

CHAPTER-VII: NON-TAX RECEIPTS

MINING RECEIPTS

7.1 Tax administration

The levy of royalty on minerals is administered by the Department of Mines and Geology headed by the Director of Mines and Geology under the administrative control of the Commerce and Industries Department at Government level. There are 13 offices of the Deputy Director (Mines) and 15 offices of the Senior Geologist (Mines) in the State. The levy and collection of royalty on minerals is governed by the provisions of the Mines and Minerals (Development and Regulation) (MMDR) Act, the Mineral Concession (MC) Rules, 1965 and the Karnataka Minor Mineral Concession (KMMC) Rules, 1994.

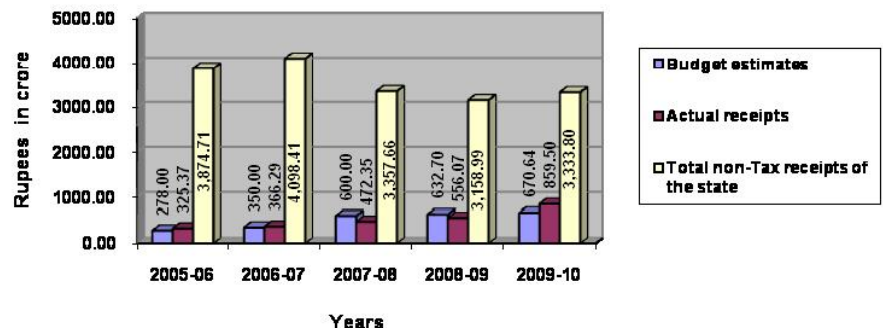
7.2 Trend of receipts

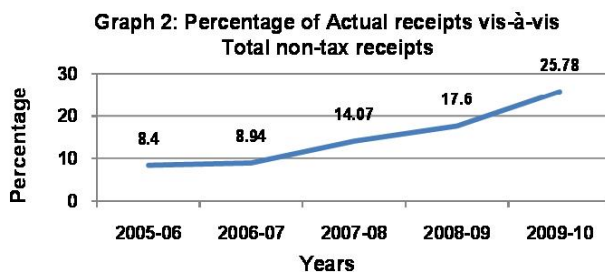
Budget Estimates (BEs) and actual revenue from mineral receipts during the years 2005-06 to 2009-10 along with the total non-tax receipts during the same period is exhibited in the following table and graphs.

(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non-tax receipts
2005-06	278.00	325.37	(+) 47.37	(+) 17.04	3,874.71	8.40
2006-07	350.00	366.29	(+) 16.29	(+) 4.65	4,098.41	8.94
2007-08	600.00	472.35	(-) 127.65	(-) 21.28	3,357.66	14.07
2008-09	632.70	556.07	(-) 76.63	(-) 12.11	3,158.99	17.60
2009-10	670.64	859.50	(+) 188.86	(+) 28.16	3,333.80	25.78

Graph 1: Budget estimates, Actual receipts & Total non-tax receipts





It is seen from the above that the actual receipts were higher than the BEs during 2005-06, 2006-07 and 2009-10 and lesser than the BEs during the years 2007-08 and 2008-09. The variations between the BEs and actual receipts ranged between (-) 21.28 *per cent* and (+) 28.16 *per cent* indicating unrealistic budgeting process. The percentage of actual receipts in total non-tax receipts ranged between 8.40 *per cent* and 25.78 *per cent* during the five year period from 2005-06 to 2009-10.

7.3 Impact of Audit Reports

During the last five years, through our audit reports, in respect of mineral receipts, we had pointed out non/short levy of royalty/penalty/interest with revenue implication of ₹ 566.93 crore in seven paragraphs. Of these, the Government/Department had accepted audit observations involving ₹ 52.99 crore in four paragraphs and had since recovered ₹ 21 lakh. The details are shown in the following table:

(Rupees in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2005-06	01	543.96	01	47.03	01	0.21
2006-07	-	-	-	-	-	-
2007-08	01	4.07	-	-	-	-
2008-09	02	18.62	01	5.74	-	-
2009-10	03	0.28	02	0.22	-	-
Total	07	566.93	04	52.99	01	0.21

As seen from the above table, the recovery made by the Department is only 0.4 *per cent* of the amount involved in the total accepted cases.

We recommend that the Government take measures to ensure expeditious recovery of revenue in respect of the accepted cases.

7.4 Working of internal audit wing

The Internal Audit Wing (IAW) is functioning in the Mines and Geology Department since 1985. The IAW has a working strength of one Accounts Officer, one Accounts Superintendent and one auditor.

As per the information furnished by the Department, out of 24 offices due for audit during 2009-10, only six offices (25 *per cent*) were audited. The Department stated that due to vacancy in the post of Accounts Officer from September 2009 and paucity of staff, IAW was unable to conduct any internal audit work and stated that the post of Accounts Officer has since been filled and IAW was programming to update the internal audit work within the time

frame. Year-wise details of the number of objections raised and settled with money value, as furnished by the Department, are as under:

(Rupees in lakh)

Year	Objections raised		Objections settled		Objections pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2005-06	1,558	300.66	1,368	285.16	190	15.50
2006-07	18	1.84	07	0.28	11	1.56
2007-08	14	0.52	-	-	14	0.52
2008-09	02	0.02	-	-	02	0.02
Total	1,592	303.04	1,375	285.44	217	17.60

From the above, it is observed that objections are pending settlement for over five years.

We recommend that the Department take appropriate steps to ensure adequate coverage for internal audit and for speedy clearance of the outstanding objections pending for more than five years.

7.5 Results of audit

We conducted a test check of records of 16 offices of the Deputy Conservator of Forest and 15 offices of the Deputy Director/Senior Geologist (Mines) during the year 2009-10. Besides, we also checked records of 14 Departments for the review on 'Interest Receipts'. This revealed underassessments and non-realisation of revenue amounting to ₹ 438.61 crore in 79 cases. The observations broadly fall under the following categories.

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	Interest Receipts (A Review)	01	394.51
	Forestry and Wildlife		
1.	Non/short recovery of forest development tax	08	9.94
2.	Non/short levy and non-recovery of lease rent	03	3.38
3.	Other irregularities	22	2.49
	Total	33	15.81
	Mineral Receipts		
1.	Non/short levy of royalty, dead rent, penalty, interest	63	21.08
2.	Non-fixing of minimum bid amount for ordinary sand	01	0.05
3.	Other irregularities	11	7.16
	Total	75	28.29
	Grand Total	79	438.61

During the course of the year 2009-10, the Departments accepted audit observations involving ₹ 12.14 crore in 24 cases pointed out during the year. The Departments also recovered ₹ 3.51 crore in 34 cases pointed out in earlier years.

After the issue of a draft paragraph, the Mines and Geology Department reported (August 2010) recovery of the entire amount of ₹ 6.62 lakh.

A review on '**Interest Receipts**' with financial impact of ₹ 394.51 crore and few illustrative audit observations on '**Mineral Receipts**' involving ₹ 28.34 lakh are mentioned in the following paragraphs.

