

## CHAPTER VII: MINING RECEIPTS

### 7.1 Results of audit

Test check of the records relating to assessment and collection of mining receipts during the year 2007-08 revealed non/short levy 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. 513.88 crore in 1,474 cases which can be categorised as under:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
1.	“Mining Receipts” (A Review)	1	395.76
2.	Non/short levy of royalty	139	30.67
3.	Short realisation of interest on royalty	21	2.44
4.	Non-levy of dead rent	269	1.85
5.	Loss of interest	35	0.07
6.	Others	1,009	83.09
Total		1,474	513.88

During the year 2007-08, the department accepted underassessment of royalty and dead rent of Rs. 97.25 crore involved in 1,457 cases. All these cases were pointed out during 2007-08. An amount of Rs. 129.74 crore had been recovered in 53 cases relating to 2007-08 and earlier years.

A review of “Mining receipts” involving Rs. 395.76 crore is mentioned in the following paragraphs.

## **7.2 Mining Receipts**

### **Highlights**

- Non-imposition of penalty of Rs. 2.44 crore due to non-maintenance of records to monitor receipt of returns from lessees.  
**(Paragraph 7.2.9)**
- Failure of the department to prescribe any system to monitor demand and collection register resulted in non/short realisation of revenue of Rs. 54.70 crore.  
**(Paragraph 7.2.10)**
- Absence of any system for cross verification of figures of extraction of minerals with other departments resulted in non-realisation of revenue of Rs. 1.03 crore.  
**(Paragraph 7.2.12)**
- Non/short assessment of road development tax of Rs. 327.30 crore.  
**(Paragraph 7.2.18)**
- Short realisation of revenue of Rs. 1.36 crore due to irregular issue of temporary permits.  
**(Paragraph 7.2.20)**
- Short payment of royalty of Rs. 7.98 crore by Madhya Pradesh State Mining Corporation.  
**(Paragraph 7.2.21)**

### **7.2.1 Introduction**

Receipts from mining in Madhya Pradesh are regulated under the Mines and Mineral (Regulations and Development) Act, (MMRD Act) 1957, Coal Bearing (Acquisition and Development) Act, 1957, Mineral Conservation and Development Rules, 1988, Mineral Concession Rules, (MC Rules) 1960, Minor Minerals Rules (MM Rules), 1996 and Madhya Pradesh Minerals (Prevention of illegal mining, transportation and storage) Rules, 2006.

Madhya Pradesh has deposits of bauxite, coal, copper, diamond, dolomite, diaspore, limestone, manganese, pyrophyllite and rock phosphate. Besides, the state is fast emerging as a producer of dimensional stone, which includes multi-coloured granite, marble, flag stone and sand stone.

Mining receipts comprise mainly of application fees for lease/permit/prospecting license, royalty, dead rent, surface rent, fines and penalties and interest for belated payment of dues.

Audit reviewed the functioning of the Mining Department regarding assessment, levy and collection of mining receipts. It revealed a number of system and compliance deficiencies which are mentioned in the succeeding paragraphs.

### **7.2.2 Organisational setup**

The Mining Department functions under the overall charge of Secretary, Mining, Government of Madhya Pradesh. The Director, Geology and Mining is the head of the department who is assisted by Deputy Directors at headquarter and District Mining Officers (DMO) at the district level. The latter is assisted by Assistant DMOs and Mining Inspectors (MI). The DMO, Assistant DMOs and the Mining Inspectors are under the administrative control of the Collector at the district level.

### **7.2.3 Scope of audit**

Test check of the records of the directorate and 20<sup>1</sup> out of 49 DMOs for the period 2003-2004 to 2007-08 was conducted between November 2007 and May 2008. The selection of units was done on the basis of simple random sampling method.

### **7.2.4 Audit objectives**

The review was conducted to ascertain whether:

- the provisions of rules and departmental instructions are adequate and the provisions for assessment, levy & collection of mining receipts were enforced accurately to safeguard revenue; and
- internal control mechanism of the department was effective and adequate to safeguard Government revenue.

### **7.2.5 Acknowledgement**

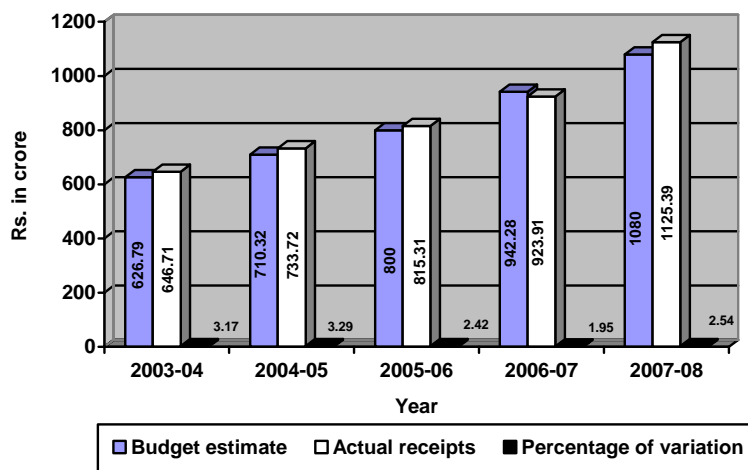
Indian Audit and Accounts Department acknowledges the co-operation of the Geology and Mining Department in providing necessary information and records for audit. The draft review report was forwarded to the Government and department in May 2008 and discussed in the audit review committee meeting (exit conference) held in November 2008. The Secretary represented the Government while the Director represented the Geology and Mining Department. The meeting was also attended by the Principal Secretary, Finance Department. The reply of Government/department has not been received (December 2008).

