cases would be examined; further reply has not been received (November 2006).

7.2.21 Incorrect grant of concession

Under the MMDR Act, the State Government is empowered to make rules for fixation and collection of rent, royalty, fees, dead rent, fines and other charges and the time within which and the manner in which these shall be payable. Once the royalty is fixed, there is no provision either in the MMDR Act or the KMMC Rules empowering the State Government to exempt or reduce it.

The officer incharge of the Seabird Project at Karwar approached the State Government during March 1998 for waiver of royalty on building stones and associated materials utilised for construction of the project. Senior Geologist, Karwar estimated the royalty payable at Rs.11.97 crore on 4.5 million cubic metres of rock utilised in the project. Despite the absence of empowerment, State Government in May 2000 ordered waiver of the amount. Incorrect waiver involved loss of revenue of Rs.11.97 crore.

Department accepted in August 2006 that there was no provision to waive royalty and Government would be requested to revise the order waiving royalty.

7.2.22 Idle leases

According to the MC Rules, the lessee shall commence mining operations within two years from the date of execution of the lease and shall thereafter conduct such operations in a proper, skilful and workman like manner. In cases of repeated breach, the State Government is authorised to determine the lease and impose penalty not exceeding twice the dead rent.

⁴⁰ Belgaum, Bellary, Bijapur, Chamarajanagar, Chikmagalur, Chitradurga, Dharwad, Gulbarga, Hassan, Hospet, Ilkal, Kanakapura, Karwar, Koppal, Mandya, Mangalore, Mysore, Sedam, Tumkur

It was noticed that 313 lessees in eight⁴¹ divisions had not continued mining operations after commencement of lease during 2000-01 to 2004-05. The lessees had paid dead rent of Rs.2.03 crore. The divisions did not initiate action for levy of penalty or determination of leases. This resulted in non levy of penalty of Rs.4.06 crore.

After this was pointed out, the department accepted the audit observation in August 2006 and stated that action had been initiated to levy penalty and realise the same.

7.2.23 Lack of internal control

The MC Rules and the KMMC Rules prescribe various procedures in monitoring, extraction and removal of minerals to ensure realisation of Government dues. Verification of compliance to the internal controls envisaged in the Act/Rules revealed the following:

7.2.23.1 Absence of system for regulation of mineral removed

During the period 2000-01 to 2004-05, Public Works Department and other Government agencies⁴² recovered and remitted Rs.105.63 crore towards royalty on minor minerals utilised in their civil works. Though royalty was being realised on the quantities actually utilised in works, no system existed in the department for regulation of quantities removed/transported from the quarries to ascertain the correctness of royalty paid by the contractors.

7.2.23.2 Transportation of minerals

As per practice in vogue in the department, for despatching major minerals from the leased area, the lessees were supplied tripsheet booklets. The counterfoil of the tripsheet was required to be surrendered to the department once the mineral was removed from the leased area. However, in none of the

⁴¹ Belgaum, Chitradurga, Dharwad, Hassan, Ilkal, Mangalore, Mysore, Kolar

⁴² Agricultural Produce Marketing Committee, Karnataka Housing Board, Karnataka Power Transmission Corporation Ltd., Karnataka Urban Water Supply and Drainage Board, Krishna Bhagya Jala Nigama Ltd., etc.

divisions testchecked, the counterfoils of the tripsheets were surrendered. In the absence of this control, quantity of mineral despatched could not be ascertained.

7.2.23.3 Non installation of weighing machines

In four⁴³ divisions, 162 out of 206 lessees had not installed weighing machines despite periodical notices issued by the divisions from 1998 onwards. The divisions also failed to initiate action for forfeiture of security deposit and termination of leases as provided in lease agreements.

7.2.23.4 Non submission of periodical returns

Under the KMMC Rules, a lessee is required to submit quarterly and annual returns furnishing specific information on the quantity of minor minerals and waste rocks produced, quantity sold or utilised, quantity in stock, royalty or dead rent paid and permits obtained.