7.6 Interest Receipts

Highlights

There were system deficiencies in sanctioning, monitoring and recovery of loans. The Karnataka Financial Code (KFC) was not amended to incorporate important Government orders relating to loans and their recoveries. The internal financial advisor had not been involved in sanctioning of loans by various Government Departments.

(Paragraph 7.6.10 and 7.6.11)

Non-fixation of terms and conditions of loans aggregating ₹ 1,357.68 crore sanctioned in 116 cases resulted in non-levy of interest of ₹ 283.65 crore for the period 2004-05 to 2008-09.

(Paragraph 7.6.13.1)

Interest and penal interest aggregating ₹ 39.93 crore was not demanded by seven Departments in 48 cases of loans disbursed of ₹ 207.82 crore.

(Paragraph 7.6.14)

Penal interest of ₹ 5.08 crore was not levied by Commerce and Industries Department on sugar factories for default in repayment of interest free loans.

(Paragraph 7.6.15)

There was short demand of interest of ₹ 29.17 crore by the Co-operation Department due to application of incorrect rate of interest and levy of interest on principal due instead of outstanding principal. Besides, penal interest of ₹ 4.69 crore was also not demanded.

(Paragraph 7.6.18)

Failure to monitor computation of interest on Special Development Debentures by Registrar of Co-operative Societies resulted in short-levy of interest of ₹ 10.60 crore and penal interest of ₹ 2.66 crore.

(Paragraph 7.6.19)

Fixation of concessional rate of interest by Co-operation Department while rescheduling outstanding loan resulted in irregular allowance of rebate of ₹ 4.63 crore.

(Paragraph 7.6.20)

7.6.1 Introduction

The State Government provides loans and advances to public sector undertakings, Departmentally-run commercial undertakings, local bodies, co-operative societies and individuals including Government employees. The loans sanctioned usually carry different rates of interest fixed by the sanctioning authority keeping in view the purpose for which the loan is provided. Loans are required to be repaid within the stipulated period, in periodical instalments along with the interest. The terms and conditions which are specified in the orders sanctioning the loans are to indicate the periodicity of instalments, the rate of interest, the mode and the manner of repayment of the principal and the interest. In case of default in repayment of the instalment/s of the principal, the Karnataka Financial Code (KFC), 1958

prescribes levy of penal interest on the principal remaining unpaid and on the interest due.

We conducted two reviews on ‘Interest Receipts’ which were featured in the Audit reports for 1996-97 and 2003-04. We have neither received Departmental notes from the Government nor have the reviews been discussed by the Public Accounts Committee so far.

7.6.2 Audit criteria

We conducted the review based on the following audit criteria:

1. The KFC, 1958.
2. The Karnataka Government (Transaction of Business) Rules, 1977 (KGTB Rules).
3. Government Order No. FD 01 BLA 2002 of Finance Department (FD) issued on 10 July 2003 (GO of July 2003) prescribing procedures for grant and monitoring of loans.
4. The Government of Karnataka (Consultation with Financial Advisor) Rules, 1982 (KCFA Rules) issued in July 1982 and Circular issued in July 2003 by FD.
5. Government Order No. FD 02 TFC 2004 of FD issued on 9 September 2004 regarding accounting and monitoring of loans.
6. Government Order No. FD 172 SAVULA 2005 of FD issued on 22 May 2006 redesignating Directorate of Small Savings as Directorate of Investment monitoring, Loan tracking and Small Savings (Directorate) and prescribing functions of the Directorate.
7. Circular No.FD 51 RLG 07 dated 29 May 2007.

7.6.3 Organisational setup

The requests for sanction of loans and advances are processed by the heads of the Departments and are recommended to Government in the concerned administrative Departments. The concerned administrative Departments, in prior consultation with the Internal Financial Advisers (IFAs) concerned, forward these requests for concurrence of the Finance Department (FD). On receipt of concurrence from the FD, the administrative Departments issue loan sanction orders specifying the terms and conditions, rate of interest chargeable, repayment period and the authority responsible for maintenance of loan ledgers and watching recovery. The FD in May 2006 entrusted the work of maintenance of the data base of all investments made and loans sanctioned by the Government, monitoring of recoveries, issue of demand notices etc to the Directorate of Investment monitoring, Loan tracking and Small Savings (henceforth called Directorate).

7.6.4 Audit objectives

We conducted the review with a view to examine:

- whether the system and procedures for monitoring levy and recovery of interest receipts was adequate;

- the adequacy of remedial measures against defaulters with a view to safeguard the interests of Government; and
- whether the internal control mechanism provides for effective monitoring.

7.6.5 Scope and methodology of audit

We conducted audit of the interest receipts relating to all the loans sanctioned by 14¹ Departments during the years 2004-05 to 2008-09 between August 2009 and May 2010. We test checked the records of the Government, Controlling Officers and beneficiary organisations (wherever necessary). Besides, we also checked loans sanctioned prior to the 2004-05 where repayments of instalments of loans/interest were due, loans were converted into equity/grants and interest was waived off during the period of review.

7.6.6 Acknowledgement

We acknowledge the co-operation of FD and all the 13 Departments in providing necessary information and records for audit. We held an entry conference with the Secretary, FD and officers of all these Departments in October 2009, wherein the audit objectives, scope of audit and methodology were explained. We forwarded the draft review report to the Government in June 2010 and discussed the same in the exit conference held in July 2010 with the Principal Secretary, FD, Principal Secretary, Animal Husbandry and Fisheries Department and officers from other Departments. We have included the replies of Government received during the exit conference and at other points of time in the respective paragraphs.

7.6.7 Position of loans

The position of loans outstanding at the beginning of the year, loans disbursed during the year, repayment of loans during the year and loans outstanding at the end of the year for the years 2004-05 to 2008-09 as given in Statement No. 5 of the Finance Accounts of the respective years is mentioned below:

(Rupees in crore)

Year	Opening balance of outstanding loans	Loans disbursed during the year	Total	Repayment of loans during the year	Closing balance of loans at the end of the year	Percentage of recovery of loans to opening balance of loans
2004-05	5,106.54	550.51	5,657.05	9.60	5,647.45	0.19
2005-06	5,645.20*	283.65	5,928.85	36.06	5,892.79	0.64
2006-07	5,892.79	353.66	6,246.45	13.59	6,232.86	0.23
2007-08	6,232.86	755.23	6,988.09	42.91	6,945.18	0.69
2008-09	6,945.18	728.75	7,673.93	54.17	7,619.76	0.78

*Opening balance differs from that adopted in Annual Accounts 2004-05 on account of proforma corrections carried out in 2005-06 relating to book adjustments of power subsidy for 2004-05.

¹ Agriculture, Animal Husbandry and Fisheries, Commerce and Industries, Co-operation, Energy, Finance, Forest Ecology and Environment, Health and Family Welfare, Housing, Kannada Culture Information and Tourism, Public Enterprises, Urban Development, Water Resources, Youth Services and Sports.

