

## CHAPTER – VII

### NON TAX RECEIPTS

#### 7.1 Results of Audit

Test check of records in various departmental offices relating to the following receipts conducted in audit during the year 2002-03 revealed non/short recovery of receipts amounting to Rs.303.14 crore in 100 cases as detailed below:

(Rupees in crore)			
Sr. No.	Category	No. of cases	Amount
1	Geology and Mining	57	0.36
2	Forest Receipts	41	0.27
3	Review on “Levy and collection of water rates”.	1	236.33
4	Review on “Collection of royalty and dead rent for the mines and quarries”.	1	66.18
	<b>Total</b>	<b>100</b>	<b>303.14</b>

During the year 2002-03, the department accepted audit observations amounting to Rs.17.64 lakh in 16 cases and recovered Rs.1.18 lakh in 4 cases pertaining to earlier years. An illustrative case highlighting important audit observation and the results of reviews on (i) “Levy and collection of water rates” and (ii) “Collection of royalty and dead rent for the mines and quarries”, involving Rs.305.66 crore are discussed in the following paragraphs.

## WATER RATES

### 7.2 Levy and collection of water rates

#### Highlights

Fixed water rates were of Rs.104.94 crore were either not levied on sanctioned reserved quantity of water or were levied short from 31 water users.

[Para 7.2.7]

Interest and service charge of Rs.37.10 crore were either not levied or were levied short from non-irrigation users who defaulted in payment of water rates.

[Para .7.2.8]

Penal water rates were not levied in respect of 20 non-irrigation users for their failure to install measuring devices and for non-execution of agreements. This resulted in short levy of Rs.8.48 crore.

[Para 7.2.10]

Water rates were assessed on the quantity of water actually available to the users instead of on the quantity of water released from the reservoir in 4 cases resulting in short levy of water rates of Rs.41.77 crore

[Para 7.2.11]

In two cases, non-levy of water rates on average basis as per the agreement, when measuring devices did not function, resulted in short levy of water rates by Rs. 6.06 crore.

[Para 7.2.12]

Charging water rates on net use beyond the authorised period resulted in short levy of Rs.5.38 crore.

[Para 7.2.13]

Water rates were levied short by Rs.68.55 lakh due to non-enhancement of water rates and computation error.

[Para 7.2.15]

## Introduction

**7.2.1** Out of a total geographical area of 196.00 lakh hectares (with 123.86 lakh hectares culturable area) 16.64 lakh hectares is under the command of irrigation in Gujarat. Water supply both for irrigation and non-irrigation purposes in the State is governed by the Bombay Irrigation Act, 1879 as applicable to Gujarat and by the Gujarat Canal Rules, 1962. The sources of irrigation/irrigation potential in the State are canal based which are obtained mainly from rivers Tapti, Mahi, Shetrunji and Panam. The rates chargeable from the water users for irrigation/non-irrigation purposes are called 'water rates'.

Water rates for non-irrigation purpose comprise fixed water rates and normal water rates. Fixed water rates are levied on sanctioned reserved quantity of water and normal water rates are levied on actual quantity of water drawn by users. Water users drawing water for non-irrigation purposes are required to execute an agreement with the Government before drawal of water. Non-execution of agreement would result in unauthorised use of water. The State Government had been revising water rates for irrigation as well as non irrigation purposes from time to time. Default in payment of water rates by users for non-irrigation purposes attracts levy of interest at the rate of 24 *per cent* per annum and service charge at the rate of one *per cent* per annum and for irrigation purpose interest at the rate of 12 *per cent* per annum.

## Organisational set-up

**7.2.2** For the purpose of administration of water supply for irrigation and non-irrigation purposes, the State is divided into four zones viz. North, South, Central and Saurashtra and Kutch under the control of Narmada, Water Resources and Water Supply Department headed by a Secretary to Government of Gujarat. The Chief Engineer-cum-Additional Secretary is the head of a zone. He is assisted by Superintending Engineers, Executive Engineers, Dy. Executive Engineers and Assistant Engineers etc. The demands for water rates for irrigation and non-irrigation purposes are raised and collected by Executive Engineers in charge of Irrigation Divisions under the Narmada Water Resources and Water Supply Department in respect of all projects. However, demands of water rates for irrigation purposes in respect of Mahi and Kakrapar Projects are raised by Executive Engineers and recovered by Recovery Mamlatdars.

## Objectives of Audit

**7.2.3** Levy of water rates governed by the Bombay Irrigation Act and Gujarat Canal Rules are regulated by various Government resolutions issued by the Narmada Water Resources and Water Supply Department. Detailed analysis of records in respect of 6 out of 18 major irrigation projects and 36

out of 115 medium irrigation projects, for the period 1997-98 to 2001-02 was conducted between April 2002 and March 2003 to see :

- Whether bills of water rates are raised in accordance with the conditions of supply as per agreements and rates are correctly charged;
- whether adequate action is initiated against defaulters to levy water rates with interest and service charge;
- whether adequate system for monitoring of levy and collection of water rates is in existence and its actual implementation.

