



CHAPTER I
Introduction

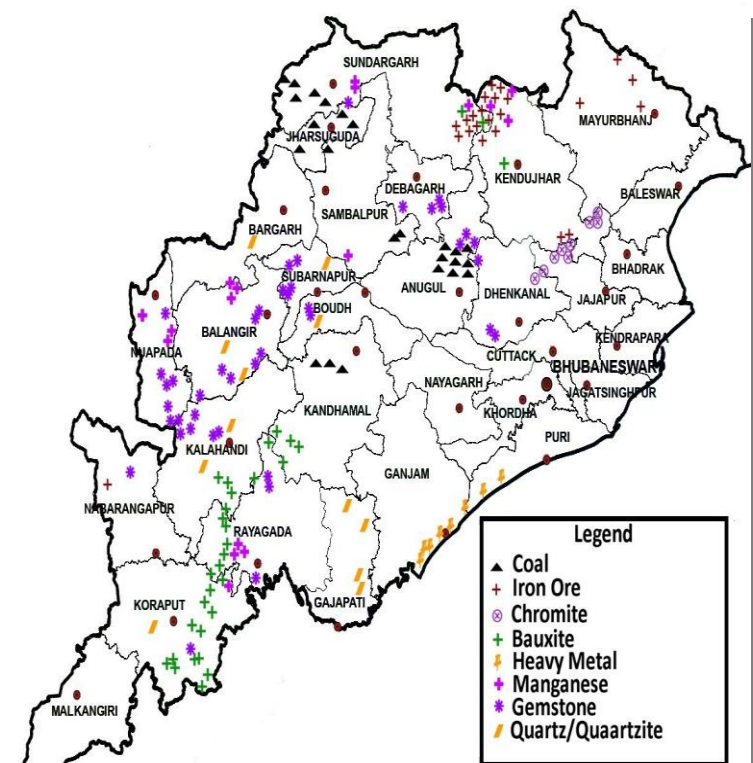
This chapter provides an introduction to the mineral resources of Odisha, the organisation structure for regulation of mineral resources and the trend of mining revenues. The Chapter also covers the objectives of this performance audit, audit criteria, scope of the audit and the methodology adopted.

1.1 Mineral Resources of Odisha

Odisha is a mineral rich state occupying a prominent place in the mineral map of the country. The State is endowed with vast reserves of major minerals like iron ore, chromite, manganese, coal, bauxite, dolomite, limestone, graphite, nickel *etc.*; and minor minerals like decorative stone quartz, fireclay, ordinary clay, silt, *rehmatti*, ordinary sand, brick-earth, ordinary earth, moorum, laterite slabs, ordinary boulders *etc.*

MINERAL MAP OF ODISHA

Receipts from mining of major and minor minerals form a major source¹ of the non-tax revenue of the State. The mineral receipts mainly consist of Royalty, Dead Rent and Surface Rent. The regulation of mines, and assessment and collection of mining revenues is governed by the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act) and amendments



thereto, as promulgated by the Government of India (GoI). Under the Act, the power of formulation of Rules, in regard to major minerals, is vested with the

¹ Mining revenue was 31.78 per cent of the revenue receipts of the State for the year 2021-22

Union Government, and, in respect of minor minerals, with the State Governments.

The Steel & Mines (S&M) Department, Government of Odisha (GoO) is responsible for discovery, extraction and administration of the mineral resources of the State. The department administers central legislations {viz, MMDR Act, 1957, Mineral Concession Rules (MCR), 1960, the Mineral (Other than Atomic and Hydro Carbons Energy Minerals) Concession Rules, 2016} for major minerals as well as implements the Odisha Minor Mineral Concession (OMMC) Rules, 2004 and 2016, for minor minerals and specified minor minerals². The majority of activities in the mining sector, (viz. grant and extension of lease, collection of royalty, ensuring lawful mining, etc.) are controlled by the Directorate of Mines under the S & M department, GoO. Grants of lease and extension etc. of the Hydro Carbons/ Energy Minerals (Minerals like Coal and Lignite specified under Part A of the First Schedule of MMDR Act) Atomic Minerals (Minerals like rare earth containing Uranium, Thorium, Titanium etc. specified under Part B of the Schedule *supra*) are governed under the Coal Blocks Allocation Rules, 2017 and The Atomic Minerals Concession Rules, 2016, respectively, by the State Government with prior approval of Central Government.