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<sup>1</sup> Anuppur, Balaghat, Betul, Chhattarpur, Chhindwara, Damoh, Dhar, Gwalior, Hoshangabad, Jabalpur, Katni, Morena, Narsingpur, Neemuch, Rewa, Satna, Sagar, Shahdol, Sidhi and Umaria

### 7.2.6 Trend of revenue

The trend of revenue during last five years ending 31 March 2008 is as under:



Thus, the budget estimates (BE) *vis-a-vis* actual receipts during the entire period covered in audit showed an increasing trend except in 2006-07.

It was noticed that while framing the BEs, amount of outstanding arrears was not considered which resulted in huge accumulation of arrears to be recovered as enumerated in the succeeding paragraph.

### 7.2.7 Position of arrears

Audit observed wide fluctuations in the arrear figures furnished by the department for the period 2003-04 to 2007-08. There was a sharp increase in arrears during 2004-05 and 2006-07 while in 2005-06 there was steep fall as mentioned below:

(Rupees in crore)	
Year	Outstanding arrears
2003-04	49.59
2004-05	153.04
2005-06	11.11
2006-07	113.25
2007-08	12.23

It was noticed that the arrears are as old as 40 years. The department has not prescribed any time limit for sending the cases for recovery as arrears of land revenue. Besides, the percentage of recovery in respect of RRC cases during the years under review was a meager 2.87 per cent.

**Audit findings****System deficiencies****7.2.8 Non-monitoring of work done by the prospecting licensees**

Rule 16 (1) (2) of the M C Rules lays down that prospecting licensees shall submit to the State Government a six monthly report of the work done by him. The licensees shall also submit, within three months of the expiry of the license, a full report of the work done by him in the course of prospecting operations in the area covered by the license. Further, Rule 8 (1) of Mineral Conservation & Development Rules prescribes a yearly report of the prospecting operation carried out in form B.

Test check of the records of DM offices revealed that no register/record was maintained to monitor receipt of these reports. Neither was any report received from the prospecting licensees in any of the DM offices during the last five years. In the absence of this control register/record there was no mechanism by which the DMOs and the department could verify whether the prospecting operations were carried out in the authorised areas or prospecting was done only for those minerals for which license was granted.

The Government may consider prescribing the maintenance of appropriate records for monitoring the receipt of reports from prospecting licensees for effective control on prospecting activities.

**7.2.9 Non-imposition of penalty due to non-submission of returns by the lessees****7.2.9.1 Mining leases**

According to the provisions of the MC Rules and condition no. 7 of part VII of the agreement for mining leases, every lessee is required to furnish to such officers and at such times, as the Central Government and State Government may appoint, true and correct abstract of all or any such books of accounts and such information and returns as the State Government may prescribe. If the lessee fails to furnish such information/returns, the State Government may impose such penalty not exceeding twice the amount of annual dead rent as provided in part IX condition No. 3 of the agreement. Rule 45 of Mineral Conservation & Development Rules prescribes submission of monthly and annual returns in various forms indicating therein production, details of royalty, consumption of material, despatches & stock, cost of production etc.

Audit scrutiny revealed that no register for monitoring the receipt of returns from the lessees have been prescribed by the department.

Scrutiny of the lease files of four<sup>2</sup> DM offices revealed that 50 out of 391 lessees had not furnished monthly and annual returns for the period January 2002 to February 2008. In the absence of any record to monitor receipt of these monthly and annual returns, the DMOs were not in a position to verify the royalty payable on actual despatch of the minerals and initiate any action for recovery of penalty. Besides, the department had not initiated

<sup>2</sup> Balaghat, Chhindwara, Katni and Umaria

any action to impose penalty for non-submission of the returns as per the rules. This resulted in non-realisation of revenue of Rs. 59.30 lakh<sup>3</sup>.

#### **7.2.9.2 Quarry leases**

According to rule 30 (20) (a)(b)(c) of the Madhya Pradesh Minor Mineral Rules, every lessee of quarry lease shall furnish monthly, six monthly and annual return to the DMOs in the prescribed forms at specified dates, failing which the lease sanctioning authority will impose penalty not exceeding double the amount of annual dead rent. Audit scrutiny revealed that the Government has not prescribed any register for monitoring the receipt of monthly, six monthly and annual returns from the lessees.