### **Trend of revenue**

**7.2.4** The budget estimates, revenue realised under the head "Major and Medium Irrigation" during the last five years ending 2001-02 are as under:

**(Rupees in crore)**

<b>Year</b>	<b>Budget Estimates</b>	<b>Actual</b>	<b>Short fall / Excess</b>	<b>Percentage of short fall / Excess</b>
1997-98	45.80	91.29	(+) 45.49	(+) 99
1998-99	200.00	132.10	(-) 67.90	(-) 34
1999-00	250.00	110.68	(-) 139.32	(-) 56
2000-01	267.50	136.58	(-) 130.92	(-) 49
2001-02	255.00	132.09	(-) 122.91	(-) 48

The targets of revenue realisation were not achieved during period from 1998-99 to 2001-02. The revenue increased in 1997-98 due to upward revision of water rates from April 1997. The rates were, however, revised downward in January 2001 with retrospective effect from 1 April 1997.

Shortfall in realisation of revenue was attributed by the department to scarcity of water prevailing during these years, non payments by the users due to recession in industries and impracticability in disconnection of water supply.

However, audit scrutiny did not reveal any proposal from Government either for waiver or postponement of such recoveries. Further, there was no provision for the Executives of Irrigation Department to take legal remedies against defaulters to recover the dues as arrears of land revenue.

**Arrears of revenue**

**7.2.5** The position of arrears of revenue for supply of water for irrigation and non-irrigation purposes at the end of five years ended 2001-02 as furnished by the department, was as under:

**(Rupees in crore)**

<b>Period (As on)</b>	<b>Irrigation Purpose Amount</b>	<b>Non-irrigation Purpose* Amount</b>
31.03.1998	72.17	624.26
31.03.1999	N.A.	61.89
31.03.2000	82.00	84.84
31.03.2001	377.11	55.62
31.03.2002	361.47	318.33

\* Figures, as furnished by the Department. These figures have not appeared in the respective years' Audit Reports.

Pendency of arrears with different concerned authorities though called for from the Government, was not received (August 2003).

The figures furnished by the Department as arrears of revenue for supply of water for irrigation purposes had never been reconciled by the State Government as the same do not tally with those furnished by the department for Audit Report of earlier years. The arrears of water rates included the arrears from 1972-73. Though provisions exist in the Bombay Irrigation Act, 1879 to recover the arrears under Land Revenue Code, effective efforts were not made for recovery through revenue authorities.

A few illustrative cases highlighting important irregularities noticed in review involving financial effect of Rs.236.33 crore are mentioned in the following paragraphs.

**Avoidable financial burden on Government due to incorrect revision of water rates**

**7.2.6** The Government vide various resolutions, revised water rates in respect of water supplied for non-irrigation purposes from time to time as shown in the table below:

(Rupees)							
Government Resolution dated		Industries		GIDC		Domestic	
		Subsidy	Water Rates	Subsidy	Water Rates	Subsidy	Water Rates
03-12-1986	NWR*	0.45	0.55	0.50	0.50	0.85	0.15
	FWR#	--	0.10	--	0.10	--	0.10
22-05-1990	NWR	0.25	0.75	0.30	0.70	0.85	0.15
	FWR	--	0.10	--	0.10	--	0.10
01-05-1997	NWR	--	4.00	--	2.00	--	0.30
	FWR	--	2.50	--	1.25	--	0.20
30-01-2001 <sup>\$</sup>	NWR	--	2.50	--	2.50	--	0.30
	FWR	--	0.75/1.50	--	0.75	--	0.20

\*NWR- Normal Water Rates leviable on actual water supplied.

# FWR- Fixed Water Rates leviable on sanctioned reserved quantity.

\$ Applicable with effect from 1 April 1997.

The above table indicates water rates were revised by the Government from time to time. The loss of revenue due to downward revision was brought to the notice of the Government in June 2002. The Government replied in August 2002 that the rates for supply of water for non-irrigation purposes fixed in May 1990 at 85 paise per 1,000 litres were low and financial burden was increasing. These rates were low in comparison with the expenditure incurred on development of water resources, distribution of water and expenditure incurred for storing water. After preparing the detailed proposal of water pricing in consultations with Water Resources Expert, the charge for unit rate of water was worked out and accordingly these rates were enhanced to Rs.6.50 paise for 1,000 litres vide Government Resolution of 1 May 1997. However, these rates were again revised downward by Government as per Resolution of 30 January 2001 with retrospective effect from 1 April 1997 considering the representations of various industries against the hike of seven and a half times in water rates and considering poor recovery performance during 1997-98 to 1999-00. Government argued that the rates revised were as per the recommendations of the Vaidyanathan Committee, to the extent of one per cent of the capital expenditure and Maintenance and Repairs expenditure at the time of revision of water rates.