1.2 Organisation Structure

The regulation of major minerals in the State is under the control of the S & M Department of the GoO. The functions of the S & M Department include systematic survey and assessment of mineral deposits (major minerals and specified minor minerals); exploitation and administration of mines and mining leases; prevention of illegal mining and transport of minerals; assessment and collection of mining revenues; study of impact of mining operations on environment etc. The State is divided into 14 mining circles, headed by the Deputy Director of Mines or Mining Officers. The mining circles are under the administrative control of the Director of Mines & Geology, who reports to the Principal Secretary (Steel & Mines Department). The organisational setup for administration of major minerals and specified minor minerals is as follows:



1.3 Trend of Mining Revenues

The year-wise receipts, on account of major and minor minerals, during 2015-23, is shown in **Table 1.1**:

² All minor minerals including decorative stones like Granite etc. other than the minor minerals listed at serial No. 1(ii) of Schedule-III OMMC Rules, 2016 and is administered by the Steel & Mines Department

Table 1.1: Trend of mining receipts

(₹ in crore)

Financial Year	Mineral receipts		Total Mineral Receipts	Total Revenue Receipts of the State	Percentage of total Mineral Receipts to total Revenue Receipts of the State
	Major Minerals	Minor Minerals			
2015-16	5,337.32	461.64	5,798.96	68,941	8.41
2016-17	4,599.74	326.05	4,925.79	74,299	6.63
2017-18	5,760.71	370.28	6,130.99	85,204	7.20
2018-19	10,103.39	376.22	10,479.61	99,546	10.53
2019-20	10,664.78	355.24	11,020.02	1,01,568	10.85
2020-21	13,308.39	482.93	13,791.32	1,04,387	13.21
2021-22	48,045.36	596.39	48,641.75	1,53,059	31.78
2022-23	37,568.55	506.49	38,075.04	1,50,462	25.31

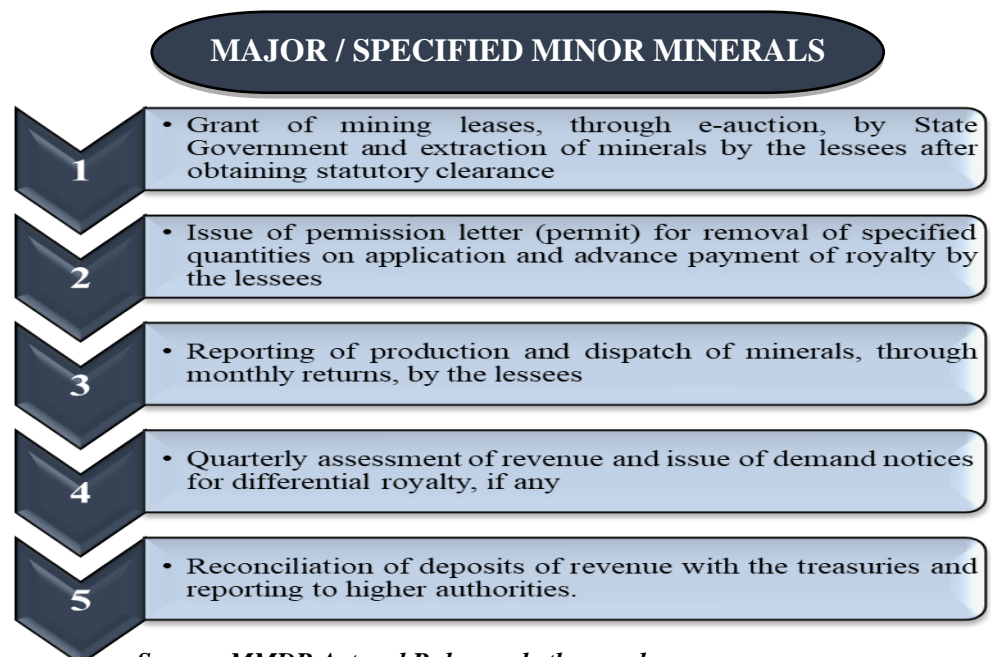
Source: Information furnished by the Department and State Finance Report