None of 5,703 lessees in 18⁴⁴ divisions who were granted licences during the period 2000-01 to 2004-05 for quarrying building stones furnished quarterly or annual returns. No action was taken to obtain these returns. In the absence of returns, prompt and correct payment of royalty could not be ascertained.

7.2.23.5 Incorrect adjustment of advance dead rent towards arrears

Under the KMMC Rules, a person who has been granted a quarrying lease shall pay in advance 50 *per cent* of the dead rent due during the first year before executing the lease deed. As per the Director's circular of March 1992, advance dead rent was to be adjusted only at the time of issuing the last AR or after the expiry of the lease period.

⁴³ Bellary, Chitradurga, Dharwad, Tumkur

⁴⁴ Belgaum, Bellary, Bijapur, Chamarajanagar, Chikmagalur, Chitradurga, Dharwad, Gulbarga, Hassan, Ilkal, Kanakapura, Karwar, Koppal, Mandya, Mangalore, Mysore, Sedam, Shimoga

However, in Hospet division advance dead rent of Rs.31.49 lakh collected during 2000-01 to 2004-05 in respect of 213 cases was adjusted towards the royalty dues in the first assessment year. This resulted in undue benefit to the lessees.

Department reported in August 2006 that action would be initiated against officers responsible for showing undue benefit to the lessees.

7.2.23.6 Internal Audit

In the DMG, the internal audit wing (IAW) has been functioning since 1985. It is headed and monitored by an Accounts Officer on deputation from State Accounts Department and assisted by one Accounts Superintendent, under the overall control of the Commissioner cum Director. However, there was no internal audit manual in the department codifying the practices and procedures relating to conduct of internal audit.

- **Audit planning**

As per the guidelines, all the auditee units of the department are to be audited annually and no unit is to be left unaudited for more than two years. Mandays required for internal audit are to be fixed on the basis of volume of transactions in the auditee units.

According to the figures furnished by the department, number of offices due for audit during 2000-01 to 2004-05 and the number actually covered by IAW are given below:

Year	Total number of offices	Number. of offices due for audit	Number of offices audited	Shortfall (percentage to (3))
(1)	(2)	(3)	(4)	(5)
2000-01	23	23	3	20 (87)
2001-02	23	23	3	20 (87)
2002-03	23	23	4	19 (83)
2003-04	23	23	9	14 (61)
2004-05	23	23	2	21(91)

Shortfall varied between 61 *per cent* to 91 *per cent*. Further, internal audit of eight units is pending for more than three years (2000-01 and earlier) as on 31 March 2005.

- **Delay in issue of internal audit reports (IARs)**

The maximum time limit allowed for issue of IARs to the concerned office is one month from the last day of audit and the concerned offices were required to furnish compliance within one month from the date of issue of IARs.

Test check (March 2005) revealed that out of 21 units audited during 2000-01 to 2004-05, IARs were issued after a delay ranging from 4 to 17 months and four offices furnished compliance after a delay ranging from 1 to 38 months. Compliance from remaining offices had not been received (March 2006).

- **Outstanding internal audit reports and paragraphs**

The position of IARs and paragraphs with money value issued and disposed during the period 2000-01 to 2004-05 is given below:

(Rupees in lakh)

Year		Opening Balance	Additions	Total	Clearance	Closing balance	Percentage of disposal
2000-01	IAR	58	Nil	58	Nil	58	Nil
	Paragraphs	566	Nil	566	Nil	566	Nil
	Amount	11,360	Nil	11,360	Nil	11,360	Nil
2001-02	IAR	58	3	61	Nil	61	Nil
	Paragraphs	566	41	607	Nil	607	Nil
	Amount	11,360	1,698	13,058	Nil	13,058	Nil
2002-03	IAR	61	2	63	3	60	4.76
	Paragraphs	607	23	630	44	586	6.98
	Amount	13,058	480	13,538	388	13,150	2.87
2003-04	IAR	60	1	61	Nil	61	Nil
	Paragraphs	586	12	598	Nil	598	Nil
	Amount	13,150	1,836	14,986	Nil	14,986	Nil
2004-05	IAR	61	2	63	Nil	63	Nil
	Paragraphs	598	25	623	Nil	623	Nil
	Amount	14,986	173	15,159	Nil	15,159	Nil

It could be seen from the above that percentage of disposal of IARs/Paragraphs ranged from nil to 4.76 /nil to 6.98 respectively.