Increase in loans disbursed during 2007-08 and 2008-09 was mainly due to sanction of loans to M/s. Bangalore Metro Rail Corporation Limited and for purchase of power from private sectors. We noticed that the outstanding loans under different heads had increased by 35 *per cent* from ₹ 5,647.45 crore in 2004-05 to ₹ 7,619.76 crore in 2008-09. The percentage of recovery of loans to the opening balance of loans ranged between 0.19 and 0.78 during 2004-05 to 2008-09.

We recommend that the Government intensify its measures to ensure prompt repayment of outstanding instalments of principal from the loanees.

7.6.8 Trend of revenue

The Karnataka Budget Manual stipulates that in the preparation of budget, the aim is to achieve as close an approximation to the actuals as possible. It is, therefore, essential that not merely should all items of revenue and receipts that can be foreseen be provided but also only so much and no more should be provided as is expected to be realised, including past arrears in the budget year.

The BEs, actual realisation of revenue, variation in receipts over BEs and percentage of variation in respect of interest receipts for the years 2004-05 to 2008-09 are as mentioned below:

(Rupees in crore)				
Year	BEs	Actuals	Variation of actuals over BEs	Percentage of variation
2004-05	86.13	144.79	(+) 58.66	(+) 68.11
2005-06	111.39	283.00	(+) 171.61	(+) 154.06
2006-07	178.61	376.19	(+) 197.58	(+) 110.62
2007-08	187.54	375.24	(+) 187.70	(+) 100.09
2008-09	146.92	337.17	(+) 190.25	(+) 129.49

The percentage of variations between BEs and actuals ranged between 68.11 *per cent* and 154.06 *per cent*.

We reported the matter to the Government in October 2009. The FD stated that huge variations were under the minor head 'Interest realised on investments of cash balances' and was due to investment of surplus cash balance into 14 days Government of India Treasury bills on a day to day basis by the Reserve Bank of India. The FD further stated that the cash balance which can be invested in either 14 days Treasury bills or 90 days Treasury bills could not be foreseen while finalising the BEs as the cash balances were dependent on various factors like collection of State's own tax revenue, devolution of funds from Government of India, grants-in-aid from the Government of India, etc. The FD stated that receipts from Departmental Commercial Undertakings and Public Sector Undertakings were by way of book adjustments made at the end of the financial year with no cash flow. These adjustments mostly depended on the provision available on the expenditure side.

7.6.9 Non-reconciliation of balances of loan/remittances under '0049-interest receipts'

The KFC prescribes reconciliation of Departmental figures of revenue with those of actual credits into the treasuries based on which the accounts of State Government are prepared. The KFC, also prescribes effecting reconciliation of balances of loans with the books of the Accountant General (Accounts & Entitlement) by the Departmental authorities.

We ascertained from the Accountant General (Accounts & Entitlement), that reconciliation of Departmental figures of revenue under the head of Account '0049-Interest Receipts', had not been done by any of the controlling officers for the years 2004-05 to 2008-09 except Registrar of Co-operative Societies and Director of Municipal Administration, who

carried out reconciliation for the years 2007-08 and 2008-09. None of the controlling officers had done reconciliation of loan balances for the years 2004-05 to 2008-09.

System deficiencies

7.6.10 Inadequate codal provisions

The KFC lays down rules for grant of loans, levy of interest and penal interest on overdue instalments of principal and interest, submission/obtaining of utilisation certificates and stipulates maintenance of accounts of loans.

We observed that the KFC does not provide for rules/detailed instructions for fixing of concessional rates of interest, procedure for grant of interest free loans, conversion of loans into equity or grants, waiver and remission. Further it does not prescribe the manner in which the accounts of loans have to be maintained. The procedures for sanction of loans and monitoring of

recovery of interest receipts stipulated in GO of July 2003 have not been incorporated in the KFC though it was notified that specific amendment would be proposed to the KFC. We noticed that no amendments to KFC have been made specifically, for sanction and monitoring of loan, since its inception.

After we brought this to notice, the FD confirmed (June 2010) that no specific procedures had been laid down for grant of interest free loans, conversion of loans into equity or grants, adjustments of repayments of loan, levy of penal interest, etc. The FD further stated that revision of interest rates and other terms and conditions specified in GO of July 2003 had not been incorporated in KFC and suitable amendments to the Act would be considered for incorporation.

We recommend that the Government amend the provisions of KFC by prescribing detailed procedures for grant of interest free loans, conversion of loans into equity/grants and also incorporating the provisions contained in GO of July 2003.

7.6.11 Monitoring of repayments of loan and interest

7.6.11.1 Monitoring of loans by Directorate

Government vide circular dated May 2007 stipulated that the loan sanction orders were to be endorsed to the Directorate. As per GO of May 2006, the Directorate was to monitor timely recoveries including issue of notices and submit quarterly report on Demand, Collection and Balance (DCB) to FD.

We noticed that none of the loan sanction orders were endorsed to the Directorate. We also observed that the Directorate had neither issued any demand notices nor prepared/maintained DCB (May 2010).

After we brought this to notice, the Directorate stated that the reconciliation of loans with the Accountant General (Accounts and Entitlement) had come to a standstill and has now been resumed owing to which it was not in a position to identify the Departments which had sanctioned loans. The Directorate in the Exit Conference stated that only 20 *per cent* of the data had been collected and the tracking of loans was in process. The Directorate also expressed its inability to obtain the essential details for monitoring of loans. The FD, in the exit conference, agreed to strengthen the working of the Directorate.

7.6.11.2 Monitoring by the IFAs

As per KCFA Rules, all proposals for sanction of loans will be referred to the IFAs before the issue of final orders and the IFAs were to keep a close watch on repayments of loans and interest.

We reviewed the loan sanction files in the Government and noticed that the opinion of the IFAs were not obtained by six² Departments before sanction of loans aggregating ₹ 1,020.87 crore for the period 2004-05 to 2008-09. We called for information regarding monitoring of

loans by the IFAs. We have not received any information from the IFAs (January 2011).

After we brought this to notice, the IFA of Commerce and Industries Department, during the exit conference, expressed that IFAs were not being involved in the process of loan sanctions in many cases and hence were unaware of these sanctions which subsequently led to non-monitoring of loans. The FD assured a comprehensive relook/examination in this regard.

² Commerce and Industries, Co-operation, Forest, Ecology and Environment, Urban Development, Water Resources, Youth Services and Sports.

7.6.11.3 DCB registers

As per the GO issued by FD in September 2004, all the loan recovery officers/Heads of the Departments shall maintain the registers and compile the DCB at the end of each financial year. They shall forward details of loans disbursed, recovery of principal and interest and the balance at the end of each quarter to the IFAs.

We noticed that the KFC and the Government Order (September 2004) do not prescribe the manner in which the accounts have to be maintained. We also noticed that 11 heads of Departments/controlling officers had not maintained DCB registers. After we pointed this out, the

Director of Agriculture and Registrar of Co-operative Societies stated (February 2010/August 2010) that these registers would be maintained in future. We have not received replies from other Departments (January 2011).

