

## Chapter-VI Mineral Receipts

### 6.1 Tax administration

The responsibility for the management of mineral resources is shared between the Central and State Governments<sup>1</sup>. The Mines and Minerals (Development and Regulation) (MMDR) Act, 1957 enacted by the Central Government, lays down the legal framework for regulation of mines and development of minerals<sup>2</sup>. The Mineral Concession (MC) Rules, 1960, the Mineral Conservation and Development (MCD) Rules, 1988, and the Granite Conservation and Development Rules, 1999, have been framed for conservation and systematic development of minerals and for regulating grant of permits, licences and leases.

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

### 6.2 Internal audit

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

As per the information furnished by the Department, out of 31 offices due for audit during 2015-16, none of the offices were audited by IAW. The shortfall in coverage of offices was attributed to the shortage of staff in the Wing. Year wise details of the number of objections raised, settled and pending along with tax effect, as furnished by the Department are given in **Table 6.1**.

**Table 6.1**  
**Year wise details of observations raised by IAW**

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2011-12	1,640	335.69	1,403	295.67	237	40.03
2012-13	02	1.48	-	-	02	1.48
2013-14	0	-	-	-	-	-
2014-15	02	-	-	-	02	-
2015-16	0	-	-	-	-	-
<b>Total</b>	<b>1,644</b>	<b>337.17</b>	<b>1,403</b>	<b>295.67</b>	<b>241</b>	<b>41.50</b>

As seen from above, it is clear that the activities of IAW in the department have reduced to a greater extent after 2011-12 and virtually to nil in the previous two year period. This indicates that the department is not according due importance to internal audit.

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

<sup>2</sup> Other than petroleum and natural gas and atomic minerals.

It is recommended that due importance may be accorded to strengthen IAW as internal audit is an important mechanism to ensure the compliance of the department with the applicable laws, regulations and approved procedures.

### 6.3 Results of Audit

In 2015-16, test check of the records of 17 units of DMG, showed non-levy of penalty for removing minerals without Mineral Despatch Permit, non/short recovery of royalty, short levy of interest / dead rent and other irregularities involving ₹ 271.95 crore pointed out through 53 paragraphs, which fall under the following categories as given in **Table 6.2**.

**Table 6.2**  
**Results of Audit**

Sl. No	Category	Number of paragraphs	(₹ in crore)
			Amount
01.	Non/short levy of penalty for transportation of minerals without obtaining Mineral Despatch Permits	14	244.54
02.	Non/short levy of royalty	12	22.62
03.	Short levy of interest / dead rent	12	0.26
04.	Other irregularities	15	4.53
	<b>Total</b>	<b>53</b>	<b>271.95</b>

During the course of year, the Department accepted under assessments and other deficiencies of ₹ 32.14 crore in respect of audit findings in 13 paragraphs which were pointed out in audit during 2015-16 and recovered ₹ 19.72 crore in cases pointed out through two paragraphs. An amount of ₹ 0.35 crore was realised in cases pointed out through nine paragraphs pertaining to earlier years.

A few illustrative cases involving ₹ 264.72 crore are mentioned in the following paragraphs.

### 6.4 Non-levy of penalty for transportation of minor minerals without obtaining Mineral Dispatch Permits

Rule 42(1) of the KMMC Rules, 1994, requires that no person shall transport, or cause to be transported, any minor mineral, except under or in accordance with a Computerised Mineral Dispatch Permit (MDP) generated in electronic form (*e-permit* or *m-permit*). Additionally, as per Part-V, Clause-4 of the quarrying lease deed, the lease holder will be liable for penalty at five times of royalty for transporting minor mineral without obtaining MDP.

In order to provide ease of operations for minor mineral quarry leaseholders who are not able to have IT infrastructure at the lease area, SMS based trip sheet facility was introduced in Integrated Lease Management System with effect from January 2012. However, the facility of *m-permit* was discontinued due to certain technical reasons with effect from February 2015 and has not been re-established thereafter.

During test check of records in the seven<sup>3</sup> Deputy Director (DD) offices and seven<sup>4</sup> Senior Geologist (SG) offices of DMG between January and March 2016, Audit found that 1,34,61,612.5 metric tonnes (MTs) of building stone, 15,425 MTs of murrum, 17,353 MTs of fullers earth, 232.357 cubic meters (cum) of grey granite, 218.61 cum of pink granite and 4,40,449 square meters (sqm) of Shahabad stone were transported without obtaining MDPs during the years 2011-12 to 2014-15. Penalty at five times of royalty on such transportation as required under provisions of lease agreement was not levied. The resultant non-levy of penalty works out to ₹ 244.58 crore.

On similar lapses being pointed out in previous years, the Department has consistently maintained that the provisions of Rule 42 (1) of KMMC Rules are not applicable to non-specified minor minerals and that the scientific method of pit measurement of quarry leases exercised by the Department during its yearly assessment is an adequate control to detect the quantum of production and royalty thereof. The rationale stated by the Department to claim non-applicability is that Rule 31 of the Chapter IV of the Rules–Grant of Quarry Leases for Non-specified Minor Minerals–lists out provisions under other chapters of the KMMC Rules, 1994, that are also applicable to non-specified minor minerals, but does not specifically mention Rule 42.

When Audit brought these cases to the notice of the Department and Government during March and May 2016, the Department (July 2016) stated that the matter has been referred to the Law Department seeking clarification on the applicability of Rule 42 (1) of KMMC Rules, 1994, for transportation of non-specified minor minerals. Reply from Government and opinion of Law Department are awaited (December 2016).