- According to guidelines issued by Government, a selected month's transactions of encashments and remittances done by the department are to be verified with treasury records to ensure their correctness. However, this aspect was not covered in internal audit.
- Guidelines envisaged maintenance of control register for watching statistical data of details of outstanding paragraphs and money value objections by head of the department. However, it was seen that no control registers were maintained by IAW.

7.2.24. Conclusion

The above observations reveal that the prevailing mechanism to monitor extraction and despatch of minerals is not adequate to ensure proper assessment and levy of royalty and interest. Lack of co-ordination among the departments of Government and failure of the department to check loss or leakage of revenue through illegal extraction or exploitation of mineral led to loss of revenue in stamp duty, royalty, value of minerals, penalty, etc. to Government.

7.2.25 Recommendations

In view of the observations made in the review, Government may consider implementation of following recommendations:

- A strong mechanism needs to be developed to strengthen the existing system of assessment and collection of royalty. The correctness of the returns submitted by the lessees to the department need to be ensured for which close co-ordination between the department and IBM is desired.
- Rules under section 23-C of the MMDR Act need to be formulated for preventing illegal mining, stocking and transportation of minerals which may include regular inspections of mines, etc to safeguard Government revenue.

- Proper co-ordination with other departments like Public Works department and Land Revenue Department for checking illegal extraction/transportation of mineral.

- Internal audit wing of department needs strengthening for timely detection of illegal extraction/transportation and proper levy and collection of royalty.

7.2.26 Acknowledgement

The review was forwarded to Government and department in June 2006 and discussed in the Audit Review Committee in August 2006. Secretary to Government, Commerce and Industries Department (Mines, SSI and Textiles) represented Government while the Commissioner-cum-Director represented the department. Views of Government have been incorporated in relevant paragraphs.

B. Dividends and Profits

7.3 Dividend declared but not credited to Government

State Government has made investments in the form of share capital in a number of statutory corporations, Government companies and co-operative societies. It is entitled to receive its share of profit of such organisations, as dividend, as and when declared by them. Government held paid up share capital of Rs.4.10 crore in Karnataka State Warehousing Corporation (KSWC), a statutory corporation established by State Government.

Test check in audit conducted in October 2005 to verify the extent of dividends earned by Government on its investments revealed that KSWC declared a total dividend of Rs.0.80 crore for the year 2001-02 to 2003-04. However, KSWC had not remitted the dividend due to Government; nor had Government demanded remittance of dividend due.

After this was pointed out in October 2005, Government directed KSWC in January 2006 to credit the dividend to Government account. Report of remittance has not been received (November 2006).

C. Other Administrative Services

7.4 Non recovery of fuel and maintenance charges

Revenue Department recovers loans on behalf of banks referred to it as arrears of land revenue. Government vide order dated May 1998 directed that two and a half *per cent* of the bank loans collected as arrears of land revenue were to be deducted as fuel and maintenance charges and kept in a separate bank account. Further, Government vide order dated November 2004 clarified that fuel and maintenance charges recovered from banks were receipts of Government and directed that recoveries be remitted to Government account.

During audit of the offices of 15⁴⁵ tahsildars conducted between September 2001 and July 2005, it was noticed that fuel and maintenance charges at the prescribed rates were not deducted from bank loans of Rs.8.82 crore recovered as arrears of land revenue during 2000-01 to 2004-05. This resulted in non realisation of Rs.22.06 lakh.