Regarding the furnishing of quarterly returns of DCB to the IFAs concerned, the Director of Fisheries reported (October 2010) that the quarterly statement showing the balances of loan/interest/penal interest due as on 31 March 2010 had since been furnished. The Directorate of Industries and Commerce stated (October 2010) that necessary information is being obtained from the loanees. We have not received information from other Departments (January 2011).

We recommend that the Government ensure co-ordination between FD, Administrative Departments, IFAs, Controlling Officers and the Directorate for maintenance of complete and accurate database of loans sanctioned as well as DCB registers for timely recovery of loan and interest.

7.6.11.4 Constitution of Departmental Committee

Various Boards/Corporations/Public Sector Undertakings/institutions and agencies under the control of different Government Departments obtain loans/financial assistance from financial institutions for their working requirements. In most of these cases, the Government is required to stand guarantee for the loans. Further, in many cases failure in repayment of these loans has resulted in Government repaying these loans along with interest to NABARD, NCDC, HUDCO and other financial institutions. The FD in its order of November 1998 proposed to constitute a Departmental Committee to monitor the drawal, usage and timely repayment of the loans drawn from various financial institutions.

The Government order of November 1998 stipulated that each administrative Department shall issue separate orders for constitution of Committee in respect of each Board. The Committees were required to meet at least once in three months. We called for information (between December 2009 and April 2010) about the formation of these Departmental committees and details of meetings held. The Directorate of Handloom and Textiles reported conducting of five meetings as against 20 meetings required to be conducted during 2004-05 to 2008-09. However, reasons for shortfall in conducting meetings, copies of the proceedings of these meetings and action taken thereon were not furnished. We have not received any information from the other Departments (January 2011).

7.6.12 Arrears of interest

As per the KGTB Rules, 1977, the FD shall review periodically the DCB of loans and advances and shall advice on these transactions.

We called for information (October 2009) on position of arrears of interest from FD and also from other Departments concerned. In response, the FD stated that information was not available with them and that a circular was issued to all the Departments in March 2010 to furnish the said information to Audit, thereby indicating that the FD had not been periodically reviewing the DCB position as prescribed. The Directorate of Fisheries furnished (December 2009) the position of arrears of interest. We have not received information on arrears of interest from the remaining 12 Departments (January 2011).

7.6.13 Fixation of terms and conditions while sanctioning loans

We noticed that there was no system to monitor fixation of terms and conditions while sanctioning loans. We found a number of cases in which terms and conditions were either not fixed or fixed in an incomplete manner or fixed belatedly resulting in non-levy of interest/penal interest and postponement of revenue realisation as detailed below:

7.6.13.1 Non-repayment of loan and non-levy of interest due to non-fixation of terms and conditions

As per KFC, all loan sanction orders should be issued in Form KFC 37-A. The GO of July 2003 stipulated that all standard terms and conditions shall invariably accompany the loan sanction order. It also prescribes rates of interest depending on the purpose and term of loan (short/medium/long) and the rate of penal interest on overdue instalments of principal/interest.

- We noticed that 89 loan sanctions aggregating ₹ 1,300.79 crore were issued by eight Departments and disbursed to 30 loanees between April 2004 and March 2009 without fixing the terms and conditions for repayment. Consequently, the schedules for repayment of principal and interest had not been drawn up even after a lapse of periods ranging between 12 to 71 months since the date of disbursement of loan till March 2010. We noticed that the loanees had not repaid any instalment of loan or interest during 2004-05 to 2008-09. Adopting the standard terms and conditions prescribed in the GO of July 2003, we computed instalments of principal amounting to ₹ 277.38 crore as due during 2004-05 to 2008-09 and interest³ payable thereon worked out to ₹ 269.08 crore on these loan amounts from the date of drawal upto March 2009 as detailed below:

³ Rate of interest ranged from 6.25 to 13 *per cent* depending on the term of loan and purpose for which the loan was sanctioned as prescribed in the GO of July 2003.

(Rupees in crore)

Sl. No.	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Lapse of time after disbursement of loan till March 2010 (months / days)		Principal due as on 31 March 2009	Interest due as on 31 March 2009
					from	to		
1.	(a) Urban Development	2004-05 to 2008-09	25 (4)	482.66			123.05	128.14
	(b) Director of Municipal Administration	2004-05	9 (1)	24.13	21 months 8 days	71 months 10 days	9.65	13.45
2.	Public Enterprises	2004-05, 2005-06 and 2007-08	14 (5)	50.89	50 months 13 days	70 months 22 days	19.97	20.33
3.	Commerce & Industries							
	(a) Commissioner for Industrial Development and Director of Industries and Commerce	2004-05 to 2007-08	8 (5)	109.83			30.44	21.39
	(b) Commissioner for Textile Development and Director of Handloom and Textiles.	2004-05 and 2007-08	3 (3)	12.03	22 months 10 days	62 months 27 days	1.20	3.34
	(c) Commissioner for Cane Development and Director of Sugar	2004-05 to 2008-09	15 (3)	89.11			33.34	29.60
4.	Energy	2007-08	1 (4)	5.55	27 months 2 days	27 months 29 days	0.15	0.64
5.	Water Resources	2007-08	1 (1)	1.11	24 months 18 days		0.03	0.13
6.	Co-operation							
	Registrar of Co-operative Societies	2004-05 and 2007-08	3 (2)	1.08	21 months 27 days	60 months 1 day	0.03	0.12
7.	Forest, Ecology and Environment							
	Principal Chief Conservator of Forests	2007-08	1 (1)	3.00	27 months 10 days		0.60	0.48

(Rupees in crore)

Sl. No.	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Lapse of time after disbursement of loan till March 2010 (months / days)		Principal due as on 31 March 2009	Interest due as on 31 March 2009
					from	to		
8.	Housing	2005-06 to 2008-09	9 (1)	521.40	12 months 1 day	48 months 3 days	58.92	51.46
	Total		89 (30)	1,300.79			277.38	269.08

In addition, the Department of Kannada and Culture had sanctioned a loan of ₹ 10.60 lakh in two sanctions during 2000-01 and 2001-02 to M/s.Kanteerava Studios. We noticed that the terms and conditions had not been finalised even as of January 2008, when the loanee repaid the entire loan amount. We computed interest leviable in this case at ₹ 13.55 lakh⁴.

After we brought this to notice, the Commerce and Industries Department reported (October 2010) that terms and conditions had since been fixed in May 2010 in respect of loans sanctioned in 2005-06 and 2006-07 to two loanees⁵. It further stated that in respect of loans sanctioned during 2005-06 to 2008-09 to one loanee⁶, the terms and conditions were not fixed due to non-receipt of the same from FD. A loanee⁷ under the Energy Department reported (October 2010) remittance of interest amounting to ₹ 22.64 lakh⁸ and loan principal amounting to ₹ 39.15 lakh⁹ due for the period 2007-08 to August 2010.

- The Government of India (GOI) sanctions additional central assistance in the form of block loans¹⁰ to the State Governments for implementation of various externally aided projects. The GOI had also prescribed rate of interest/penal interest, term of loan, moratorium for repayment of principal, due date for payment of principal and interest, etc., while sanctioning loans to State Governments.

