

CHAPTER-VII: MINING RECEIPTS

7.1 Results of audit

Test check of the records maintained in the office of the Deputy Directors of Mines and Mining Officers conducted during 2008-09 revealed non/short levy of royalty/dead rent/surface rent, non/short recovery of interest and non-levy of interest and other irregularities of Rs. 202.52 crore in 188 cases which fall under the following categories:

(Rupees in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Non/short levy of royalty/dead rent/surface rent	45	13.68
2.	Non/short recovery of interest and non-levy of interest	14	0.21
3.	Other irregularities	129	188.63
Total		188	202.52

During the year 2008-09, the department accepted non/short levy of royalty, dead rent/surface rent, non/short recovery of interest, non-levy of interest and other irregularities of Rs. 6.94 crore in 69 cases pointed out in 2008-09. The department also recovered Rs. 9.21 lakh in 12 cases pointed out in 2007-08.

A few illustrative audit observations involving Rs. 6.39 crore are discussed in the following paragraphs.

7.2 Audit observations

Scrutiny of the records maintained in the office of the Deputy Directors of Mines (DDM) and Mining Officers (MO) revealed short levy of royalty/non-levy of interest as mentioned in succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit repeatedly, but not only do the irregularities persist; these remain undetected till an audit is conducted. The Government may consider issuing instructions for effective internal control mechanisms to avoid occurrences of such omissions.

7.3 Non-observance of the provisions of the Act/Rules

The Mines and Minerals (Development and Regulation) Act (MMDR Act) and Mineral Concession (MC) Rules provide for levy of:-

- (i) Royalty on mineral removed from the leasehold area;*
- (ii) royalty on unprocessed mineral in case of processing of mineral other than run-of-mine⁸⁰ (ROM) mineral;*
- (iii) royalty on appropriate grade of mineral; and*
- (iv) interest on belated payment of royalty.*

Non-observance of some of the above provisions as mentioned in paragraphs 7.3.1 to 7.3.3 resulted in short levy of royalty and non-levy of interest amounting to Rs. 4.97 crore.

7.3.1 Short levy of royalty on coal

Under the MMDR Act, 1957, the holder of a mining lease is liable to pay royalty in respect of any mineral removed from the leasehold area or consumed therein. As per the revised rate of royalty notified in August 2007 by the Government of India, Ministry of Coal, the rate of royalty on coal is a combination of specific and advalorem rates of royalty which is Rs. 55 per MT plus five *per cent* of basic pit head price of ROM coal in case of F grade coal.

7.3.1.1 Test check of the records of the DDM, Rourkela in January 2009 revealed that during the year 2007-08 a lessee dispatched 31.39 lakh MT of F grade coal from the leasehold area of one of its mines. The DDM, however, levied royalty on 30.12 lakh MT resulting in short levy of royalty of Rs. 1.94 crore.

After the case was pointed out, the DDM stated in January 2009 that quarterly assessment was made after obtaining the rake-wise price after dispatch from the railway siding as it was a convenient system and thus difference exists. The fact, however, remains that royalty was to be assessed on the quantity of coal dispatched from the leasehold area.

⁸⁰ The blasted materials containing ore with other foreign materials brought to the crushing plant.

7.3.1.2 Test check of the records of the DDM, Sambalpur during January 2009 revealed that 11.18 lakh MT of F grade coal was consumed in the mines of a lessee during August 2007 to March 2008. The royalty on the above quantity of coal was assessed as Rs. 8.83 crore at the rate of Rs. 79 per MT. It was, however, seen that the royalty assessable comes to Rs. 9.53 crore calculated at the rate of Rs. 85.25 per MT, taking the basic pit head price at the rate of Rs. 605 per MT applicable for the year 2007-08 as intimated in July 2008 by the DDM to the Director of Mines. Thus, application of a lower price for calculation of royalty resulted in short levy of royalty of Rs. 69.85 lakh.

After the case was pointed out, the DDM stated that the basic pit head price of F grade ROM coal fixed by Coal India Limited was Rs. 440 per MT and the rate of Rs. 605 per MT was meant for F grade steam coal and not for F grade ROM coal which was dispatched by the lessee. The fact, however, remains that the sale price of all F grade coal for the concerned mine was Rs. 605 per MT for 2007-08 as intimated to the Director of Mines.

The matter was reported to the Government in February 2009; their reply has not been received (October 2009).

7.3.2 Short levy of royalty on iron ore

As per the provisions of the MMDR Act, the holder of a mining lease is liable to pay royalty at the prescribed rates on the mineral consumed/removed from the leasehold area. Further, according to the MC Rules, in case of processing of ROM minerals within the leasehold area, royalty is chargeable on the processed mineral removed from the leasehold area. However, in case of processing of mineral other than ROM mineral, royalty is chargeable on unprocessed mineral i.e. mineral extracted from the seam. As per the Government of Orissa, Mining and Geology Department notification of August 1974, the MO shall make quarterly verification of the monthly returns with reference to the accounts maintained by the lessee alongwith other relevant records.

