CHAPTER-VII: MINING RECEIPTS

7.1.1 Non-tax revenue administration

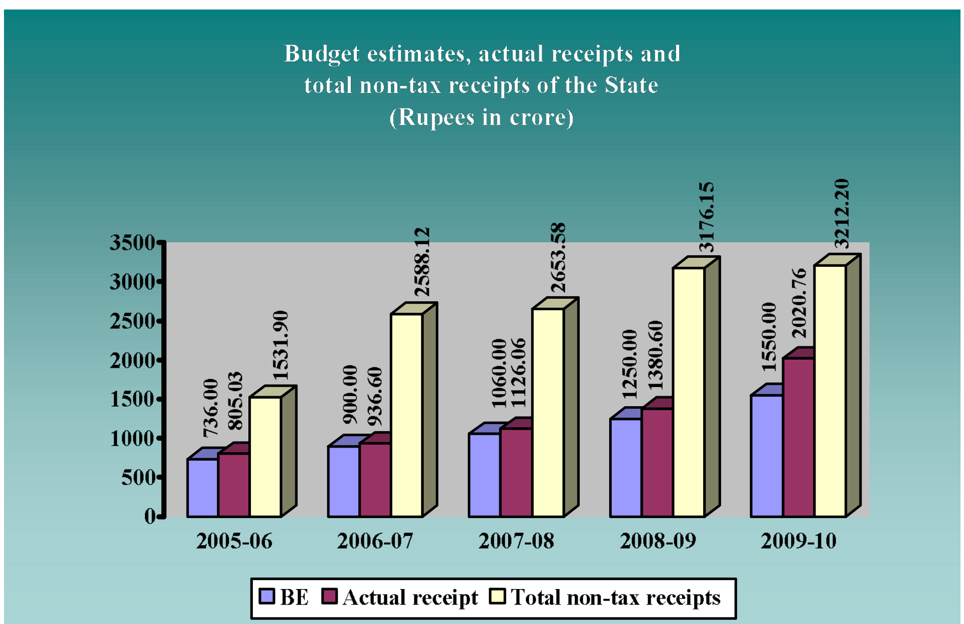
Levy and collection of mining receipts are regulated by the Mines and Minerals (Development and Regulation) Act, 1957 and the Mineral Concession (MC) Rules, 1960 framed thereunder. The above Act/Rules are administered by the Director of Mines (DM), Orissa under the overall control of the Commissioner-cum-Secretary to the Government in the department of Steel and Mines. He is assisted by the Joint Director of Mines at the headquarters and the Deputy Directors of Mines (DDMs) and Mining Officers (MOs) at the zonal and circle levels. The mining receipts mainly comprise of royalty, fees and fines etc. on raising of minerals.

7.1.2 Trend of receipts

Actual receipts from mining 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 graph.

(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation Excess (+)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non-tax receipts
2005-06	736.00	805.03	(+) 69.03	(+) 9.38	1,531.90	52.55
2006-07	900.00	936.60	(+) 36.60	(+) 4.07	2,588.12	36.19
2007-08	1,060.00	1,126.06	(+) 66.06	(+) 6.23	2,653.58	42.44
2008-09	1,250.00	1,380.60	(+) 130.60	(+) 10.45	3,176.15	43.47
2009-10	1,550.00	2,020.76	(+) 470.76	(+) 30.37	3,212.20	62.91



The table above shows that the receipts from mining have been steadily increasing over the years and accounted for a major source (nearly 63 *per cent)* of the non-tax revenue in 2009-10.

7.1.3 Impact of audit

Revenue impact

During the last five years i.e. 2004-05 to 2008-09 we pointed out non/short levy, non/short realisation of royalty, dead rent, surface rent, interest etc., with revenue implication of ₹ 658.83 crore in 885 cases. Of these, the department accepted audit observations in 264 cases involving ₹ 78.80 crore and recovered ₹ 33.45 crore in 59 cases. The details are shown in the following table:

(Rupees in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered		Percentage of recovery to amount accepted
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	
2004-05	15	83	58.54	30	44.96	26	25.73	57.23
2005-06	15	87	116.84	60	3.58	1	1.95	54.47
2006-07	15	423	55.08	53	14.27	14	3.04	21.30
2007-08	15	104	225.85	52	9.05	17	2.50	27.62
2008-09	15	188	202.52	69	6.94	1	0.23	3.32
Total	**75**	**885**	**658.83**	**264**	**78.80**	**59**	**33.45**	**42.45**

The department recovered only 42.45 *per cent* of the amount accepted by it.

We recommend that the department revamp its revenue recovery mechanism to ensure that they could recover at least the amount involved in the accepted cases.