However, the main objective of revising water rates vide Government Resolution dated 1 May 1997 to relieve the Government of extra burden of expenditure could not be fulfilled. Thus, the Government continued to subsidise water supply for non-irrigation purposes.

### Short levy of fixed water rates and interest in respect of non-irrigation purposes

**7.2.7** Consequent on revision of water rates with effect from 1 April 1997, Government permitted the users to revise their reserved requirement of water for five years before 1 August 1997 to be effective from 1 April 1997. If no change was proposed, fixed water rates were to be charged on the existing reserved quantity every year irrespective of the quantity of water actually drawn.

During test check of records of 10<sup>&</sup> divisions, it was noticed that fixed water rates were either not levied or were levied short between 1997-98 to 2001-02 from 31 users. The amount of short levy worked out to Rs.104.94 crore including interest and service charge as shown below:

(Rupees in crore)

Sr. No.	No. of users	Amount	Nature of irregularity
1.	10 <sup>@</sup>	49.44	Fixed water rates were assessed on the users revised demand submitted by them after expiry of the time limit prescribed by the Government.
2.	1 <sup>~</sup>	21.56	Fixed water rates, though revised from April 1997, were levied at pre-revised rates. On this being pointed out, the Government replied (June 2003) that revised demand had been raised.
3	2 <sup>!</sup>	12.59	Fixed water rates were levied on the quantity of water drawn during the year instead of on sanctioned reserved quantity.
4	1 <sup>#</sup>	7.69	Fixed water rates were levied on the average quantity of four years demand instead of on sanctioned reserved quantity.

<sup>&</sup> KRBC, Surat, Surat Canal, Surat, Ambica, Navsari, Bhavnagar irrigation, Bhavnagar, Project Construction-3, Himatnagar, Irrigation Project, Modasa, URBC Investigation, Ankleshwar, Vadodara Irrigation, Vadodara, Nadiad Irrigation, Nadiad and Himatnagar Irrigation, Himatnagar.

<sup>@</sup> This includes, GNVFC, KRIBHCO Ltd., ONGC, GEB-UGBTPS, GACL.

<sup>~</sup> Kakrapar Atomic Power Project.

<sup>!</sup> Reliance Industries Ltd. and NTPC.

<sup>#</sup> Rama Newsprint and Papers Ltd.

5	13 <sup>^</sup>	7.29	Fixed water rates were not levied on the ground that the water was not drawn by the users.
6	1 <sup>+</sup>	3.33	Short levy of water rates was due to levy of fixed water rates on pre-revised sanctioned quantity though the user had doubled its sanctioned reserved quantity.
7	1 <sup>%</sup>	2.94	Non levy of fixed water rates due to incorrect exemption.
8	2	0.10	Short levy of fixed water rates due to calculation mistake.
<b>Total</b>	<b>31</b>	<b>104.94</b>	

**7.2.8** According to Government Resolutions, fixed water rates for non-irrigation purposes are to be charged on the existing reserved quantity of water and to be paid in the first week of April every year. Non / delayed payment of water rates attract levy of interest at the rate of 24 *per cent* per annum and service charge at the rate of one *per cent*.

Test check of records of 6\* projects revealed that interest and service charge amounting to Rs.37.10 crore were either not levied or levied short for non payment/late payment of water rates from 26 users between 1997-98 and 2001-02 as shown below:

(Rupees in crore)

Sr. No.	Name of Project	No. of users	Amount of interest and service charge		Short levy	Remarks
			Leviable	Levied		
1	Mahi	3	61.08	28.91	32.17	The Government stated in June 2003 that field officers had been instructed to raise the bills.
2.	Kakrapar	15	24.52	20.89	3.63	The Government stated in June 2003 that in 12 cases the demand of Rs.1.91 crore was raised. In other cases, the final reply was awaited.

<sup>^</sup> This includes, Ahmedabad Municipal Corporation, Wood Paper Mills Ltd., Gujchem Distilleries India Ltd., Ghogha Juth WSS.

<sup>+</sup> Bhavnagar Municipal Corporation.

<sup>%</sup> Baroda Rayon Corporation Ltd.

<sup>\*</sup> Ukai, Kakrapar, Shetrunji, Raval, Dhatarwadi and Mahi.



3.	Shetrunji, Raval and Dhatarwadi	3	1.55	0.73	0.82	The Department accepted in March 2003 the audit observation and raised the demand.
4	Ukai	5	1.82	1.34	0.48	The Department raised the demand in 2 cases. In other cases, the final reply is awaited.
	<b>Total</b>	<b>26</b>	<b>88.97</b>	<b>51.87</b>	<b>37.10</b>	

### Non-levy of interest on irrigation dues

**7.2.9** During test check of records of 5<sup>?</sup> major projects and 5<sup><</sup> medium projects in 11 irrigation divisions, it was noticed that interest at the prescribed rate had not been levied or demanded on outstanding irrigation dues for the period 1997-98 to 2001-02. This resulted in non-levy of interest of Rs.30.81 crore.