The FD released loan amount of ₹ 56.78 crore to six loanees under the control of three Departments vide 25 Government orders between March 2004 and March 2009 for implementation of externally aided projects. We noticed that the FD had not communicated the terms and conditions stipulated by GOI to the loanees. Consequently, all the six loanees had not repaid the instalments of principal/interest due. We computed the instalments of principal amounting to ₹ 4.21 crore as due and interest payable amounting to ₹ 14.43 crore on

⁴ Computed at the rate of 18 per cent as per Government Order of July 1991 issued by FD.

⁵ Government Tool Room and Training Centre and M/s. Karnataka Vidyuth Karkhane Limited.

⁶ M/s. Mysore Sugar Company Limited.

⁷ M/s. Gulbarga Electricity Supply Company Limited.

⁸ Amount of interest calculated in the review upto 31 March 2009 is ₹ 15.00 lakh.

⁹ Amount of principal calculated in the review upto 31 March 2009 is ₹ 13.05 lakh.

¹⁰ As per the terms and conditions stipulated by GOI, 50 per cent of the loan was repayable in 20 annual equal instalments and remaining 50 per cent of the loan was repayable in 15 annual equal instalments after a moratorium of five years.

these loans at the rate of 9 per cent as fixed by GOI, from the date of sanction upto March 2009 as detailed below:

(Rupees in crore)

Sl. No	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Principal due as on 31 March 2009	Interest due as on 31 March 2009
1.	Urban Development	2003-04 to 2008-09	14 (4)	41.28	3.58	12.16
2.	Health and Family Welfare Director of Health and Family Welfare	2005-06 to 2008-09	6 (1)	15.29	0.62	2.25
3.	Forest, Ecology and Environment Principal Chief Conservator of Forests	2005-06 to 2008-09	5 (1)	0.21	0.01	0.02
	Total		25 (6)	56.78	4.21	14.43

After we brought this to notice, Bangalore Development Authority (BDA) remitted (July 2010) the entire loan amount of ₹ 17.88 crore and interest amounting to ₹ 8.22 crore¹¹ due for the period from 2003-04 to 31 July 2010.

We recommend that the Government consider setting up of a mechanism to monitor that the terms and conditions are mandatorily issued at the time of sanction of loan itself.

7.6.13.2 Fixation of incomplete terms and conditions

We noticed that three Departments while sanctioning loans aggregating ₹ 421.13 crore in 27 cases (seven loanees) during the period from 2000-01 to 2008-09 had fixed incomplete terms and conditions as detailed below:

(Rupees in crore)

Sl. No	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Nature of incompleteness
A. Interest bearing loans					
1.	Commerce and Industries Department Commissioner for Cane Development and Director of Sugar.	2007-08	1 (1)	2.86	Term of repayment of loan and penal clause was not included.

¹¹ Amount of interest calculated in the review upto 31 March 2009 is ₹ 6.08 crore.

(Rupees in crore)					
Sl. No	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Nature of incompleteness
2.	(a) Co-operation Department	2000-01 to 2008-09	16 (1)	48.42	Penal clause was not included.
	(b) Registrar of Co-operative Societies	2008-09	1 (1)	3.00	Penal clause was not included.
	Total (A)		18 (3)	54.28	
B. Interest free loans					
1.	Urban Development Department	2005-06 to 2007-08	4 (1)	363.42	Term of repayment of loan and penal clause not fixed.
2.	Co-operation Department Registrar of Co-operative Societies	2004-05 and 2007-08	2 (2)	2.13	Penal clause not fixed.
3.	Commerce and Industries Department Commissioner for Textile Development and Director of Handloom and Textiles	2004-05 and 2005-06	3 (1)	1.30	Penal clause not fixed
	Total (B)		9 (4)	366.85	
	Grand Total		27 (7)	421.13	

We noticed that in respect of the above loan sanctions, principal amount of ₹ 3.32 crore and interest of ₹ 3.33 crore was due from three loanees in respect of 12 sanction orders. Absence of penal clause resulted in non-levy of penal interest of ₹ 38.54 lakh in respect of these cases. In respect of the balance loan sanctions, no repayments of loan and interest were due during the period of review since they were in the moratorium period.

7.6.13.3 Delay in fixation of terms and conditions

We noticed from the records of loans disbursed by five Departments that in 11 cases (16 loanees) of loans aggregating ₹ 90.61 crore sanctioned during the period from 2004-05 to 2006-07, there was a delay in fixing of terms and conditions. The delay ranged between five months one day to 37 months 13 days from the date of sanction of loan to the date of fixing of terms and conditions. This resulted in postponement of realisation of interest of ₹ 4.75 crore as detailed below:

(Rupees in crore)							
Sl. No	Department/ Controlling Officers	Year of Sanction (Number of sanctions)	Amount of loan (Number of loanees)	Date of sanction/date of fixation of terms and conditions	Delay ranged from (months days)	Rate of interest per annum (percent- age)	Interest due ¹²
1.	Urban Development Department	2006-07 (1)	2.00 (1)	19.08.2006/ 12.07.2007	10 months 25 days	12.50	0.09
2.	Commerce and Industries Department						
	(a) Commissioner for Textile Development and Director of Handloom and Textiles.	2004-05 and 2006-07 (3)	4.49 (2)	27.10.2006/ 12.07.2007, 08.11.2004/ 20.12.2007	8 months 16 days to 37 months 13 days	8.50 to 9.00	0.30
	(b) Commissioner for Cane Development and Director of Sugar.	2004-05 to 2006-07 (4)	43.45 (4)	10.09.2004/ 29.07.2005, 10.09.2004/ 27.08.2005	10 months 20 days to 11 months 18 days	10.00	2.95
3.	Water Resources Department	2005-06 (1)	14.70 (3)	14.03.2006/ 29.08.2006	5 months 16 days	11.00	0.48
4.	Youth Services & Sports Department						
	Commissioner for Youth Services	2005-06 (1)	9.59 (1)	28.03.2006/ 29.08.2006	5 months 1 day	11.00	0.27
5.	Energy Department	2005-06 (1)	16.38 (5)	18.02.2006/ 29.08.2006	6 months 12 days	11.00	0.66
	Total	(11)	90.61 (16)				4.75

7.6.14. Non-raising of demands for interest by Government Departments

The KFC does not provide for a system of issue of demand notices for recovery of interest. However, as per the GO of July 2003, a notice shall be given to the borrowers (loanees) a month in advance of the due date of payment of instalment of the principal and/or interest thereon in the format prescribed by Heads of the departments/controlling officers.