7.1.4 Results of audit

During the year 2009-10 we test checked the records of 20 units relating to mining receipts and found non/short levy of royalty/dead rent/surface rent, non/short recovery of interest and other irregularities involving ₹ 269.95 crore in 356 cases which fall under the following categories:

(Rupees in crore)

Sl. No	Categories	No. of cases	Amount
1.	Non/short levy of royalty/dead rent/surface rent	94	242.50
2.	Non/short recovery of interest	12	0.58
3.	Irregularities of miscellaneous nature	250	26.87
Total		**356**	**269.95**

During the year, the department accepted underassessment and other deficiencies of ₹ 35.81 crore in 335 cases pointed out in 2009-10. An amount of ₹ 57.95 lakh was recovered in 28 cases during the year 2009-10.

After issue of draft paragraph, the department recovered ₹ 29.40 lakh in February (₹ 29.21 lakh) and April (₹ 0.19 lakh) 2010 pertaining to a single observation containing two cases pointed out by us during 2009-10.

Two illustrative cases involving ₹ 19.24 crore are mentioned in the following paragraphs.

7.2 Audit observations

We scrutinised the records maintained in the office of the Deputy Director of Mines (DDMs) and Mining Officers (MOs) and noticed cases of short levy of royalty as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions are pointed out 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 prevent recurrence of such omissions.

7.3 Non-observance of the provision of Acts/Rules

The Mines and Minerals (Development and Regulation) (MMDR) Act, 1957 and Mineral Concession (MC) Rules, 1960 provide for recovery of:-

(i) *royalty at prescribed rates, against different grades of minerals from the leasehold areas; and*

(ii) *royalty on unprocessed mineral in case of processing of mineral other than run-of-mine[1] (ROM) mineral;*

Non-observance of some of the above provisions as mentioned in paragraphs 7.3.1 and 7.3.2 resulted in short levy of ₹ 19.24 crore.

7.3.1 Short levy of royalty on iron ore

As per the MC Rules, 1960 ROM mineral within the leasehold area is chargeable to royalty on the output after processing of the minerals. However, in case of processing of mineral other than ROM, royalty is chargeable on unprocessed mineral i.e., mineral extracted from the seam.

We test checked the assessment records and monthly returns of Jajang Iron Ore Mines under the DDM, Joda in February 2009 and found that during the year 2007-08, 51.95 lakh MT of unprocessed iron ore fed by the lessee to the processing plant was classified as ROM mineral and royalty of ₹ 11.02 crore realised as per prescribed rates for different grades and this was accepted by the department. We, however, noticed that the output after processing was equal to the input of minerals, i.e., 51.95 lakh MT. Thus, it was obvious that the minerals fed were in lumps and were chargeable to royalty of ₹ 14.03 crore as unprocessed iron ore lumps. The misclassification thus, resulted in short levy of royalty of ₹ 3.01 crore.

[1] The blasted material containing ore with other foreign material brought to the crushing plant.

After we pointed out the case, the Government stated in July 2010 that the manually produced iron ore lumps not containing slimes were processed in dry system in the crusher plant without any processing loss and ROM is fed there. The fact, however, remains that high grade iron ore not containing slime or any foreign material is not covered under the definition of ROM and is therefore chargeable as unprocessed iron ore lumps at higher rate of royalty.

7.3.2 Short levy of royalty due to application of incorrect rate

As per the MMDR Act,1957 read with the Government of India notifications dated 1 August 2007 and 12 December 2007 and the relevant price chart of Coal India Ltd. (CIL), the rate of royalty for 'F' grade ROM coal sized upto 100 mm shall be the combination of a specific fixed rate of ₹ 55 per MT plus a variable *ad valorem* rate at five *per cent* of the basic pit head price of ₹ 495 per MT exclusive of taxes, levies and other charges as reflected in the sale invoice from 13 December 2007 onwards.

We scrutinised the records of DDM, Talcher in August 2009 and found that 590.26 lakh MT of 'F' grade coal was extracted and dispatched from pit heads of seven coal mines[2] of Mahanadi Coal Fields Ltd. (MCL) during the period from December 2007 to March 2009. Royalty on the coal was levied at ₹ 77 per MT i.e. specific rate of ₹ 55 per MT plus *ad valorem* rate of ₹ 22 per MT, which was derived at the rate of five *per cent* of ₹ 440 instead of ₹ 495 inclusive of sizing charges of ₹ 55 per MT as per the price chart of CIL dated 13 December 2007. This led to short levy of royalty of ₹ 16.23 crore due to application of reduced rate of royalty by ₹ 2.75 per MT (five *per cent* of ₹ 55).

After we pointed out the case, the Government stated in July 2010 that the project officers of all collieries of MCL were asked to pay the additional royalty. They had however protested against such demands on the plea that sizing charges was an additional charge levied on the customer against service rendered and it had no bearing on the basic pit head price of coal and hence, was not taken into account in fixing the royalty as per Government notification dated 1 August 2007. The fact, however, remains that in the guidelines for submission of return in the Mineral Concession and Development Rules, 1988, the definition of pit mouth value does not exclude the sizing charges specifically for computation thereof.

[2] Ananta OCP, Balaram OCP, Bharatpur OCP, Bhubaneswari OCP, Hingula OCP, Jagannath OCP and Lingaraj OCP.