On this being pointed out in audit, 9 Divisional Officers accepted the audit observations and 2 Divisional Officers stated that interest was leviable after 30 November 2002 only as the Government had launched a scheme to waive interest as per Government Resolution of 5 July 2002. The reply is not tenable as Government Resolution of July 2002 provided for grant of relief from payment of interest subject to payment of water rates by a specified date and the department was not relieved from the responsibility of raising total demands including interest.

### Non levy of penal water rates for non-irrigation purposes

**7.2.10** The Government vide Resolutions of 22 May 1990 and 30 January 2001 provided that if water is drawn unauthorisedly or without permission, recovery of water rates is to be effected at 150 *per cent* of normal water rates. In case of failure to install scientific measuring device and not executing agreement, the drawal of water would be treated as unauthorised.

Test check of records of 8\* divisions, revealed that 20 users had drawn water during the period from 1997-98 to 2001-02 either without executing agreements or without installing scientific measuring devices. The demand for normal water rate was raised instead of penal rate. This resulted in non-levy of penal water rate of Rs.8.48 crore.

? Ukai, Kakrapar, Shatrunji, Panam and Mahi.

< Rajawal, Kharo, Heran, Karad and Jojawa-wadhvana.

\* Project construction Division 3, Himatnagar, Irrigation Project Division, Modasa, Ambica Division, Navsari, Bhavnagar Irrigation Division, Bhavnagar, Bhavnagar Irrigation and Maintenance Division, Bhavnagar, Panam Project Division, Godhra, Nadiad Irrigation Division, Nadiad and Himatnagar Irrigation Division, Himatnagar.

On this being pointed out, the Government accepted audit observations in June 2003 and stated that field officers had raised the bills. Recovery particulars were awaited (August 2003).

### **Short levy due to incorrect billing**

**7.2.11** Government Resolution of January 2001, effective from 1 April 1997, provides that while preparing bills, the measurement of water shall be made for the quantity of water released / drawn from the reservoir or river and not for the quantity of water actually available to the user, institutions or industries.

During test check of records of Nadiad Irrigation Division, it was noticed that in cases of four users the bills for water rates were prepared for the period from 1997-98 to 2001-02 on the quantity of water actually available to them instead of quantity of water released from the reservoir. This resulted in short levy of water rates of Rs.41.77 crore.

On this being pointed out, the Department accepted the audit observations. However, it was stated that Government had decided in meeting held in March 2003 not to charge water rates for transit loss from Gujarat Water Supply and Sewerage Board and Gujarat Electricity Board. The reply of the department was not tenable as the procedure prescribed by the Government vide resolution of January 2001 was not amended. However, no such orders were also made available to audit.

**7.2.12** According to the condition of the agreement executed between the water users and Government, in case measuring device ceases to function or goes out of order in any month, the water charges leviable in respect of that month is to be calculated on the basis of average quantity of water drawn in the preceding three months or the quantity of water drawn in the same month of the preceding year, whichever is higher provided that there has been no increase in capacity of the plant/plants. If capacity of plant/plants has increased, water drawn shall be correspondingly estimated on prorata basis.

During test check of records of 2\* divisions, it was noticed that in the case of two users, the bills of water rates were not prepared as per provisions in the agreement when the measuring devices were not functioning for period ranging between 20 and 27 months during the years 1997-98 to 2001-02. This resulted in short levy of water rates of Rs.6.06 crore.

On this being pointed out, the Government accepted audit observation in one case and in respect of another case it was stated that meter had remained non-functional for 2-3 days mainly due to power cut. Hence, this being a short period, measurements were taken after approval of the Executive Engineer, who was empowered to take decision in such circumstances as per agreement.

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\* URBC Investigation Division, Ankleshwar and Bhavnagar Irrigation Division, Bhavnagar.

The reply of the Government was not tenable in view of the fact that scientific measuring device did not function for 20 different months during the period 1997-98 to 2001-02, and not for 2-3 days due to power cut, as noticed from the records produced to audit. Further, if the meter remained non-functional for 2-3 days only due to power cut then there should have been meter reading for the remaining days, which should have been considered for preparing bills. However, the bills were prepared on the total number of hours of water drawn during the concerned months and not as per the procedure prescribed in the agreement or on the basis of meter reading as required.

### **Incorrect grant of concession**

**7.2.13** Government vide resolution of 16 September 1992 granted relief/concession to the Central Pulp Mills Ltd., Songadh under the rehabilitation scheme sanctioned by BIFR\*\*. According to the Resolution, the Government was to charge royalty at the rate of Rs.425 per 1000 M<sup>3</sup> of water based on net use, provided the water returned was treated as per the standards of Pollution Control Board for discharge into the system dedicated for natural ways. The relief in billing on net use was granted upto December 2000 only.

