



Chapter IV
Mineral Receipts

Chapter-IV Mineral Receipts

4.1 Tax administration

The responsibility for the management of mineral resources is shared between the Central and State Governments¹²⁵. 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 minerals¹²⁶. 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.

4.2 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 of Mines and Geology.

As per the information furnished by the Department, Internal Audit has not been conducted since 2015-16, due to deficiency of staff in Internal Audit Wing. The 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 4.1**:

Table 4.1
Year wise details of observations raised by IAW

(₹ in crore)

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2014-15	334	117.48	-	-	334	117.48
2015-16	-	-	-	-	-	-
2016-17	-	-	-	-	-	-
2017-18	-	-	-	-	-	-
2018-19	-	-	-	-	-	-

As seen from the above, it is clear that there were no activities of the IAW in the Department in the previous four-year period. At the end of the year 2014- 15, there were 334 cases pending with a money value of ₹ 117.48 crore, on which there was no clearance during the last five years. This indicates that the Department is not according due importance to Internal Audit. Internal Audit has a deterrent and reforming effect by pointing out mistakes and ensuring

¹²⁵ 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.

¹²⁶ Other than petroleum and natural gas and atomic minerals.

remedies without loss of time, and non-conduct of Internal Audit leaves the Department vulnerable to the risk of control failure.

4.3 Results of Audit

There are 34 auditable units in the Department of Mines and Geology. Out of these, Audit selected 19 units for test check wherein there were 1876 leases. Audit checked records of all 1876 leases (100 *per cent*) during the year 2018-19 and noticed 1015 cases (54.10 *per cent* of audited sample) of non-collection of Performance Guarantee and Financial Assurance and non-observance of provisions of Acts/Rules, etc., in 16 units involving an amount of ₹ 217.05 crore. These cases are illustrative only as these are based on test check of records. The observations broadly fell under the following categories as given in **Table 4.2**.

Table: 4.2
Results of Audit

Sl. No.	Category	₹. in crore)	
		Number of Paragraphs	Amount
1.	Non-levy of penalty for transporting minor minerals without obtaining MDP	9	141.83
2.	Non-levy of royalty on the minerals removed without obtaining MDP	9	16.65
3.	Non-collection of Performance Guarantee and Financial Assurance	13	15.92
4.	Other irregularities	19	42.65
	Total	50	217.05

During the course of the year, the Department had accepted under assessment and other deficiencies involving ₹ 29.33 crore in seven paragraphs. An amount of ₹ 4.77 crore was recovered in 12 paragraphs that were pointed out in the earlier years.

A couple of illustrative cases involving ₹ 7.29 crore is discussed in the following paragraphs.

4.4 Non-levy of royalty on minor minerals transported without obtaining Mineral Despatch Permits

Rule 36 of the Karnataka Minor Mineral Concession (KMMC) Rules, 1994, stipulates that the holder of a quarrying lease or licence shall pay royalty on minor mineral¹²⁷ removed or consumed at the rates specified in Schedule-II of the Rules. 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 Despatch 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.

¹²⁷ As per 3(e) of The Mines and Minerals Development and Regulation Act, 1957, "Minor minerals" means building stones, gravel, ordinary clay, ordinary sand other than sand used for prescribed purposes, and any other mineral which the Central Government may, by notification in the Official Gazette, declare to be a minor mineral.

Further, the Director of Mines and Geology has issued (May 2016) circular¹²⁸ instructing all the offices of the Department to levy penalty at five times of royalty for transporting minor mineral without obtaining MDP.

During test check of records in one¹²⁹ out of 16 Deputy Director (DD)/Senior Geologist (SG) offices of Department of Mines and Geology in May 2018, Audit noticed that 10,49,961 metric ton (MT) of building stone was transported without obtaining MDP during the years 2015-16 and 2016-17 by the quarry lease holders, for which penalty at five times the royalty was levied. However, royalty amounting to ₹ 6.47 crore¹³⁰ was not levied.

After Audit brought these cases to the notice of the Department and Government between January 2019 and October 2019, the department replied that royalty has been deducted by Work Executing Departments (WEDs) from the contractors' bills and in case of private supply by quarry lease holders, the department collected royalty through yearly assessment.

The reply cannot be accepted due to the following reasons:

- i. The Department did not provide any documents to support the claim of supply of minerals to WEDs, though the same was requested (25 April 2019).
- ii. Audit could not find any evidence of levy of royalty through yearly assessment in case of private supply. Only penalty was levied in all the cases brought out in the para and royalty as per Rule 36 of KMMC Rules, 1994 was not levied.