7.3.2.1 Test check of the assessment records of the DDM, Koira in January 2009 revealed that during the years 2006-07 and 2007-08, a lessee declared to have fed 37.63 lakh MT of unprocessed minerals in his processing plant and paid royalty of Rs. 5.70 crore classifying the minerals as ROM minerals. The AO accepted the returns of the lessee and levied royalty accordingly. Audit scrutiny revealed that the output was equal to the input minerals, i.e., 37.63 lakh MT which indicates that the minerals declared to have been fed by the lessee were not ROM minerals and thus royalty of Rs. 7.55 crore should have been levied on the unprocessed minerals. This resulted in short levy of royalty of Rs. 1.85 crore.

After the case was pointed out, the DDM stated in January 2009 that the royalty was charged on the processed mineral as per the mining plan of the lessee approved by the Indian Bureau of Mines for production of ROM minerals. The fact, however, remains that the minerals fed were not ROM minerals since the output after processing was graded mineral, sized mineral

and fines without any foreign material which was also equal to the input quantity.

7.3.2.2 Test check of the records of the MO, Keonjhar in December 2008 revealed that in the case of a lessee assessment of royalty for the year 2007-08 was completed on the unprocessed minerals fed into the crusher plant as shown in the returns. On scrutiny of the returns it was seen that the lessee stated to have fed 2.36 lakh MT of higher grade minerals and 3.52 lakh MT of lower grade minerals and paid royalty accordingly. The output of higher grade was, however, shown as 3.76 lakh MT. This indicates that the quantity of higher grade minerals shown to have been fed on which royalty was assessed was not correct and the lessee was liable to pay the differential royalty of Rs. 15.47 lakh on 1.40 lakh MT of higher grade minerals.

After the case was pointed out, the MO stated in December 2008 that after verification of records the lessee would be asked to deposit the differential royalty. A report on further development has not been received (October 2009).

7.3.2.3 In Koira circle it was further seen that in the case of a lessee assessment of royalty was made upto March 2005 on the quantity of processed minerals removed from the leasehold area. The procedure of assessment was changed from 1 April 2005 and royalty from that date was required to be assessed on the quantity of minerals fed into the processing plant. It was, however, seen that the DDM did not levy royalty on the closing balance of 86,356 MT of processed minerals left unassessed at the end of March 2005. This resulted in non-levy of royalty of Rs. 11.53 lakh.

After the case was pointed out, the DDM stated in January 2009 that the present method of assessment was challenged by the lessee who requested the Director of Mines to consider the assessment as per Rule 64 B of MC Rules. The fact, however, remains that the left over processed mineral escaped levy of royalty.

The cases were reported to the Government in March 2009; their reply has not been received (October 2009).

7.3.3 Non-levy of interest on delayed payment of mining dues

Under the provisions of the MC Rules as amended from time to time, in case of belated payment of royalty, simple interest at the rate of 24 *per cent* on the unpaid amount is chargeable from the sixtieth day after the expiry of the due date till the payment of the dues in full.

Test check of the records of six mining circles⁸¹ between June 2008 and January 2009 revealed that royalty of Rs. 4.27 crore was paid belatedly during the period between July 2006 and June 2008, though the due date of payment was between January 2004 and April 2008. Interest of Rs. 20.99 lakh for delay in payment of the dues ranging from one to 1,458 days was not levied.

⁸¹ Baripada, Bolangir, Cuttack, Jajpur Road, Koira and Sambalpur.

After the cases were pointed out, the MOs, Baripada, Bolangir, Cuttack and the DDM, Koira agreed to raise the demand, while the DDM, Jajpur Road raised the demand of Rs. 1.54 lakh in November 2008. A report on further development in the former cases and realisation in the latter case has not been received (October 2009). The DDM, Sambalpur stated in January 2009 that the lessee had cleared the dues within the stipulated period of 74 days. The fact, however, remains that the differential royalty pertaining to the period from August 2007 to March 2008 was paid in May 2008.

The matter was brought to the notice of the Government in March 2009; their reply has not been received (October 2009).

7.4 Short levy of royalty on limestone

Non-compliance to the instructions issued by Government of India resulted in short levy of royalty of Rs. 1.42 crore.

As per the notification issued by the Government of India in September 1961, limestone was to be treated as a minor mineral only when used in kilns for manufacture of lime used as building material and in all other cases would be deemed to be a major mineral.

Scrutiny of the records of the DDM, Rourkela in January 2009 revealed that three lessees removed 8.56 lakh MT of limestone during 2006-07 and 2007-08 as minor minerals with the nomenclature “rejected limestone boulders” on payment of royalty applicable to ordinary boulders under the Orissa Minor Mineral Concession Rules. As the lease was granted for extraction of limestone as major mineral and the rejected limestone boulders were removed for the purpose other than for use in kilns for manufacture of lime, royalty of Rs. 3.85 crore was leviable treating these as major minerals against which royalty of Rs. 2.43 crore only was levied. This resulted in short levy of royalty of Rs. 1.42 crore.

After the cases were pointed out, the DDM stated in January 2009 that the matter would be referred to the Director of Mines for clarification. A report on further development has not been received (October 2009).

The matter was reported to the Government in March 2009; their reply has not been received (October 2009).