Scrutiny of the records of 12<sup>4</sup> DM offices revealed that out of 216 cases of quarry leases selected for test check, 178 lessees had not submitted monthly, six monthly and annual returns for the period April 2003 to March 2008.

In the absence of any record to monitor receipt of these returns, the DMOs were constrained to verify the correct amount of royalty payable on the despatch of mineral. Assessment of these 216 leases was also pending. Lack of monitoring of submission of returns resulted in non-levy of penalty of Rs. 1.85 crore. The Government may consider prescribing the maintenance of appropriate registers for monitoring the receipt of monthly and annual returns from the lessees to ensure effective control on correct assessment, levy and collection of mining dues.

#### **7.2.10 Non-realisation of revenue due to non-scrutiny of returns and non-maintenance of demand and collection register**

According to the instructions issued by Director, Geology and Mining, the DM Offices are required to maintain the demand and collection register (*khatoni*) which contains details of fixed (dead rent) and fluctuating demand (royalty) for mining and quarry leases<sup>5</sup>. It is the primary register in the DM office which contains details of surface rent, dead rent, total fixed demand, amount paid, number of challan, date of payment, quantity extracted, due royalty, interest etc. There was no system to monitor the proper maintenance of *khatoni* and its timely submission to the higher authorities. It was seen in audit that this basic record was not at all maintained in 14<sup>6</sup> test checked DM offices and in remaining six<sup>7</sup> DM offices, the *khatoni* was incomplete.

Non-scrutiny of returns and non-maintenance of *khatoni* coupled with cases of non-submission of monthly and annual returns by the lessees makes the entire exercise of assessment, levy and collection of mining dues adhoc. The department was in no position to verify either the correctness of extraction and despatches of minerals, royalty paid by the lessees or timely payment of dues. As a result, the process of framing the budgetary estimates in the

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<sup>3</sup> Calculated at double the amount of annual dead rent of Rs. 29.65 lakh

<sup>4</sup> Anuppur, Balaghat, Betul, Chhattarpur, Chhindwara, Damoh, Hoshangabad, Katni, Rewa, Sagar, Sidhi and Umaria

<sup>5</sup> This was reiterated by the Director in September 2005.

<sup>6</sup> Anuppur, Balaghat, Chhattarpur, Chhindwara, Gwalior, Hoshangabad, Jabalpur, Katni, Morena, Rewa, Sagar, Satna, Shahdol and Sidhi

<sup>7</sup> Betul, Damoh, Dhar, Narsinghpur, Neemuch and Umaria

department remained adhoc as the revenue figures could not be linked to the amount of minerals actually extracted and dispatched.

The following cases of non/short realisation of revenue were noticed in audit which could have been avoided had the *khatoni* been maintained properly.

**7.2.10.1** According to section 9A (i) of MMRD Act, every lessee of mining lease has to pay dead rent at the rates prescribed in schedule III of the Act in respect of all areas included in the lease, every year on or before 20<sup>th</sup> day of first month of the year.

Scrutiny of the records of five<sup>8</sup> DM offices revealed that seven lessees holding mining leases over 26,050.491 hectares land had not paid dead rent of Rs. 1.29 crore for the period from January 2005 to December 2008. This resulted in non-realisation of dead rent of Rs. 1.29 crore. Of these five DM Offices, in Betul and Umaria district, the entries of *khatoni* were incomplete while in the remaining three DM Offices, it was not maintained at all. Hence the department could not detect non-realisation of dead rent.

After the case was pointed out, all the DMOs except Chhindwara stated between September 2007 and January 2008 that action would be taken for recovery. DMO Chhindwara stated (January 2008) that as the mines are being operated under the Coal Bearing Act, therefore dead rent is not leviable. The reply is not in consonance with the Act as section 18 A of Coal Bearing Act clearly states that where any land or any rights in or over land belonging to the State Government is given, the company under section 11 may pay to the State Government such sum of money as would have been payable as royalty by a lessee, had such land or rights been under a mining lease granted by the State Government.

**7.2.10.2** According to rule 30(i)(a) of the Madhya Pradesh Minor Mineral Rules, every lessee has to pay dead rent in respect of leased area at the rates prescribed in schedule IV, every year, on or before 20<sup>th</sup> of first month of the year.

Scrutiny of the records of 15<sup>9</sup> DM offices revealed that 180 lessees holding quarry leases over an area of 44,047.663 hectares had paid dead rent of Rs. 16.34 lakh against Rs. 1.70 crore payable for the period from April 2003 to December 2008 as calculated from the correspondence file of the lessees. This resulted in short realisation of revenue of Rs. 1.53 crore.

**7.2.10.3** According to section 9 (i) of the MMRD Act, every lessee is liable to pay royalty in respect of minerals removed/consumed from the leased area at the rates specified in the second schedule.