Further, Audit has already pointed out possibilities of illegal quarrying in the State vide Paragraph 5.4.2 in the Audit Report (Revenue Sector) for the year ended March 2017, which showed discrepancies in pit measurement by the Department. This paragraph shows that the collection of Royalty by the DMG through its own volume estimation of the pits in the quarries amounted to only around 25 *per cent* of the total collection of Royalty. Besides, Audit has also proved large scale unauthorised mining in the Taluk of Chikkaballapura in the Performance Audit on "Systematic and Scientific Mining and Protection of Environment in respect of Quarry Leases of Minor Minerals"¹³¹. In the light of such unauthorised activities and the deficiency in pit measurement by the Department, maintaining the position that the mineral extracted is exactly measured through pit measurements and whatever royalty not levied by the Department is getting levied at the point of WEDs seems not realistic.

Recommendation: Audit recommends that the Department must ensure levy of royalty and penalty in respect of minerals extracted and transported without the MDPs.

¹²⁸ Circular No.M&G:DCB/SQL-1/22/DCB Section/2016-2017 dated 3 May 2016.

¹²⁹ Deputy Director, Mangaluru.

¹³⁰ Rate of royalty for building stone is ₹ 60/- per MT.

¹³¹ Paragraphs 4.4.9.5 and 4.4.15 of the Audit Report (Revenue Sector) for the year ended March 2018.

4.5 Unauthorised extraction of building stone

Rule 36 of the Karnataka Minor Mineral Concession (KMMC) Rules, 1994, stipulates that the holder of a quarrying lease or license shall pay royalty on minor mineral¹³² removed or consumed at the rates specified in Schedule-II of the Rules.

Further, Rule 44(3) of KMMC Rules, 1994, stipulates that any person who undertakes any quarrying operation in respect of the minor mineral without a license or lease is liable to pay a penalty of ₹ 5,000/- or value of the mineral, whichever is higher upto 11th August 2016, and 15 times of royalty till 17th November 2017 and five times of royalty thereafter.

Audit conducted Joint Inspection (December 2018) of 20 Building Stone Quarries¹³³ along with the Geologist and Engineer of the Office in two Taluks¹³⁴ of the Senior Geologist Office, Ballari¹³⁵. During inspection, Audit noticed extraction of 22,904 MTs of building stone from six areas, four of which were on leases, whose period had already expired or were cancelled and two were areas for which no quarry lease/license was granted. These incidents of quarrying in expired/cancelled leases and in areas where lease was not granted was not noticed by the Department and indicates the lack of periodical inspections of the areas under the jurisdiction of the Office. Further, quarrying, not in compliance with the extant Rules, attracts penalty at the rate of five times of royalty and also royalty for removal of mineral. Royalty and penalty applicable in these six cases works out to ₹ 82.47 lakh as shown in **Table 4.3**.

Table 4.3
Details of Unauthorised Extraction of Building Stone

								(₹ in lakh)
Sl. No	Name of the Quarry Lease Holder/Area	Inspection Date	Survey Number	Particulars	Quantity extracted (In Metric Tonne)	Royalty leviable	Penalty	Total
1.	Sirwara Village, Ballari Taluk and District	28.12.2018	Sy No. 316	Extraction without License	5,755.65	3.45	17.27	20.72
2.	Halekotte Village, Siraguppa Taluk, Ballari District	28.12.2018	Sy. No. 525		365.57	0.22	1.10	1.32
3.	Sr. M Sai Babu QL No.324	28.12.2018	Sy No. 528, Halekote Village	Extraction on expired leases	5,045.66	3.03	15.14	18.17

¹³² As per 3(e) of The Mines and Minerals Development and Regulation Act, 1957, “Minor minerals” means building stones, gravel, ordinary clay, ordinary sand other than sand used for prescribed purposes, and any other mineral which the Central Government may, by notification in the Official Gazette, declare to be a minor mineral.

¹³³ The basis for selection in an Office was the Taluks with highest number of expired leases. In such Taluks, one survey number was selected on a random basis for joint inspection.

¹³⁴ Ballari and Siruguppa.

¹³⁵ Audit conducted similar joint inspections in eight more districts as part of the Performance Audit on “Systematic Mining and Protection of Environment in respect of Quarry Leases of Minor Minerals” and found unauthorised extraction of mineral from 53 expired leases. These cases have been included under paragraph no.4.4.9.4.in the Report No.1 for the year 2019.

4.	Sri. Srinivasulu QL No.345	28.12.2018	Sy. No. 525, Halekote Village		3,402.56	2.04	10.21	12.25
5.	Sri. Ramakotgeshwara Rao, Lease expired with effect from 26.01.2014 QL No.312	28.12.2018	Sy. No. 354, Halekote Village		552.30	0.33	1.66	1.99
6.	Details of persons not known	28.12.2018	Quarries in Sy. No. 666 of Kurugodu Village, Ballari Taluk	Extraction on Cancelled lease	7,782.20	4.67	23.35	28.02
Total					22,903.94	13.74	68.73	82.47

After these cases were brought to the notice of the Department and the Government between February 2019 and January 2020, notices have been issued in all these cases and an amount of ₹ 32.40 lakh has been collected in three cases (September 2020).

Recommendation: The Department may include expired leases in their annual scheme of inspections of quarries to prevent such illegal occurrences.



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