During test check of records of Ukai Left Bank Canal Investigation Division No.2, Valod, it was noticed that the bills for water rates were prepared on net use even during January 2001 to March 2002 though the Government had rejected in January 2002 the company's request to continue the concession in water rates after December 2000. This resulted in short levy of water rates of Rs.5.38 crore.

On this being pointed out in audit, the Government accepted in June 2003 the audit observation and stated that field officers had raised the bills. Recovery particulars were awaited (August 2003).

### **Non-recovery of water rates**

**7.2.14** Taking into consideration the scheme for rehabilitation of Central Pulp Mills by BIFR, the Government in Industries and Mines Department allowed in September 1992 deferment of outstanding water rates of Rs.96.46 lakh for 9 years repayable in three annual instalments.

Test check of records of Ukai Left Bank Canal Investigation Division No.2, Valod to whom the case had been transferred in May 1999 revealed that the first instalment of Rs.32.15 lakh due in 2001-02 had neither been paid by the unit nor had the demand raised against them.

On this being pointed out, Government stated in June 2003 that deferred amount was Rs.72.95 lakh. First instalment of Rs.24.32 lakh was paid on 12

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\*\* Board for Industrial and Financial Reconstruction.

August 2002 and second instalment was paid on 2 June 2003. The reply is not tenable as the total amount of deferment outstanding was Rs.96.46 lakh in 1992 as intimated in May 1993 by the Executive Engineer, Surat Canal Division, Surat. As per the repayment schedule, the first instalment was due in 2001-02 and not in 2002-03.

### **Non-enhancement of water rates**

**7.2.15** Government vide Resolution dated 30 January 2001 revised normal water rates for drinking purposes to 30 paise per 1,000 litres effective from 1 April 1997. As per condition of the Resolution, the normal water rates are to be enhanced at the rate of ten *per cent* every year.

Test check of records of 6<sup>&</sup> divisions of 4 projects revealed that normal water rates were not enhanced in respect of 5 users for the periods from 1998-99 to 2001-02 and in case of 2 users water rates were calculated incorrectly due to calculation mistake during 1997-98. This resulted in short levy of water rates of Rs.68.55 lakh.

On this being pointed out in audit, the Government accepted audit observations in June 2003 and stated that bills had been raised.

### **Loss of interest due to delay in issue of bills**

**7.2.16** Government clarified (21 December 1988) that fixed water rates were payable in the first week of April every year and unpaid amount of normal water rates within three months from the date of bill. Failure to make payment of water rates attracts interest at the rate of 24 *per cent* and service charge at the rate of one *per cent*.

During test check of records of 4 divisions (2<sup>#</sup> projects), it was noticed that the bills for water rates in respect of 13 water users were prepared after the delay of 1 to 170 days after the due date during the period 1997-98 to 2001-02. Delay in issue of bills not only resulted in delay in collection of revenue but also in unintended benefit of interest to users. This resulted in loss of revenue to Government amounting to Rs.49.20 lakh.

On this being pointed out in audit, the Government while accepting the audit observations instructed the Superintending Engineers concerned to prepare the water rates bills positively at the end of each month and serve to the beneficiaries in the first week of next month so that loss of interest could be prevented.

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<sup>&</sup> KRBC Division, Surat, ULBC Investigation Division 2, Valod, Project Construction Division 3, Himatnagar, Irrigation Project Division, Modasa, Ambica Division, Navsari and Panam Project Division, Godhra.

<sup>#</sup> Ukai and Kakrapar.

### **Short levy due to defective implementation of agreement**

**7.2.17** The institutions/ industrial units are required to take permission from Government to draw water for non-irrigation purposes from notified rivers, nalas, canals, reservoirs etc. Such permission is granted by the Government subject to conditions that the institution/unit should execute an agreement with the Department/ Government before drawal of water.

The Government in August 1997 sanctioned 3.143 Million Cubic Metre per year of water for supply, by the irrigation division to Mazam Regional Water Supply Scheme run by the Gujarat Water Supply and Sewerage Board for which an agreement was executed for a period of 30 years in December 2001. Though fixed water rates for sanctioned reserved quantity at the prescribed rates worked out to Rs.6.28 lakh per annum, the agreement provided for payment of fixed water rates of Rs.3.20 lakh per year only. This defective clause in the agreement contrary to the provisions of government resolution resulted in loss of revenue to government to the extent of Rs.3.08 lakh during 2001-02. The government would continue to incur loss of Rs. 3.08 lakh per year in subsequent years also.

On this being pointed out in audit, the Government stated that the field officer had been instructed to raise fresh bill as per the quantity of water sanctioned. However, the agreement was also required to be modified to levy fixed water rates of Rs.6.28 lakh instead of Rs.3.20 lakh to avoid recurring loss to Government.