We noticed from the records of loans disbursed by seven Departments that in 48 sanctions (20 loanees), while sanctioning loans aggregating ₹ 207.82 crore during 2000-01 to 2008-09, although terms and conditions for repayment of these loans had been fixed, advance notices demanding payment of instalment of principal and/or

¹² Calculated as on 1 January/1 July on which interest is payable, but was not paid due to non-fixation of terms and conditions.

interest were not issued by Heads of the Departments/controlling officers. The loanees, also did not make payment of interest dues. This resulted in non-raising of demand for interest amounting to ₹ 38.72 crore and penal interest of ₹ 1.21 crore as detailed below:

(Rupees in crore)							
Sl. No	Department / Controlling Officers	Year of sanction	Number of cases (Number of loanees)	Amount of loan	Rate of interest per annum	Interest due	Penal Interest due
1.	Urban Development	2004-05 to 2008-09	18 (1)	110.25	12.50	22.50	0.48
2.	Commerce & Industries (a) Commissioner for Textile Development and Director of Handloom and Textiles. (b) Commissioner for Cane Development and Director of Sugar	2004-05 to 2008-09	5 (4)	14.19	9.00 to 9.50	3.26	0.15
		2007-08	1 (1)	2.86	13.00	0.47	-
3.	Water Resources	2005-06	1 (3)	14.70	11.00	4.85	0.19
4.	Youth Services and Sports/ Commissioner for Youth Services	2005-06	1 (1)	9.59	11.00	3.16	0.12
5.	Co-operation	2000-01 to 2004-05 and 2006-07 to 2008-09	15 (1)	30.01	6.05 to 12.00	3.69	-
	Registrar of Co-operative Societies	2001-02, 2004-05 and 2007-08 to 2008-09	4 (3)	8.96	3.00 to 11.50	0.70	0.09
6.	Energy	2005-06	1 (5)	16.38	-	-	0.18
7.	Public Enterprises	2007-08	2 (1)	0.88	9.00	0.09	-
	Total		48 (20)	207.82		38.72	1.21

After we brought this to notice, all the three loanees¹³ coming under the control of Water Resources Department reported (May 2010/July 2010) remittance of interest amounting to ₹ 6.47 crore¹⁴, penal interest amounting to ₹ 37.04 lakh¹⁵ and principal amounting to ₹ 5.88 crore due for the period 2006-07 to 2009-10. Further, one loanee¹⁶ under Co-operation Department

¹³ M/s. Cauvery Neeravari Nigam Limited, M/s. Karnataka Neeravari Nigam Limited, M/s. Krishna Bhagya Jala Nigam Limited.

¹⁴ Interest computed in the review is ₹ 4.85 crore upto March 2009.

¹⁵ Penal interest computed in the review is ₹ 19 lakh upto March 2009.

¹⁶ M/s. Karnataka State Warehousing Corporation Limited.

reported (June 2010) that the interest for the period 2004-05 to 2008-09 amounting to ₹ 3.69 crore, payable by them, was adjusted while sanctioning fresh loans during the year 2009-10.

7.6.15 Non-demand of penal interest due on interest free loans

As per KFC, penal interest is leviable on overdue instalments of principal and interest. As per GO of July 2003, the rate of penal interest was 2.5 per cent per annum.

The Government (Commerce and Industries Department) accorded sanction for conversion of purchase tax amounting to ₹ 80.55 crore payable by 23 sugar factories into interest free loans during the years 1989-90, 1993-94, 1996-97 and 1997-98. The loans were recoverable in

five equal instalments after the completion of ten years moratorium period. Thus, the first instalment of loan repayment was due in 2000-01. We noticed that neither the Commissioner for Cane Development and Director of Sugar (CCDDS) issued demand notices for re-payment of loan principal amounting to ₹ 58.00 crore nor the loanees repaid the same. The CCDDS also did not levy penal interest on overdue instalments of loan principal. The non-levy of penal interest amounted to ₹ 5.08 crore.

After we brought this to notice, the CCDDS accepted the audit observation (January 2010) and issued (October 2010) notices to eight loanees demanding penal interest. Report on further action taken has not been received (January 2011).

7.6.16 Non-recovery of outstanding interest/penal interest at the time of conversion of loans into equity/grants

There is no provision in the KFC for conversion of loans into equity/grants. However, Government was converting outstanding loans into equity/grants after approval of the Cabinet.

We noticed from the records of four Departments that loans aggregating ₹ 46.38 crore were sanctioned to four loanees during the years 1991-92 to 1995-96, 2000-01, 2003-04 to 2006-07. Of this, out of ₹ 3.65 crore sanctioned to M/s. Karnataka State Financial Corporation, ₹ 1.20 crore was repaid during the year 1995-96. We noticed that while converting balance loans amounting to ₹ 45.18 crore into equity/grants during the years 2005-06 to 2008-09, outstanding interest and penal interest due on the loans converted were neither converted into equity/grants nor demanded by the Departments. This resulted in non-realisation of interest and penal interest amounting to ₹ 21.17 crore and ₹ 3.35 crore respectively as detailed below:

(Rupees in crore)

Sl. No	Name of the Department/ Name of the loanee institution	Year of sanction of loan	Amount of loan sanctioned	Amount of loan converted into equity /grants	Type of conversion	Year of conversion of loan into equity/ grants	Rate of interest/ Penal interest (percentage)	Interest due till date of conversion	Penal interest due till the date of conversion
1.	Forest, Ecology and Environment / M/s. Karnataka Pulpwood Ltd	2000-01	13.91	13.91	Equity	2005-06	18.00/ 4.00	10.63	1.33
2.	Animal Husbandry and Fisheries/ M/s. Karnataka Milk Federation Ltd	1993-94	1.50	1.50	Grants	2007-08	18.00/ 4.00	3.85	1.89
3.	Public Enterprises/ M/s. Karnataka Silk Industries Corporation Ltd	2003-04 to 2006-07	27.32	22.00 5.32	Equity Grants	2006-07 2008-09	9.00/ 2.50	6.55 0.12	0.10 0.03
4.	Commerce and Industries/ M/s. Karnataka State Financial Corporation	1991-92 to 1995-96	3.65	2.45	Equity and Grants	2007-08 and 2008-09	6.00/ 0	0.02	-
	Total		46.38	45.18				21.17	3.35

After we pointed this out, M/s. Karnataka State Financial Corporation Limited, Bangalore, reported (August 2010) that they have remitted (August 2010) interest amounting to ₹ 1.52 lakh due for the period April 2008 to July 2008.

7.6.17 Internal Audit

The Internal Audit Wing (IAW) is an essential and indispensable part of any organisation, through which the Head of the organisation informs himself of the quality of financial performance of various offices working under it. As per the circular instructions of FD issued in December 1992, the overall responsibility of IAWs rests with the administrative Department of the Government.

We sought (April 2010) information regarding formation of IAWs, functioning of IAWs, sanctioned/working strength, major findings of IAWs, control registers maintained, coverage of internal audit, etc., from all Departments covered under the review. The Water Resources and Health and Family Welfare Departments stated that no IAW was constituted in their Departments. We have not received reply from other Departments (January 2011).

We recommend that the Government set up IAW in those Departments where they are not formed.