Scrutiny of the records of five<sup>10</sup> DM offices revealed that five lessees had removed 115.02 lakh tonnes of minerals during the period April 2004 to February 2008 and had paid royalty of Rs. 217.94 crore against the payable royalty of Rs. 231.11 crore at the rate of 0.40 *per cent* of

<sup>8</sup> Betul, Chhindwara, Satna, Shahdol and Umaria

<sup>9</sup> Anuppur, Balaghat, Betul, Chhattarpur, Chhindwara, Damoh, Gwalior, Jabalpur, Katni, Morena, Rewa, Sagar, Shahdol, Sidhi and Umaria.

<sup>10</sup> Anuppur, Balaghat, Katni, Rewa and Sidhi

London Metal Exchange (LME)<sup>11</sup> and Rs. 23 per tonne as specified in the second schedule for the respective mineral. In all the cases, the returns furnished by the lessees were not entered in the *khatonis* due to which the DMOs could not watch short payment of royalty and raise demand for recovery of balance amount. This resulted in short realisation of revenue of Rs. 13.17 crore.

After the cases were pointed out, the DMO, Rewa stated (April 2008) that payment of royalty was made as per instructions of State Government. The reply, however, does not clarify the exact nature of the instructions. Moreover, lime shale which attracts royalty of Rs. 45 per tonne was misclassified as ordinary shale and royalty of Rs. 10 *per cent ad valorem* price was levied. As the mining plan of the lessee had clearly shown the presence of lime shale between the upper and lower strata of lime stone and moreover the lime shale so extracted was used in the manufacture of cement, treating lime shale as ordinary shale was incorrect. No specific reply has been received in the remaining cases.

**7.2.10.4** According to section 9(i) of the MMRD Act, every lessee has to pay royalty in respect of minerals removed/consumed from lease area at the rates specified in the second schedule.

Scrutiny of the records of seven<sup>12</sup> DM offices revealed that 15 lessees had removed 17.01 lakh tonnes of minerals from the leased area during the period April 2003 to December 2007 and paid royalty of Rs. 8.59 crore against the payable royalty of Rs. 10.88 crore, resulting in short realisation of Rs. 2.29 crore. Due to non-scrutiny of returns filed by the lessees and improper maintenance of *khatoni*, the irregularity remained undetected.

After the case was pointed out, the DMO Anuppur and Balaghat stated (between February and April 2008) that revised demand notice would be issued after re-assessment where as DMO Sagar stated that action would be taken after obtaining clarification from the lessee.

**7.2.10.5** According to section 9 (i) of the MMRD Act, every lessee of mining lease has to pay royalty in respect of minerals removed/consumed from leased area at the rates specified in second schedule.

Scrutiny of four<sup>13</sup> DM offices revealed that South Eastern Coalfield Limited (SECL) Jamuna Kotma, Sohagpur and Johila areas and Northern Coalfield Limited (NCL) Singrauli area had shown closing stock in the monthly statements of A, B, C & D grades of coal in November 2005 to December 2007 as 22.13 lakh tonnes which was carried over as opening balance in subsequent months as 13.05 lakh tonnes. Thus, the lessee had irregularly reduced the stock by 9.08 lakh tonnes on which royalty of Rs. 10.33 crore was payable. This resulted in non-realisation of revenue of Rs. 10.33 crore.

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<sup>11</sup> Commodities exchange in London that deals in metal futures (non-ferrous) and used as reference point in world market.

<sup>12</sup> Anuppur, Balaghat, Chhattarpur, Katni, Rewa, Sagar and Satna

<sup>13</sup> Anuppur, Shahdol, Sidhi and Umaria



After the case was pointed out, all the DMOs stated (between September 2007 and April 2008) that action would be taken after obtaining clarification from the lessees.

**7.2.10.6** According to section 9(i) of the MMRD Act, every lessee is liable to pay royalty in respect of minerals removed/consumed from lease area at the rates specified in second schedule. There is no provision for exemption from payment of royalty in respect of quantity of minerals consumed in colliery work.

Scrutiny of the records of DM Office, Anuppur revealed that South Eastern Coalfield Ltd. (SECL) Jamuna Kotma & Hansdeo Area (nine collieries) had shown inter-colliery transfers of 19.89 lakh tonne of 'B' & 'C' grade coal during the period January 2005 to March 2006 and did not pay royalty of Rs. 25.87 crore. The name of collieries to which the coal was shown to have been transferred was not mentioned in the returns which was also not scrutinised by the DMO. This resulted in non-realisation of revenue of Rs. 25.87 crore.

Scrutiny of the records of DM Offices, Anuppur, Betul and Chhindwara revealed that two lessees<sup>14</sup> having 25 collieries had shown 20,000 tonne coal of 'B', 'C' & 'D' grade as consumed in colliery work during the period January 2003 to March 2007 but did not pay royalty of Rs. 21.38 lakh on the mineral consumed. The DMO did not scrutinise the return and had irregularly allowed exemption from payment of royalty. This resulted in non-realisation of revenue of Rs. 21.38 lakh.

After the case was pointed out, DMO, Anuppur stated (February 2008) that action would be taken after obtaining clarification from SECL. The DMO, Betul stated (January 2008) that action would be taken as per rule after scrutiny. DMO, Chhindwara stated (January 2008) that action for recovery would be taken according to the provision of the rule.