### **Incorrect grant of concessional rate to defaulters**

**7.2.18** Considering the prevailing drought condition in 1998, the Government vide Resolution of June 1998, decided to charge water rates at pre-revised rates of 15 paise per 1,000 litres of water for the period from April 1998 to July 1998 for water supplied to local bodies and water supply schemes run by Gujarat Water Supply and Sewerage Board. In order to clear the arrears , the local bodies, were allowed to pay water rates at pre-revised rates beyond July 1998 provided the arrears as on 1 January 1998 were paid in eight six monthly instalments. First two instalments were to be paid on due dates.

Test check of records of Ambica Division, Navsari revealed that Valsad Nagarpalika had paid only two regular instalments. Even though the Nagarpalika had not made the payments of remaining instalments, the pre-revised rates were continued to be charged for the year 1998-99 to 2001-02. This resulted in short recovery of water rates of Rs.26.35 lakh.

On this being pointed out, the Government accepted the audit observation and stated in June 2003 that demand has been raised.

### **Lack of internal control**

**7.2.19** The division prepares and submits monthly return regarding supply of water in the prescribed proforma showing details of sanctioned reserved quantity of water, amount of water rates assessed and recovered from April to the month to which return pertains and amount outstanding at the end of the month of a particular year and sends it to the concerned Superintending Engineer who in turn sends it to the Government. The Government compiles the returns. However, no detailed scrutiny such as correctness of assessment, recovery etc. is made at any level. Further, due to non-availability of quantity of water actually drawn during the month and period to which recovery pertained, the correctness of assessment of water rates and interest and service charge could not be verified. Thus return in which the information furnished is not adequate and leads to the inadequate internal control.

The Department had not prescribed any proforma in which demands were to be raised and bills prepared.

The Department did not prescribe any proforma for keeping records for non-irrigation purposes, indicating details of sanctioned reserved quantity, actual quantity of water drawn, water rates assessed and details of payments.

### **Recommendations**

**7.2.20** Due to insufficient monitoring, water rates were not levied/raised on sanctioned reserve quantity, interest and service charge, penal rates were not applied against defaulters. Bills were not prepared in accordance with the rules where the measuring devices were not installed, defective quantity of water was assessed at the supply point instead of at the reservoir head.

Government may consider setting up of an internal audit wing to ensure periodical check of the correctness of the bills raised. Records and registers to be maintained by Irrigation Divisions should be prescribed clearly so that details of users, demands raised, recoveries made, dues pending, etc. are monitored effectively and efficiently.

The matter was brought to the notice of the Government in April 2003; replies received were incorporated in the relevant paras.

## MINING RECEIPTS

### 7.3 Collection of royalty and dead rent for mines and quarries

#### Highlights

**Application of incorrect rate resulted in short realisation of royalty on crude-oil by Rs.5.37 crore including increased royalty.**

[Para 7.3.7 & 7.3.8]

**Incorrect adoption of price of natural gas supplied to various consumers for payment of royalty by ONGC resulted in short realisation of royalty by Rs.5.40 crore.**

[Para 7.3.9]

**Non-enforcement of codal provisions and conditions of lease agreement in 64 cases resulted in non/short levy of royalty and interest of Rs.24.10 crore.**

[Para 7.3.12]

**Not raising demands for dead rent in cases of 883 lease holders resulted in blockage of revenue of Rs.4.10 crore.**

[Para 7.3.13]

**Non-payment of royalty in advance resulted in non-levy of interest of Rs.10.51 crore.**

[Para 7.3.16]

**Non-encashment in time of bank guarantee of Rs.11.84 crore given by Narmada Cement Co. Ltd., and grant of instalment facility and reduction of rate of interest not provided in the Act resulted in loss of interest of Rs.7.10 crore.**

[Para 7.3.17]

**Non-registration of lease deeds required to be registered compulsorily resulted in loss of revenue of Rs.6.78 crore.**

[Para 7.3.18]

## Introduction

**7.3.1** The grant of mineral concessions and mining leases for the purpose of prospecting and mining of major minerals is governed by the Mines and Minerals (Development and Regulation ) Act (MMDR Act), 1957 and the Mineral Concession Rules (MC Rules), 1960. The quarry leases for minor minerals are governed by the Gujarat Minor Mineral Rules (GMM Rules), 1966. Mining of mineral oil and gas is regulated by the Oil Field (Development and Regulation) Act (ODR Act), 1948 and the Petroleum and Natural Gas Rules (PNG Rules), 1959. In Gujarat, important minerals available are lignite, lime stone, bauxite, marble, bentonite, dolomite, black trap, fire clay, china clay, gypsum, manganese, chalk, mineral oil and natural gas. The Acts and Rules made thereunder, provide for levy of royalty\* and dead rent\*\* in the lease deed.