Compliance deficiencies

7.6.18 Short demand of interest

The Co-operation Department, during the years 2002-03 to 2006-07 sanctioned loans amounting to ₹ 72.69 crore to five¹⁷ co-operative sugar factories. The said loans were repayable within a period of eight years along with interest at the rate of 8.5 per cent to 13 per cent (if paid on or before due dates) and at 9.5 per cent to 14 per cent (if paid after due dates). Additional interest at 1 per cent was also leviable to cover the Government risk for the loans sanctioned during the year 2004-05. Penal interest on overdue instalments was also leviable at the rate of 2.5 per cent.

The CCDDS issued notices for repayment of loans along with interest to co-operative sugar factories in February 2009. On scrutiny of the notices, we observed that the co-operative sugar factories had not repaid the loan along with interest on or before due dates. However, the CCDDS had demanded interest of ₹ 16.90 crore as against ₹ 46.07 crore due resulting in short demand of interest of ₹ 29.17 crore. The short demand of interest was due to non-application of the rate of interest applicable for payments made after the due dates, non-consideration of the additional interest leviable at one per cent to cover the risk of Government and computation of interest on the instalments of principal due instead of on the outstanding amount of principal for the respective years. Further, the CCDDS also did not demand penal interest amounting to ₹ 4.69 crore on overdue instalments of loan principal and interest.

After we pointed this out, the CCDDS accepted the audit observation and stated (January 2010) that revised demand notices would be issued. Further report on action taken has not been received (January 2011).

7.6.19 Short payment of interest due to incorrect computation

As per the KFC, a loanee is required to pay the principal and interest on loan in periodical instalments on or before the due dates of payment. The interest payable shall be determined on the loan outstanding.

In respect of loans disbursed by the Registrar of Co-operative Societies (RCS) to M/s. Karnataka State Co-operative Agriculture and Rural Development Bank Limited (KSCARD) in the form of Special Development Debentures (SDDs), interest on the SDDs was payable on reducing balance method and annual instalments of repayment of principal were fixed. We observed that the instalments of principal due for the years 2002-03 to 2007-08 amounting to ₹ 34.08 crore were not paid by KSCARD. However, interest was computed and paid by KSCARD on the reduced balance of loans (though the instalments of loan principal were not paid). The RCS failed to monitor the non-payment of scheduled instalments of principal and re-determine the interest liability. This resulted in short levy of interest of

¹⁷ M/s. Dhanalakshmi Co-operative Sugar Factory Limited, M/s. Mahatma Gandhi Co-operative Sugar Factory Limited, M/s. Markandeya Co-operative Sugar Factory Limited, M/s. Naranja Co-operative Sugar Factory Limited, M/s. Someshwara Co-operative Sugar Factory Limited.

₹ 10.60 crore and penal interest of ₹ 2.59 crore on the defaulted principal amount.

Further, we also noticed that interest payable for the year 2004-05 amounting to ₹ 2.98 crore was paid by KSCARD on 29 June 2007, after a delay of 1 year 363 days (due date being 1 July 2005). However, penal interest on overdue instalment of interest at 2.50 *per cent* per annum amounting to ₹ 7.41 lakh was not levied by the RCS.

7.6.20 Irregular allowance of rebate

Under the provisions of the KFC, loans should not be ordinarily sanctioned at concessional rate of interest (rate which is below the prevailing economic rate fixed from time to time). If any concession is considered necessary, it should be in the form of subsidy after the loan is fully repaid.

Loan amounting to ₹ 12.80 crore (bearing the rate of interest at 12 *per cent* per annum) was sanctioned by Co-operation Department to M/s. Karnataka State Warehousing Corporation Limited (KSWC), Bangalore, during the years 2000-01 and 2001-02. We noticed that the loanee had not repaid any

instalments of principal and interest. We further noticed that the same was re-scheduled during 2007-08 for an amount of ₹ 18.41 crore repayable at a reduced rate of interest of 8.5 *per cent* per annum right from the date of drawal of loans. This resulted in irregular allowance of rebate of ₹ 4.63 crore at the differential rate of 3.5 *per cent* till the date of re-scheduling of the loan.

We also observed that in the order re-scheduling the loan, interest was calculated on the reduced balance of principal (though the same was not paid) and also penal interest leviable was not considered. We computed the loss of revenue in the form of interest/penal interest to the tune of ₹ 2.94 crore. Further, neither did the Department demand the instalments of principal amounting to ₹ 2.63 crore and interest of ₹ 1.56 crore due as on 1 April 2009 after rescheduling of the loan nor did the loanee pay the amounts due.

7.6.21 Non-adjustment of outstanding dues while sanctioning fresh loans

The GO of July 2003 stipulated that when fresh loans are sanctioned, outstanding dues, if any shall be adjusted against principal. If for special and exceptional reasons such adjustments are not possible, special orders of FD shall be obtained before release of fresh loans.

We noticed that fresh loans were being sanctioned without making such adjustments even though the loanees had outstanding dues. Special orders of FD were also not obtained in these cases. A few such illustrative cases are detailed below:

(Rupees in crore)

Name of the Department/ Controlling Officer	Name of the Loanee Institution	Amount of principal outstanding as on 31.03.2004	Amount of interest outstanding as on 31.03.2004	Year of sanction of fresh loans	Number of cases	Amount of fresh loan sanctioned
Commerce and Industries (a) Commissioner for Industrial Development and Director of Industries and Commerce	(a) M/s. Mysore Lamp Works Limited	77.38	13.13	2004-05 to 2005-06	3	16.46
	(b) M/s. Karnataka Vidyuth Karkhane	1.83	0.27	2004-05 to 2006-07	5	6.01
(b) Commissioner for Textile Development and Director of Handloom and Textiles	M/s. Karnataka Handloom Development Corporation	2.61	1.72	2004-05 and 2005-06	2	13.78
(c) Commissioner for Cane Development and Director of Sugar	M/s. Dakshina Kannada Co-operative Sugar Factory Limited, Udupi. (outstanding as on 31.03.2007)	13.46	11.40	2007-08	1	2.86

7.6.22 Misclassification of remittances

Under the provisions of KFC, all Government moneys received should be paid in full without undue delay into a Government treasury and credited to the appropriate head of account. As per GO of July 2003, repayments made will be first adjusted against interest dues and thereafter against principal.

We noticed from the records of Commerce and Industries Department (Commissioner for Textile Development and Director of Handloom and Textiles) and Housing Department that an amount of ₹ 1.60 crore being the amount of repayment of loan by three loanees were remitted to the functional/loan head of account, instead of remitting the same to the head of account '0049 – Interest Receipts', though the loanees had outstanding dues of interest, resulting in misclassification of receipts of ₹ 1.60 crore.

7.6.23 Conclusion

KFC was not amended to prescribe rules/procedures for issue of demand notices, conditions/procedures for grant of interest free loans, conversion of loans into equity or grant, manner in which accounts of loans were to be maintained, like loan ledgers, DCB Register and waiver/remission registers. The internal controls were not very effective for monitoring compliance with the codal provisions, repayment of principal of loan and interest/penal interest. Though the FD had instituted an internal control mechanism by making the Directorate of Investment monitoring, Loan tracking and Small Savings

responsible to monitor the recovery of loans and interest, there was no co-ordination between the loan sanctioning Departments and the Directorate. We noticed that the IFAs were mostly not consulted in the process of sanction of loans. These led to non/short levy of interest/penal interest, non/short demand of interest/penal interest, irregular sanction of loans at concessional rates, non-reconciliation/mis-classification of remittances, etc.