The Government may consider prescribing submission of the *khatoni* to the Collector and to the Directorate at prescribed intervals for effective monitoring of its proper maintenance. It may also consider surprise inspection of the *khatoni* at frequent intervals.

#### **7.2.11 Lack of monitoring of issue and surrender of transit passes**

Transportation of minerals is done through transit passes issued from the DM Office in form IX. As per rule 14 of MPMM Rules, and Rule 5 (IV) of Madhya Pradesh Mineral (Prevention of illegal mining, transportation and storage) Rules, the lessee shall surrender all the duplicates of used transit passes together with unused transit pass books issued to him before royalty is paid and fresh transit passes are issued. The DM offices would keep proper accounts of issued and duplicate transit passes and unused transit pass books deposited by the lessee. Audit observed that there was no system to verify correctness of details entered in the transit passes by the lessees and correlate the information with the monthly return submitted by the lessees for proper assessment of revenue. This system deficiency along with non-maintenance of *khatoni* and lack of monitoring of periodical returns indicate that department

<sup>14</sup> South Eastern Coalfield Ltd. (SECL) and Western Coalfield Ltd. (WCL)

had been accepting the figures of extraction and despatch as furnished by the lessees. As a result, the assessment and levy of royalty remained adhoc.

Scrutiny of the records of 15<sup>15</sup> DM offices revealed that 67,364 transit passes were issued to the lessees from 2002-03 to 2007-08 while only 5,143 used transit passes were received back during this period. These DMOs had not maintained any record to monitor the receipt of used/unused transit passes. Further, the transit passes issued by DMO, Gwalior and Hoshangabad, revealed glaring discrepancies. Transit passes of higher serial number were shown to have been used for transporting minerals before transit pass of lower serial number on the same date as may be seen from below.

The image shows two transit pass forms from the Government of Madhya Pradesh, Department of Mineral Development, Gwalior. Both forms are for transit pass B 24802. The left form is dated 26-1-07 and the right form is dated 26-1-07. Both forms show a list of vehicles and their details, including registration numbers and names of the lessees. The forms are filled out with handwritten information and signatures.

Further, out of 100 transit passes test checked, in 22 transit passes vehicle numbers were not recorded. Cross verification of registration numbers of vehicles mentioned on the transit passes with the records of Regional Transport Offices, Morena, Hoshangabad and Katni revealed that out of 4,150 transit passes test checked, in 47 cases the transportation was shown to have been done on tractors. Out of these 47 cases, 43 registration numbers belonged to motor cycles, three numbers related to light motor vehicles and one number belonged to a bus. The Government may consider prescribing a system wherein the details entered in the transit passes are cross verified every month from the monthly returns furnished by the lessees.

<sup>15</sup> Anuppur, Balaghat, Betul, Chhattarpur, Chhindwara, Damoh, Gwalior, Hoshangabad, Jabalpur, Katni, Morena, Rewa, Sagar, Sidhi and Umaria

The Government may also consider prescribing a return on the number of transit passes issued and surrendered to the Collector and at the Directorate level.

### 7.2.12 Non-realisation of revenue due to suppression of stock by lessees

As per the MC Rules, every owner/lessee etc. shall submit monthly and annual returns to the department of the minerals raised and despatched. Further, Rule 45 of Mineral Conservation and Development Rules provides that the owner/agent of every mine shall submit to the Controller General, Controller of Mines and the Regional Controller, monthly and annual returns in respect of each mine for onward submission to the Indian Bureau of Mines (IBM). Audit scrutiny revealed that there was no prescribed mechanism for cross verification of figures by the DMOs with those of the controller of mines or IBM.

Scrutiny of the records of five<sup>16</sup> DM offices revealed that the lessees holding mining leases had shown 84.282 lakh tonnes of minerals extracted during the period April 2004 to March 2006 in their annual returns submitted to the department, whereas the same lessees during the same period had shown 87.873 lakh tonnes of minerals extracted in the annual returns submitted to the Indian Bureau of Mines (IBM). Thus, the lessees had suppressed the stock of minerals by 3.591 lakh tonnes resulting in non-realisation of revenue of Rs. 1.03 crore as per details given below:

Sl. No.	Name of district	Name of mineral	Period of calculation	Qty. of mineral as shown in annual return by lessees (in lakh tonnes)	Qty. of mineral as shown by IBM (in lakh tonnes)	Difference (in lakh tonnes)	Amount of royalty (Rs. in lakh)
1.	Sagar	Rock Phosphate	2005-06	1.125	1.333	0.008	0.56
2.	Damoh	Limestone	2004-06	39.02	39.77	0.75	33.50
3.	Jhabua	Rock Phosphate	2004-05	0.64	0.66	0.02	0.39
4.	Neemuch	Limestone	2004-05	43.257	43.26	0.003	0.12
5.	Chhattarpur	Diaspore Pyrophyllite	2004-06 2004-06	0.02 0.22	0.22 2.83	0.20 2.61	8.98 59.01
				<b>84.282</b>	<b>87.873</b>	<b>3.591</b>	<b>102.56</b>

The Government may consider coordinating with the Regional Controller of Mines/IBM for cross verification of figures furnished by the lessees on monthly and annual basis to safeguard against suppression of extraction of minerals and consequent leakage of revenue.