The steep increase in mining revenues during 2021-22 in respect of major minerals can be attributed to: (i) increase (12.01 per cent) in the despatch quantity from 32.04 crore MT in FY 2020-21 to 35.89 crore MT in FY 2021-22, and (ii) realisation of mining revenues, in addition to royalty dues, in the form of (a) additional amount (premium) for auctioned mines during FY 2021-22, and (b) additional amount for non-auctioned mines³, introduced with effect from 28 March 2021. However, there was steep decline in mining receipts during 2022-23.

Process for assessment and collection of mining revenues

The prescribed mechanism, for assessment and collection of mining revenues, is depicted in the following schematic Chart:

Chart 1.1: Flow chart showing mechanism of assessment and collection of mining revenue



Source: MMDR Act and Rules made thereunder

³ The mines granted prior to amendment of MMDR Act in 2015 and continuing operations till expiry of their term as provided under MMDR amendment Act, 2015

1.4 Audit Objectives

The Performance Audit was conducted to examine whether:

- i. grants and extensions of mining leases / permits / licences, for extraction of minerals, were in accordance with applicable laws, rules and policies
- ii. reporting of mineral despatch and sales, by lease holders, was checked for correctness, by authorities concerned
- iii. mining activities were being regulated in compliance with statutory and other applicable provisions
- iv. assessment and collection of mining revenues was being done in accordance with applicable laws and rules and
- v. internal controls and monitoring mechanisms were functioning effectively, to prevent illegal mining and leakage of mining revenues.

1.5 Audit Criteria

The audit observations were benchmarked against criteria derived from the following:

Acts and Rules notified by Government of India:

- Mines and Minerals (Development and Regulation) Act, 1957.
- Mineral Concession Rules, 1960.
- Mines and Minerals (Development and Regulation) Amendment Act, 2015.
- Mineral Auction Rules, 2015.
- The Minerals (Evidence of Mineral Contents) Rules, 2015.
- Minerals (Other than Atomic and Hydrocarbons Energy Minerals) Concession Rules, 2016.
- Mineral Conservation and Development Rules, 1988 and 2017.
- Forest Conservation Act, 1980.
- The Environment (Protection) Act, 1986.
- Granite Conservation and Development Rules, 1999.
- The Coal Bearing Areas (Acquisition and Development) Act, 1957.
- National Mineral Exploration Trust Rules, 2015.
- Circulars and other relevant notifications issued by Union Government.

Acts and Rules notified by Government of Odisha:

- Odisha Minerals (Prevention of Theft, Smuggling & Illegal Mining and Regulation of Possession, Storage, Trading and Transportation) Rules, 2007.
- Odisha District Mineral Foundation Rules, 2015.
- Odisha Minor Mineral Concession Rules, 2004 and 2016.
- Odisha Specified Minor Minerals Auction Rules, 2019.
- Circulars and other relevant notifications issued by State Government.

1.6 Scope and Methodology

The Performance Audit, conducted from August to December 2021 and August to September 2022, covered the period 2015-22, but also included coverage of prior / past periods, wherever relevant or necessary.

Audit test-checked records in the Steel & Mines (S&M) Department, as well as the Directorate of Mines & Geology, and also test-checked five⁴ out of 14 Mining Circles in respect of major minerals. The mining circles were selected using stratified random sampling, taking into consideration the collection of revenue by the mining circles.