## Organisational set up

**7.3.2** The regulation and development of mines and minerals, grant of mineral concessions, assessment, levy and collection of royalty, dead rent and other mining dues etc. are administered by the Industries and Mines Department with the Principal Secretary as its head at the Government level and Commissioner of Geology and Mining as the head of the department, assisted by three Additional Directors, two Deputy Directors, two Assistant Directors and the staff at district offices. After formation of a separate Directorate of Petroleum in 1997, the regulation and development of oil and natural gas and grant of related concessions with the approval of Central Government, assessment, levy and collection are administered by Energy and Petro-chemicals Department with the Principal Secretary as its head at the Government level and the Director of Petroleum as the head of department assisted by two Geologists.

## Audit objectives

**7.3.3** Detailed analysis of records maintained in 11<sup>3</sup> out of 19 district offices working under the Commissioner of Geology and Mining and in the Office of the Director of Petroleum, Gandhinagar for the period 1997-98 to 2001-02 was conducted in audit between April 2002 and November 2002 with an objective to:

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\* Royalty is a rent which varies with the quantum of mineral extracted from mines.

\*\* Dead rent is a minimum sum guaranteed as royalty whether the mineral is extracted or not from the lease hold mines.

<sup>3</sup> Junagadh, Vadodara, Valsad, Bharuch, Himatnagar, Palanpur, Porbandar, Amreli, Surat, Bhuj and Jamnagar.



- evaluate the efficacy of the system in ensuring timely payment of royalty, dead rent etc., and in ensuring compliance with the provisions of Acts and Rules governing the levy and assessment of dues;
- identify weakness in the system leading to
  - irregular issue of permits;
  - inadequate inspection of mines;
  - non-finalisation of assessments, non-levy/ recovery of dues.

Findings of the review, in addition to some points noticed in the course of local audit during earlier years are discussed in the succeeding paragraphs.

### **Trend of revenue**

**7.3.4** The budget estimates vis-a-vis mineral receipts collected between 1997-98 to 2001-02 in respect of Major and Minor Minerals were as under:

(Rupees in crore)

<b>Year</b>	<b>Budget estimates</b>	<b>Actual receipts</b>	<b>Variation Excess (+) / Short fall (-)</b>	<b>Percentage of variation</b>
1997-98	455.00	460.66	(+) 05.66	(+) 1
1998-99	679.10	470.23	(-) 208.87	(-) 31
1999-00	650.00	530.78	(-) 119.22	(-) 18
2000-01	670.00	616.65	(-) 53.35	(-) 8
2001-02	700.00	734.58	(+) 34.58	(+) 5

The receipts fell short by 31 and 18 *per cent* of budget estimates during 1998-99 and 1999-00 respectively. Reasons for the short fall though called for in December 2002 from departments concerned, had not been received (August 2003).

### **Arrears of revenue**

**7.3.5** As on 31 March 2002, arrears of revenue pending collection were as under:

(Rupees in crore)

Year	Major mineral	Minor mineral	Total
Upto1997-98	5.33	6.61	11.94
1998-99	1.03	1.53	2.56
1999-00	3.57	2.74	6.31
2000-01	7.86	5.33	13.19
2001-02	16.39	7.14	23.53
<b>Total</b>	<b>34.18</b>	<b>23.35</b>	<b>57.53</b>

Out of Rs.57.53<sup>#</sup> crore, Rs.13.42 crore were covered under revenue recovery certificate, Rs.0.35 crore stayed by judicial authorities and recovery of Rs.1.50 crore was pending as the cases were under dispute. Out of balance of Rs.42.26 crore, demand notices were issued for recovery of Rs.35.39 crore and no action had been taken for remaining Rs.6.87 crore (December 2002).

In respect of oil and natural gas, position of arrears was not supplied by Department.

## Energy and Petrochemicals Department

### Short realisation of royalty on Oil and Natural Gas

**7.3.6** Under the Petroleum and Natural Gas Rules (PNG Rules), 1959 royalty is payable on quantity of crude-oil and natural gas obtained from the well head of the area leased at the prescribed rate and within the time-limit fixed by the Central Government. The Rules further prescribe that royalty and other dues, if not paid within the time specified, are to be increased by 10 *per cent* for each month or part thereof during which the amount remained unpaid.

<sup>#</sup> Major defaulters: (1) M/s. Saurashtra Cement Ltd., (2) M/s. HMP Cement Co., (3) M/s. Gujarat Siddhi Cement, (4) M/s. Gujarat High Tech Industries and (5) M/s. Digvijay Cement Co.

### **Application of incorrect rate**

**7.3.7** Government of India had revised the rates of royalty on crude oil on adhoc basis from time to time. Between April 1994 and December 1999, the rates of royalty were revised nine times.