## **6.5 Short levy of royalty due to application of pre-revised rates**

Section 9 (2) of the MMDR Act, 1957, enables the levy of royalty from a lease holder in respect of any mineral removed or consumed from the leased area at the rate specified for the time being as in the Second Schedule of the Act. With effect from 1 September 2014, rates of royalty leviable on iron ore and manganese ore were revised from 10 *per cent* and 4.2 *per cent* to 15 *per cent* and 5 *per cent* respectively of sale price, *ad valorem*<sup>5</sup>.

On verification of the accounts of the Monitoring Committee (MC)<sup>6</sup> during November and December 2015, Audit noticed that royalty on minerals sold in *e-auctions* was collected at the pre-revised rates till 31 August 2014 and at the revised rates thereafter. Since the basis for application of rates of royalty as

<sup>3</sup> Belagavi, Bengaluru Rural, Chitradurga, Dakshina Kannada, Hosapete, Kalaburgi and Tumakuru.

<sup>4</sup> Ballari, Bengaluru (Urban), Haveri, Kolar, Koppal, Mandya and Shivamogga.

<sup>5</sup> Government of India, Ministry of Mines Notification No. G.S.R. 63(E) dated 1 September 2014.

<sup>6</sup> The Monitoring Committee was formed under orders of the Hon'ble Supreme Court dated 2 September 2011 and 23 September 2011 for dealing with the various issues related to the sale through *e-auction* of the existing stock of iron ore, its transportation and account of the sale proceeds of iron ore. Sale of Iron and Manganese ore extracted from mines belonging to Ballari, Chitradurga and Tumakuru Districts of Karnataka is through *e-auction* conducted by the Committee. In the process, royalty and other levies due to Government are being collected by the Committee from the successful bidders and paid to the Departments concerned.

per the above provision is the date of 'removal' of the mineral, the revised rates are applicable even for minerals sold prior to 1 September 2014, if the actual removal, evidenced by the issue of trip sheets<sup>7</sup>, is after that date.

Audit noticed that in respect of *e-auctions* of iron ore conducted during 2013-14 and 2014-15, royalty on 16,64,248.01 metric tons of iron ore valued at ₹ 374.62 crore was levied at the rate of 10 *per cent* as against the revised rate of 15 *per cent*, though the mineral was removed after 1 September 2014. The resultant short levy of royalty works out to ₹ 18.73 crore.

Similarly, in respect of *e-auctions* of manganese ore for the year 2014-15, it was noticed that royalty on 9,424 metric tons of manganese ore worth ₹ 6.06 crore was levied at the rate of 4.2 *per cent* as against the revised rate of 5 *per cent* though mineral was removed after 1 September 2014. Resultant short levy of royalty works out to ₹ 4.85 lakh.

The Department of Mines and Geology should have advised MC to collect difference of royalty on the minerals transported after 1 September 2014.

In this regard, it is also recommended that suitable modifications be made in the 'Integrated Lease Management' application system of the Department by which any additional incidence of royalty owing to change of rates is levied and collected at the time of issue of trip sheets.

When Audit brought these cases to the notice of the Director of Mines and Geology and Government during March and April 2016, Department replied that an amount of ₹ 17.99 crore was recovered by the MC after getting the matter clarified with the Director of Mines and Geology. Further reply is awaited (December 2016).

## **6.6 Short deduction of royalty due to incorrect adoption of rates of royalty**

According to Rule 36 of the KMMC Rules, 1994, the holder of a quarrying lease or licence, shall pay royalty on the minor mineral removed or consumed by the lease / licence holder or his agent, manager, employee or contractor at the rates specified in Schedule-II under the Rules. The rates under Schedule II were revised with effect from 5 March 2014 which works out to ₹ 30/-, ₹ 103/- and ₹ 108/- per cubic meter (cum) for murrum, ordinary sand and building stone respectively. Revised rates were communicated to the field offices by the Director of Mines and Geology vide Circular (13 March 2014).

As per the circular instruction (December 2007) of Commerce and Industries Department, Government of Karnataka, the work executing departments / agencies on the work executed by them, should deduct royalty from the bills of the contractors, if they fail to produce proof of payment of royalty.

During the test check of records of the office of the SG, Ballari during February 2016, Audit noticed that monthly statements of royalty deduction were being submitted by two work executing agencies<sup>8</sup>. These agencies had

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<sup>7</sup> Trip sheets are issued at the time of actual transportation of mineral. Each trip sheet is valid for a solitary trip of a vehicle.

<sup>8</sup> M/s.North East Karnataka Road Transport Corporation Limited, Ballari and M/s.Karnataka Power Corporation Limited, Ballari.

recovered royalty on murram, ordinary sand and building stone from the bills of the contractors who had executed various works for the period from March 2014 to March 2015. Audit scrutiny of these statements revealed that the royalty (measured in cum) was deducted at rates lesser than prescribed in the Circular of 13 March 2014. The royalty deductible amounted to ₹ 1.95 crore, of which, only ₹ 0.59 lakh was deducted from the payments made to contractors, resulting in short collection of royalty amounting to ₹ 1.36 crore.

The Department had not detected the short collection of royalty even though the statements of royalty deducted by the work executing agencies were available with the Department. Consequently, action has not been taken to bring this deficiency to the notice of those agencies for initiating recovery of balance amount of royalty. This shows the absence of verification of the correctness of royalty deducted by the work executing departments / agencies.

It is recommended that the statements submitted by the work executing agencies have to be verified in the offices concerned to ensure the correctness of royalty deducted by such agencies.

On this being pointed out by Audit during February 2016, the SG, Ballari stated that the cases would be examined (February 2016).

Audit brought these cases to the notice of the Director of Mines and Geology and Government during June and July 2016. Reply is awaited (December 2016).



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