The methodology of audit included scrutiny of physical and computerised records made available in Department, Directorate of Mines and Geology and selected mining circles and Joint Physical Verification (JPI) of check-gates in presence of the officers of the department.

The Entry Conference was conducted (virtual mode) on 12 April 2021, with the Principal Secretaries and other officers of the S&M Department and R&DM Department, GoO, in which the audit objectives, criteria, scope and methodology, were discussed. The audit findings were discussed in the Exit Conference, held on 28 June 2023 and replies of the Government furnished in subsequent stages have been suitably incorporated in the Report.

1.7 Integrated Mines and Mineral Management System (i3MS)

The GoO has designed and developed (2010) a computerised system called the 'Integrated Mines and Mineral Management System' (i3MS), with the objective of capturing all transactions and regulating the activities of mining lessees and licensees. The software has various modules that cover various processes, such as: (i) *clearances* – codification of leases and lessees, statutory clearances and registration of transporters (ii) *production* – verification of clearances, validity and limits of clearances, monthly returns furnished by lessees / licensees, updating of daily production, calculation of royalty and demand assessment and generation of e-transit permits (iii) *Despatch* – system generated e-transit pass uniquely bar-coded with date/time stamp and auto-check of Despatches against permitted quantities (iv) *verification* – bar-code scanners at check gates, enroute verification through mobile application and vehicle tracking system (v) *receipts* – real-time reporting of production and Despatch, reports on excavation and stock and reports on royalty due and collection (vi) *integration* – validation & integration of weigh-bridges and RTO integration, for authentication of carriers.

The i3MS system was implemented with the intent to be a significant step towards greater transparency and efficiency in regulation of the mining sector. However, there remained serious deficiencies (as brought out in this report) that need to be addressed by the department, so that the large volume of information contained in the system can be used. The i3MS system, therefore, needs to be more effectively leveraged, to strengthen the monitoring mechanisms and controls within the department.

1.8 Acknowledgement

Audit acknowledges the cooperation extended by the S & M Department, Government of Odisha, in providing necessary information and records to Audit.

⁴ DDM, Joda; DDM, Jajpur Road; DDM, Koira; DDM, Talcher; and MO, Berhampur

1.9 Money value involved in Audit observations of this Report

Results of audit of the systems and controls in assessment and collection of mineral receipts in respect of major and specified minor minerals have been compiled in this Report. Money value involved in audit observations is approximately ₹ 22,392.51 crore as detailed in Table 1.2 below.

Table 1.2: Para-wise money-value of the observations included in the report
(₹ in crore)

Para No.	Appendix No.	Brief Subject	Period of coverage	Money Value
3.2.1	VII	Reporting of the grade of iron-ore produced (Reporting of lower grade of iron ore)	2020-22	4,162.77
3.2.2	VIII	Reporting of iron-ore fines as screened fines	2015-22	10,294.24
3.5.1	X	Non-utilisation of sub-grade iron-ore	2014-22	1,183.02
3.5.3	XI	Non-utilisation of beneficiable and sub-grade chromite	2015-22	51.71
4.2	XII	Non-levy of interest on delayed payment of royalty	2015-22	28.66
4.3	XIII	Short assessment of royalty, due to non-verification of sales turnover reported by lessees	2015-22	1,195.47
4.4	XIV	Blockage of revenue due to non-disposal of seized minerals	2015-22	6.35
5.2.1	--	Production of coal in excess of the quantity approved in Environment Clearance	2017-18	88.60
5.2.2	XV	Production of iron-ore exceeding the quantity approved in the Environment Clearances (i) Roida-II	2019-20	52.04
		(ii) Thakurani Block-B	2019-21	1,558.41
5.2.3	XVI	Production of iron-ore exceeding the quantities approved in the mining plans	2015-21	3,618.50
5.2.4	XVII	Production of chromite without forest clearance	2019-22	150.10
5.2.5	--	Operation of mine on unauthorized transfer of lease	2016-20	2.64
Total				22,392.51