### 7.2.13 Non-monitoring of cancellation of idle mining leases

**7.2.13.1** According to the MC Rules, if any lessee does not commence mining operations within one year from the date of execution of 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

<sup>16</sup> Chhattarpur, Damoh, Jhabua, Neemuch and Sagar

order, declare the mining lease as lapsed. It was noticed that no records were maintained in the department to monitor the timely compliance of this provision. Absence of this record coupled with non-maintenance of demand and collection register constrained the department to detect these cases of lapsed leases.

Scrutiny of the records of DM offices, Balaghat, Katni and Rewa revealed that 125 lessees who were granted mining leases for 871.250 hectares between April 1984 and January 2005 had discontinued mining operations between April 1984 and March 2008 but no action was taken by the department to terminate their leases and allot them to other lessees. Had the leases been sanctioned afresh, the Government could have earned revenue in the form of royalty, dead rent and stamp duty and registration fee.

After the cases were pointed out, the DMOs Balaghat & Rewa stated (April 2008) that action would be taken as per rule. DMO, Katni stated (March 2008) that cases are pending with the Government.

**7.2.13.2** According to MM Rules, where the lessee is unable to commence mining operations for a period exceeding one year or is unable to continue mining operations after commencement for a cumulative period of six months during any calendar year, the sanctioning authority may, by an order, declare the quarry as lapsed and communicate the declaration to the lessee.

Scrutiny of the records of DM offices, Katni and Rewa revealed that 43 lessees had not commenced mining operations from June 2000 to October 2006 but the department had not initiated any action to declare their leases as lapsed.

The Government may consider prescribing appropriate mechanism to ensure timely cancellation of idle mining leases & resettlement of these leases for augmentation of revenue.

#### **7.2.14 Issue of mineral dealer licence**

According to Rule 7 (1) of Chapter-IV of Madhya Pradesh Mineral (Prevention of illegal mining, transportation and storages) Rules, mineral dealer licences are to be issued to dealers intending to store minerals. However, no time limit has been prescribed by the department to dispose of the applications.

Scrutiny of the records of 11<sup>17</sup> DM offices revealed that out of 335 applications received during 2006-07, only 34 licences were issued. Due to the absence of any mechanism to monitor timely disposal of applications, the department remained unaware of non-disposal of these applications. The Government may consider prescribing time limit for disposal of dealer licences.

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<sup>17</sup> Anuppur, Balaghat, Chhattarpur, Damoh, Hoshangabad, Jabalpur, Katni, Rewa, Sagar, Sidhi and Umari

**7.2.15 Internal audit**

The internal audit wing of a department is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the department to assure itself that the prescribed systems are functioning reasonably well.

It was observed that there was no internal audit wing in the department. Absence of the internal audit wing was pointed out in Audit Reports 1996 and 1997 featuring reviews of the Mining Department.

The Government may consider taking immediate steps to create an internal audit wing to ensure observance of the provisions of the Acts, rules and instruction and prevent leakage of revenue.

**7.2.16 Inadequate inspection**

As per the instructions issued by the Director, Geology and Mining Madhya Pradesh in March 1978, the mining inspector (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 lease deeds are observed by the lessees, extraction of minerals is not being done outside the leased area and the leased area is properly demarcated. Audit scrutiny revealed that no report/return has been prescribed to be furnished by the MI to the higher authorities mentioning the number of inspections conducted during a period.

Scrutiny of the records in 15<sup>18</sup> DM offices revealed that there was persistent shortfall in inspection ranging from 59 to 65 *per cent* over the last five years.

The Government may consider prescribing report/return to be furnished by the MI to the higher authorities for effective monitoring.

**Compliance issues****7.2.17 Non-finalisation of assessment**

As per the instructions issued by the Director, Geology and Mining in September 2005, assessment of leases shall be done after every six months i.e. in June and December every year and the process of assessment should be completed within one month from the completion of six monthly periods.

Scrutiny of the records of 17<sup>19</sup> DM offices revealed that periodical assessments in respect of 9,611 out of 13,918 leases (69 *per cent*) for the period 2003-04 to 2007-08 were not finalised. Further, scrutiny of records of DM offices, Hoshangabad and Sagar revealed that 247 assessments for the period January 1996 to June 2006 involving revenue of Rs. 13.06 crore were finalised by the concerned MIs between January 2003 to August 2007, but were not approved by the DMOs/Collectors. Pending approval

<sup>18</sup> Anuppur, Balaghat, Betul, Chhattarpur, Chhindwara, Damoh, Gwalior, Hoshangabad, Jabalpur, Katni, Morena, Rewa, Sagar, Sidhi and Umaria

<sup>19</sup> Anuppur, Balaghat, Betul, Chhattarpur, Chhindwara, Damoh, Gwalior, Hoshangabad, Jabalpur, Katni, Morena, Rewa, Sagar, Satna, Shahdol, Sidhi and Umaria

of assessment, the position of outstanding royalty could neither be assessed by the department nor by audit.

