



## **CHAPTER – V: Mines and Minerals**

### **5.1 Tax administration**

Coal, crude oil and natural gas are the major minerals and limestone, boulder, stone and sand are the minor minerals in the State of Assam. The Mines and Minerals Department of the Government of Assam realises revenue from major minerals and from limestone (minor mineral), which comprises application fees for mining lease/ prospecting licence, royalty, dead rent, surface rent, fines/penalties and interest on belated payment of dues. Levy and collection of royalty from other minor minerals are entrusted to the Environment and Forest Department.

For conservation, systemic development and regulation of mining activities in India, the Government of India enacted the Mines and Minerals Development and Regulation Act (MMDR Act), 1957; the Minerals Concession Rules, 1960; the Minerals Conservation and Development Rules, 1988; the Granite Conservation and development Rules, 1999 and Colliery Control Rules, 2004. The mining activities in Assam are governed under the above Acts and Assam Minor Minerals Rules, 1994 framed by the Government of Assam in exercise of the powers conferred under the MMDR Act. The levy and collection of royalty, dead rent and surface rent on minerals are regulated under above cited Acts/Rules. The conservation, development and extraction of oil and natural gas are regulated under the Oilfield Regulation and Development Act, 1948 and the Petroleum and Natural Gas (PNG) Rules, 1959.

### **5.2 Working of internal audit**

Internal audit, a vital component of internal control mechanism, functions as ‘eyes and ears’ of the Department and is a vital tool which enables the management to assure itself that prescribed systems are functioning reasonably well.

It was noticed that the Government had not put in place any separate internal audit wing in the Directorate of Geology and Mining nor arranged for any internal audit by the Director of Local Audit. Had there been an effective internal audit system in the Department, deficiencies detected during local audit could possibly have been detected, rectified and prevented.

**Recommendation:** The Department may, in coordination with Finance Department, arrange to set up an internal audit wing in the Directorate or conduct internal audit of its records/accounts through the Director of Local Audit.

### 5.3 Results of audit

Test check of records of a unit relating to the Mines and Minerals Department during 2013-14 revealed that cases of short payment/ realisation of royalty, loss due to absence of standard norms for deduction etc. involving ₹ 5,775.57 crore in eight cases as mentioned in **Table 5.1**.

**Table 5.1**  
Results of Audit

Sl. No.	Category	Number of cases	Amount (₹ in crore)
1.	Short/ Non realisation of surface rent due to non-fixation of surface rent of Petroleum Mining lease area	01	520.97
2.	Non-insertion of standard norms for deduction on account of operational utilisation in Petroleum and Natural Gas	01	73.41
3.	Short payment due to levy of royalty at different rates	01	40.06
4.	Other irregularities	05	5,141.13
<b>Total</b>		<b>08</b>	<b>5,775.57</b>

A few illustrative audit observations with financial implication of ₹ 40.41 crore are mentioned in the succeeding paragraphs.

### Audit observations

#### 5.4 Short realisation of royalty of ₹ 40.06 crore due to non-detection of payment of royalty at lower rates by the Oil India Limited

[*Director of Geology and Mining (DGM), Assam; June 2013*]

The Petroleum and Natural Gas Rules, 1959 (PNG Rules) stipulate that a lessee shall pay to the State Government a royalty at 10 *per cent* of the value at well head for natural gas obtained by the lessee from the leased area. Ministry of Petroleum and Natural Gas, Government of India (MoPNG, GoI) however, vide letter dated 22 December 2009 conveyed their decision that Oil India Limited (OIL) shall follow the methodology of computation of Royalty on Administered

Price Mechanism (APM) Gas on producer price basis (instead of that on well head value of the natural gas) similar to that being followed by the Oil and Natural Gas Corporation Limited (ONGC).

Mention was made in paragraphs 6.2.13 and 5.7 of the Reports on Revenue Sector of the Comptroller and Auditor General of India for the year ended 31 March 2010 and 31 March 2012, Government of Assam regarding short realisation of royalty due to payment of royalty by OIL at lower rates compared to what was paid by ONGC.

During examination of records, it was noticed that despite the clarification by the MoPNG, GOI in December 2009, while OIL continued to pay royalty at average rates varying between ₹608.63 per 1,000 scum<sup>1</sup> (2011-12) and ₹693.90 per 1,000 scum (2012-13) as against ₹699.09 per 1,000 scum and ₹807.04 per 1,000 scum respectively was paid by M/s ONGC during those years. After the matter was pointed out by Audit through the Audit Reports of 2009-10 and 2011-12 as referred above, the DGM initiated action to recover the outstanding royalty from OIL and reported (September 2012) recovery of ₹ 5.72 crore out of ₹ 8.05 crore outstanding pointed out in Audit Report for 2011-12. Subsequently, however, the Directorate failed to detect the short payment of royalty to the extent of ₹ 90.46/1000 scum in 2011-12 and ₹ 113.14/1000 scum in 2012-13 by OIL which resulted in short realisation of royalty of ₹40.06 crore<sup>2</sup>.