7.6.24 Summary of recommendations

We recommend that the Government:

- intensify its measures to ensure prompt repayment of instalments of principal due from the loanees;
- amend the provisions of KFC by prescribing the detailed procedures for grant of interest free loans, fixing of concessional rates of interest, conversion of loans into equity/grants and also incorporating the provisions contained in GO of July 2003;
- ensure co-ordination between FD, Administrative Departments, IFAs, Controlling Officers and the Directorate for maintenance of complete and accurate database of loans sanctioned and for timely recovery of loan and interest;
- implement a mechanism to monitor that the terms and conditions are mandatorily issued at the time of sanction of loan itself; and
- set up IAW in those Departments where they are not formed.

MINING RECEIPTS

7.7 Other audit observations

Scrutiny of records in the offices of the Mines and Geology Department relating to revenue received from royalty indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of royalty/penalty and other cases as mentioned in the succeeding paragraphs in the chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit in each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to consider directing the department to improve the internal control system including strengthening internal audit so that such omissions can be avoided, detected and corrected.

• Non-observance of provisions of the Act/Rules

The MMDR Act 1957, MC Rules 1960 and KMMC Rules 1994 provide as under:

- *Section 9 of the MMDR Act for the rates at which royalty is leviable in respect of major minerals removed or consumed by a lessee or his agent.*
- *Rule 36 of the KMMC Rules for the rates at which royalty is leviable in respect of minor minerals and stipulates that no person shall transport any mineral except in accordance with Mineral Despatch Permit (MDP) obtained from the Department on payment of royalty. Condition 4 under Part 5 of the lease deed stipulates levy of penalty at five times the royalty for removal of mineral without MDP.*
- *Rule 24-A of the MC Rules for levy of simple interest at 24 per cent per annum on the belated payment of dead rent or royalty, beyond 60 days from the due date for payment.*

We noticed in three offices of the Deputy Director (Mines) and Bangalore Development Authority that the above provisions were not fully followed by the concerned authorities. This resulted in a number of discrepancies which led to non/short realisation of Government revenue amounting to ₹ 28.34 lakh. Of these, the Department furnished replies and accepted audit observations in two cases involving ₹ 22.38 lakh.

7.7.1 Non-levy of royalty and penalty

Office of the Deputy Director (Mines), Ramanagara

According to the KMMC Rules, lessees shall keep correct accounts showing the quantity and particulars of minerals produced, in stock and despatched from the leased area. Further, the lessee is required to furnish annual returns indicating the quantity of mineral produced, utilised, quantity in stock, royalty paid etc.

We noticed in June 2009 that a company holding a lease¹⁸ for quarrying stone had reported a closing stock of 1,122.937 cum in its annual return for 2003-04. The lease had been declared as idle during 2004-05 and only dead rent was demanded from the lessee; no production/despatch of minerals had occurred. However, the lessee had declared an opening balance

of 527.168 cum for 2005-06 in his annual return, which indicates that the lessee had removed 595.769 cum of mineral during 2004-05 without obtaining MDP. The Department did not detect the discrepancies between the closing balance of 2003-04 and opening balance of 2005-06. Consequently, royalty of ₹ 5.96 lakh (at ₹ 1,000 per cum) on the differential quantity of 595.769 cum and penalty of ₹ 29.79 lakh leviable, for transportation of the mineral in contravention of the Rules, was not levied.

We reported the case to the Department in June 2009 and to the Government in June 2010; we have not received any reply (January 2011).

7.7.2 Non-levy of royalty

Bangalore Development Authority (BDA)

The Department of Mines and Geology vide circular dated 4 December 2007 directed that if a contractor produces document/MDPs in proof of having purchased the minor mineral used by him either from private quarry lease holders or private quarry lease owners, then the work executing agency need not recover/deduct any royalty from the bills of the contractor. Royalty for murrum (soil) was ₹ 10 per tonne as per the Schedule to the KMMC Rules.

The Deputy Director, Mines, Bangalore (North) in July 2009 directed the BDA to recover royalty for minor minerals from the contractor's bills wherever the contractor does not produce MDPs in support of his claim of having procured minor minerals which have been subjected to royalty from quarry lease holders.

We noticed during test check of records of BDA in September 2009 that a contractor entrusted with the work of construction of outer ring road had executed embankment work to the extent of 57,213.17 cubic meters and backfilling work to the extent of 4,119.09 cubic meters as recorded in his 10th Running Account (RA) bill. The royalty leviable in respect of murrum (soil) was

¹⁸ Lease number 614.

₹ 12.36 lakh¹⁹ which was not recovered in the RA bill though documents/MDPs were not produced by the contractor.

After we pointed this out, BDA stated that recovery would be effected in subsequent bills. Further report has not been received (January 2011).

We reported the case to the Department and to the Government in June 2010; we have not received any reply (January 2011).

7.7.3 Short levy of interest due to incorrect adjustment of payments

Deputy Director (Mines), Ilkal

As per Article 32(c) of the Karnataka Financial Code, 1958 as amended by a notification of March 2001, any amount received/recovered shall be first adjusted towards the outstanding interest on the tax/revenue and then towards arrears and finally towards the current demand.

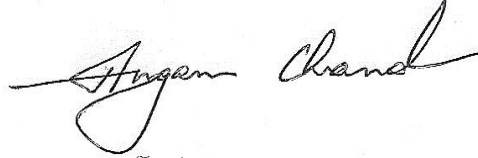
We noticed in August 2009 that a mining lease holder was in arrears of royalty of ₹ 8.37 lakh as of 1 April 2000. During the years 2000-01 to 2006-07, fresh demands for royalty of ₹ 62.88 lakh and interest of ₹ 17.51 lakh were made. The lessee paid ₹ 88.76 lakh during the period from 2000-01 to 2007-08, out of which ₹ 71.25 lakh was first adjusted towards royalty dues and then the

balance amount of ₹ 17.51 lakh was adjusted towards interest. The closing balance of royalty and interest as at the end of March 2008 was computed as nil. This incorrect adjustment resulted in short levy of interest of ₹ 10.02 lakh as at the end of March 2008.

After we pointed this out, the Department reported (June 2010) that revised demand notice was issued to the lessee asking them to clear the dues as early as possible.

¹⁹ 1.26 cum of soil is required per cum of embankment and backfilling works as per Schedule of Rates of Water Resources Department. An average density of 1.6 tonne/cum is assumed for working out royalty charges. (57213.17 cum + 4119.09 cum) x 1.26 x 1.6 = 1,23,645.84 tonnes x ₹ 10 = ₹ 12,36,458.40.

We reported the case to the Government in April 2010; we have not received their reply (January 2011).



(L. Angam Chand Singh)
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Karnataka

Bangalore
The

Countersigned



(VINOD RAI)
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The