#### **7.2.18 Non/short assessment of road development tax**

According to Section 3 (2) of Madhya Pradesh *Gramin Avasanrachana Avam Sadak Vikas Adhiniyam*, 2005, road development tax at the rate of five *per cent* per annum of the market value of major minerals produced after deducting amount of royalty actually paid by the lessee and Rs. 4,000 per hectare per year in case of idle mines is to be levied from lessees holding mining leases. The Act further provides that competent authority shall assess the sale value of minerals on the basis of returns/accounts submitted by the lessees and shall assess and demand the tax by the end of May each year.

Scrutiny of the records of nine<sup>20</sup> DM offices revealed that the assessment of road development tax in respect of 19 mining leases for the period October 2005 to February 2008 had not been done resulting in non-issue of demand notices of Rs. 281.90 crore. Besides, assessment of road development tax in respect of 63 mining leases was finalised by the department on the basis of market value of minerals despatched during the period October 2005 to December 2007 instead of market value of the minerals produced during the said period. This resulted in short assessment of tax of Rs. 45.40 crore.

After the case was pointed out, all the DMOs except Betul, Damoh and Katni stated that revised demand notices would be issued. DMO, Betul, Damoh and Katni stated that action would be taken after scrutiny.

#### **7.2.19 Short recovery/loss of contract money**

According to condition no. 5 (i) and 9 of the contract agreement for trade quarry, every contractor has to pay contract money<sup>21</sup> on the scheduled date. If the contractor fails to pay contract money for a period of three months, his contract will be cancelled and quarry will be re-auctioned. Consequent upon re-auction of the quarry, if the Government sustains any loss, the same will be recovered from the defaulting contractor as arrears of land revenue.

Scrutiny of the records of 14<sup>22</sup> DM offices revealed that 97 contractors had paid contract money of Rs. 1.39 crore for the period April 2005 to March 2008 against the payable amount of Rs. 2.15 crore. This resulted in short realisation of contract money of Rs. 76.27 lakh. Though the contractors had defaulted in making payment of contract money since the beginning of the contracts, yet the department had not initiated any action against the contractors under the terms of contract to cancel the contract and re-auction them.

After the cases were pointed out, all the DMOs stated (between September 2007 and April 2008) that action for recovery would be taken.

Further, it was observed that in Anuppur and Morena DM offices, four trade quarries were auctioned for the period April 2005 to March 2007 on levy of contract money of Rs. 8.28 lakh. Though the contractors had not executed the

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<sup>20</sup> Anuppur, Balaghat, Betul, Chhindwara, Damoh, Katni, Rewa, Sidhi and Umaria

<sup>21</sup> A sum to be paid by the contractor in lieu of a contract.

<sup>22</sup> Anuppur, Balaghat, Betul, Chhattarpur, Damoh, Hoshangabad, Jabalpur, Katni, Morena, Rewa, Sagar, Satna, Shahdol and Umaria

contract agreement within the stipulated period, yet the department had not cancelled the contracts and re-auctioned the quarries. This resulted in loss of revenue of Rs. 8.28 lakh.

After the case was pointed out, the DMO, Anuppur stated (February 2008) that the quarries were included in the auction for 2007-09. The DMO, Morena stated (January 2008) that re-auction would be done. However, the replies did not indicate the reason for non re-auctioning the quarries during the period April 2005 to March 2007 as per the condition in the contract agreement.

#### **7.2.20 Irregular issue of temporary permits**

According to rule 68 (1) of the Madhya Pradesh Minor Mineral Rules, the collector shall grant permission for extraction, removal and transportation of any minor mineral from any specified quarry or land which may be required for the work of any department and undertaking of the Central Government or the State Government. Sub-rule (3) further provides that such permission shall only be granted on payment of advance royalty calculated at the rates specified in schedule III.

Scrutiny of the records of five<sup>23</sup> DM Offices revealed that seven temporary permits were issued to six contractors for construction of road involving seven works for 4.62 lakh cubic meter road metal, 42,000 lakh cubic meter *murrum*, 2.93 lakh cubic meter stone and 6,000 cubic meter sand between December 2004 and November 2007. The department had not realised advance royalty leviable on the quantity of minerals shown in the permits. The said contractors paid Rs. 81.90 lakh against payable royalty of Rs. 2.18 crore which resulted in short realisation of revenue of Rs. 1.36 crore.

After this was pointed out, all the DMOs, except Katni, stated between January and April 2008 that action for recovery would be taken. The DMO, Katni stated (March 2008) that material was not available at the site for which permit was issued. Hence the contractors had applied for cancellation of the permit. The reply is factually incorrect as the issue of permit without realising the advance royalty was irregular and instead of initiating proceedings for recovery of royalty, the DMO irregularly accepted the application of the contractor for cancellation of the permit.