After these cases were referred to Government in May 2006, Government reported in October 2006 that recovery camps had been organised jointly by the revenue authorities and the banks and since the loanees had credited the loan amount directly to the banks, fuel and maintenance charges could not be recovered. Crediting of fuel and maintenance charges to Government account was being pursued with the banks concerned.

⁴⁵ Bantwal, Bellary, Belthangady, Dharwad, Doddaballapur, Harapanahalli, Hagari Bommanahalli, Hospet, Hukkeri, Mundargi, Ron, Sandur, Savanur, Shirahatti, Sullia

D. Forestry and Wild Life

7.5 Loss due to sale of pulpwood as firewood

Government leased forest land measuring 39,137 hectares of Shimoga forest circle in 1980 for a period of 40 years to Mysore Paper Mills Limited (MPM), Bhadravathi for raising captive plantations. According to Government order dated March 1984, MPM was to surrender 12½ *per cent* of the yield harvested in lieu of lease rent. The company began harvesting its plantations from 1991-92. Principal Chief Conservator of Forests in April 1992 directed that the company was to surrender 12 ½ *per cent* of the land harvested by it in one or several blocks in lieu of lease rent. The land surrendered was to be harvested by the department or through Karnataka State Forest Industries Development Corporation. The harvest was to be brought to the departmental depots and sold.

Audit scrutiny in March 2005 revealed that in three⁴⁶ forest divisions, 8,216.681 tonnes of wood harvested during 2000-01 to 2002-03 from the land surrendered by the company in lieu of lease rent was sold by the department as firewood realising a revenue of Rs.8.30 lakh as against the amount of Rs.60.43 lakh that would have been realised had it been sold at the seigniorage rate of Rs.600 per tonne plus taxes thereon. The sale of pulpwood as firewood resulted in loss of revenue of Rs.52.13 lakh to Government.

The matter was reported to the department in March 2005 and referred to Government in May 2006; replies have not been received (November 2006).

7.6 Loss of revenue due to incorrect fixation of cost of compensatory afforestation

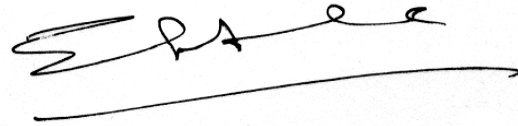
Under the Forest Conservation Act, 1980, no State Government shall without prior approval of the Union Government divert any forest land for any non forest purposes. As per guidelines stipulated by Government of India, compensatory afforestation should be done over forest land equivalent to land diverted for non forest purposes or over one and half times the land diverted in degraded forest. The cost of compensatory afforestation was recoverable from the user agency.

Audit scrutiny revealed that cost of protective works like cattle proof trenches or fencing of plantations was not included while computing unit cost. Besides, though departmental staff were involved at all stages of execution of compensatory afforestation work, supervision charges for the departmental staff were also not included while computing unit cost. During the years

⁴⁶ Bhadravathi, Sagar, Shimoga

2000-01 to 2004-05, the department executed compensatory afforestation work over 7,611.962 hectares. Non inclusion of cost of cattle proof trenches and supervision cost resulted in loss of revenue of Rs.5.99 crore. This is in effect indirect subsidy to the user.

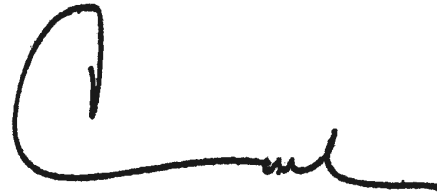
The matter was reported to the department in March 2005 and referred to Government in May 2006; replies have not been received (November 2006).



(C. Gopinathan)
Accountant General
(Works, Forest & Receipt Audit)
Karnataka

Bangalore
The

Countersigned



(Vijayendra N.Kaul)
Comptroller and Auditor General of India

New Delhi
The