The case was reported to the Department/Government in August 2013 and followed up in April 2014; their replies have not been received (November 2014).

**5.5 Non-detection of short payment of royalty on crude oil by M/s OIL resulted in non-realisation of ₹ 27.03 lakh on which interest of ₹ 1.93 lakh was additionally leviable**

[DGM, Assam; June 2013]

The Oilfield (Regulation and Development) Act, 1948 and Rules made thereunder provide that the lessee shall pay royalty in respect of any mineral oil mined, quarried, excavated or collected by him from the leased area at the rates specified in the schedule of the Act. The royalty is to be paid on monthly basis on the last day of the month succeeding the period in respect of which it is payable. The PNG Rules further provide that all licence fees, royalties and other payments, if

<sup>1</sup> Standard cubic meter – unit in which gas is measured.

<sup>2</sup>

Period	Volume of Gas (in scum)	Difference in rate of royalty (₹/1,000 scum)	Short payment (₹in crore)
2011-12	196,13,84,719	90.46	17.74
2012-13	197,27,18,044	113.14	22.32
<b>Total</b>			<b>40.06</b>

not paid within the specified time, would be increased by 200 basis points over the prime lending rate of State Bank of India for the delayed period.

During examination of records, it was noticed that M/s OIL disclosed production of 31.08 lakh kilo litres of crude oil during the period April 2012 to December 2012<sup>3</sup>. Royalty of ₹ 894.09 crore was payable on the above quantity of crude oil extracted against which the licensee paid ₹ 893.82 crore<sup>4</sup>. The balance royalty of ₹ 27.03 lakh was neither paid by the licensee nor was any demand notice issued by the DGM for payment of the same till the date of Audit (June 2013). This resulted in non-realisation of ₹ 27.03 lakh on account of royalty on which interest of ₹ 1.93 lakh<sup>5</sup> was additionally leviable.

**The above reveals that there was deficiency in scrutiny of the returns submitted by the licensee as existence of such a system could have enabled the Directorate of Geology and Mining to detect the short payment and timely action could have been initiated to recover the same.**

The case was reported to the Department/Government in August 2013 and followed up in April 2014; their replies have not been received (November 2014).

**5.6 Non-levy of additional royalty due to delayed payment of royalty on crude oil by M/s OIL resulted in non-realisation of revenue of ₹ 5.58 lakh**

[DGM, Assam; June 2013]

The Oil-field (Regulation and Development) Act 1948 and Rules made thereunder provide that the lessee shall pay royalty in respect of any mineral oil mined, quarried, excavated or collected by him from the leased area at the rates specified in the schedule of the Act. The royalty is to be paid on monthly basis on the last day of the month succeeding the period in respect of which it is payable. The PNG Rules further provide that all licence fees, royalties and other payments, if not paid within the specified time, would be increased by 200 basis points over the prime lending rate of State Bank of India per month for the delayed period.

Mention was made in paragraphs 6.2.14 and 5.9 of the Reports on Revenue Sector of the Comptroller and Auditor General of India for the year ended 31 March 2010 and 31 March 2012 (Government of Assam) respectively regarding non-levy of interest on delayed payment of royalty.

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<sup>3</sup> Return for the fourth quarter (January to March 2013) had not been furnished by the licensee till the date of Audit in June 2013 though the same was to be submitted before 30 April 2013.

<sup>4</sup> ₹ 679.77 crore paid alongwith the returns while ₹ 214.05 crore related to excess payments made in 2011-12 and carried over to 2012-13.

<sup>5</sup> At 14.25 per cent on ₹ 27.03 lakh for six months (January to June 2013).

During examination of records of the above Office, it was noticed (June 2013) that M/s OIL paid the royalty amounting to ₹ 45.31 crore against ₹ 46.89 crore payable on extraction of crude oil for the months from April to August 2011. The balance amount of ₹ 1.58 crore was paid belatedly on 31 October 2011 after delay ranging from one to five months. For delayed payment of royalty, additional interest of ₹ 5.58 lakh was leviable which was neither paid voluntarily by the licensee nor any demand was raised by the DGM levying the same. This resulted in non-realisation of revenue of ₹ 5.58 lakh.

The case was reported to the Department/Government in August 2013 and followed up in April 2014; their replies have not been received (November 2014).



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**Dated : 18 February 2015**

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**Dated : 20 February 2015**