#### **7.2.21 Short payment of royalty by MP State Mining Corporation**

According to Rule 30 (i) (6) of MPMM Rules, every lessee is required to pay royalty in respect of mineral removed/consumed from leased area at the rates specified in schedule III.

Scrutiny of the records of DM Office Hoshangabad revealed that Madhya Pradesh State Mining Corporation to whom the right of extraction of sand from 35 quarries within an area of 1,057.281 hectares was reserved by the State Government, had signed an agreement with M/s Narvada Enterprises for the period 24 May 2003 to 23 May 2006 for extraction and removal of sand on levy of royalty on minimum quantity of 56.91 lakh cubic meter mineral. The contractor had to pay to the corporation royalty of Rs. 42.66 crore on the minimum quantity of minerals to be lifted from

<sup>23</sup> Balaghat, Katni, Morena, Rewa and Sagar

mines, where as the corporation had paid royalty of Rs. 34.68 crore to the Government payable on 30.32 lakh cubic meters. Thus, the corporation had short paid royalty of Rs. 7.98 crore. The department had not cross verified the terms of the contract with the monthly return submitted by the Corporation. This resulted in short realisation of revenue of Rs. 7.98 crore.

After the case was pointed out, the DMO, Hoshangabad stated (February 2008) that action would be taken after obtaining clarification from the corporation.

#### **7.2.22 Non-levy of interest on belated payments**

According to MC Rules, if the lessee holding mining lease, fails to pay royalty on due date, he shall be liable to pay interest at the rate of 24 *per cent* per annum from sixtieth day of due date of payment till the date of payment. Further, as per MPMM Rules, if the lessee holding quarry lease and contractor of a trade quarry fails to pay the dead rent/royalty/contract money on due dates, they would be liable to pay interest at the rate of 24 *per cent* per annum.

Scrutiny of the records of seven<sup>24</sup> DM offices revealed that two lessees of mining leases, 21 lessees of quarry leases and 47 contractors of trade quarries had delayed payment from one to 687 days. The department had not initiated any action for the levy of interest on belated payments. This resulted in non-levy of interest of Rs. 10.86 lakh.

After the case was pointed out, all the DMOs stated (between September 2007 and April 2008) that action would be taken for recovery.

#### **7.2.23 Non-establishment of check posts**

According to rule 6 of Chapter III of Madhya Pradesh Minerals (Prevention of illegal mining, transportation and storage) Rules, check posts for checking of transportation of minerals are to be established to prevent illegal transportation of minerals.

Test check of the records of 11<sup>25</sup> DM offices revealed that none of the DM Offices had established any check posts since the issue of above Rules.

#### **7.2.24 Conclusion**

The systems instituted by the Mining Department for levy, assessment and collection of mining receipts were deficient. Monitoring of vital areas such as work done by prospecting licensees, submission of monthly, annual returns by the lessees, maintenance of demand and collection register and issue and surrender of transit passes was non-existent rendering the system vulnerable to leakage of revenue. There was no system to cross verify figures from the Regional Controller of Mines/IBM to safeguard revenue. The system for collection of mining dues remained adhoc and the department has been accepting the figures as furnished by the lessees. Due to non-scrutiny of returns and improper maintenance of *khatonis*, defects in the returns remained undetected leading to non/short realisation of revenue. Assessments were

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<sup>24</sup> Balaghat, Chhattarpur, Katni, Rewa, Satna, Shahdol and Sidhi

<sup>25</sup> Anuppur, Balaghat, Chhattarpur, Damoh, Hoshangabad, Jabalpur, Katni, Rewa, Sagar, Sidhi and Umari



pending since long while there was no internal audit wing in the department to provide reasonable assurance that the systems are functioning as per prescribed rules and instructions. Moreover, the department failed to follow the various provisions of the Act/Rules resulting in significant amount of non/short assessment and realisation of mining receipts.

#### **7.2.25 Summary of recommendations**

The Government may consider implementation of the following recommendations to rectify the system and compliance deficiencies:

- The Government may consider prescribing the maintenance of appropriate records for monitoring the receipt of reports from prospecting licensees for effective control on prospecting activities;
- the Government may consider prescribing submission of the *khatoni* to the Collector and to the Directorate at prescribed intervals for effective monitoring of its proper maintenance. It may also consider surprise inspection of the *khatoni* at frequent intervals;
- the Government may consider prescribing a system wherein the details entered in the transit passes are cross verified every month from the monthly returns furnished by the lessees. The Government may also consider prescribing a return on the number of transit passes issued and surrendered to the Collector and at the Directorate level;
- the Government may consider to coordinate with the Regional Controller of Mines/IBM for cross verification of figures furnished by the lessees on monthly and annual basis to safeguard against suppression of extraction of minerals and consequent leakage of revenue; and
- Setting up of an internal audit wing in the Department.