- During test check of records of Geologist, Vadodara, it was noticed that ONGC Ltd had paid in December 1999 royalty on crude oil at the rate of Rs.842 per MT instead of revised rate of Rs.850 per MT. Demand was not raised by the Geologist after scrutiny of return, resulting in short levy of royalty of Rs.1.21 crore including increased royalty.
- In another case, it was noticed that one private oil exploration company had paid royalty on crude oil at pre-revised rates between Rs.578 and Rs.800 per MT during the period November 1994 to March 2002 though the rate of royalty was revised to Rs.850 per MT, resulting in short levy of royalty of Rs.18.30 lakh including increased royalty.

On this being pointed out, the Geologist, Vadodara agreed to take action to recover the royalty from the oil companies.

**7.3.8** Lessees are required to file monthly returns with the concerned Geologist who is responsible to scrutinize the correctness of the returns filed and payments of royalty made. Inadequate monitoring of the system prescribed in the rules resulted in non-raising of additional demands.

During test check of records of Director of Petroleum, Gandhinagar in case of two private oil companies, it was noticed that they were paying royalty at pre-revised rates during the period between November 1994 and March 2002. Though the demands were raised by the Directorate at the revised rates, realisation of royalty at the revised rates could not be made. This resulted in short realisation of royalty of Rs.1.12 crore. Moreover, increased royalty of Rs.2.86 crore was also recoverable for delay in payment.

On this being pointed out, the Director of Petroleum replied in May 2002 that in one case the lessee had adhered to payment of royalty at the rate of Rs.481 per MT as per production sharing contract entered into with the Government of India. The matter regarding revision of contract agreement was reported to have been taken up. Due to this, the State Government could not recover royalty at revised rates. No specific reasons were furnished for short realisation in respect of the other case.

The reply of the Director is not tenable because the matter should have been taken up with the Government of India long back to sort it out.

### **Incorrect adoption of price of gas**

**7.3.9** The Petroleum and Natural Gas Rules, 1959 stipulate that a lessee shall pay royalty on natural gas obtained from mining operations computed at the rate of ten *per cent* of the value at the wellhead. Value of the gas is fixed by the Government of India from time to time as per gas pricing system.

Though the method of determination of value at well head in respect of natural gas obtained from mining operation was called for by Audit in December 2002, the same had not been communicated by the Department (August 2003).

Test check of records relating to Oil and Natural Gas in the Energy and Petrochemicals Department of Government of Gujarat, revealed that ONGC had paid royalty on the quantity of gas at suppliers point at different rates to different consumers for the year 2000-01 and 2001-02 even though as per the Rule, the quantity and value obtained at well head was to be considered for computation of royalty. The department was unable to produce the aforesaid details. Considering the quantity adopted by the ONGC and the producers price approved by Government of India and communicated by the Gas Authority of India Ltd., the short levy of royalty worked out to Rs. 5.40 crore. The short realisation of royalty on this account for the earlier periods could not be ascertained due to non-availability of relevant records.

### **Incorrect allowance of deduction**

**7.3.10** The Petroleum and Natural Gas Rules, 1959 as amended from time to time provide that the lessee shall pay to the state government royalty computed on all crude oil at well head obtained in each month from mining operations.

During test check of records in Energy and Petrochemicals Department, it was noticed from the weekly dispatch reports attached with the returns that in respect of Cambay project of ONGC, one *per cent* deduction was allowed from gross quantity of crude oil for the periods between June 2000 and March 2002. The nature of the deduction was not specified in the returns. Incorrect allowance of deduction of 1889.020 MT crude oil resulted in loss of revenue to the extent of Rs.16.06 lakh.

## **Industries and Mines Department**

### **Non/short levy of royalty and dead rent**

**7.3.11** Under the MMDR Act, 1957 read with GMM Rules, 1966, a lessee is liable to pay in respect of each mineral removed or consumed from the leased area, royalty or dead rent, whichever is higher. Failure to pay royalty and

dead rent within the date prescribed in the lease deed attracts interest at the rate of twenty four *per cent* per annum for the period of delay. Government can determine the lease for the breach of conditions of lease agreement and recover the amount of royalty and other dues in the same manner as arrears of land revenue.

During test check of records and registers in the offices of 8\* Geologists, in 27 cases though lease holders removed/ consumed minerals between 1999-00 and 2001-02 from the leased area, they failed to pay the royalty within the time fixed by the state government. In 37 cases, the lessees had not paid any royalty on removal/ utilisation of minerals during the above period. However, demands for recovery, after scrutiny of returns and closing of demand and collection register, were not raised in 62 cases. In balance 2 cases, though the demands were raised, action for determination of lease for breach of conditions of lease deed was not initiated except for issue of show cause notice. Not raising demands and not-initiating action under Codal provisions resulted in non levy of royalty including interest of Rs.24.10 crore.

On this being pointed out, the Geologists concerned accepted the audit observations in 43 cases and agreed to recover the dues. Recovery particulars and reply in the remaining cases had not been received (August 2003).

**7.3.12** Test check of records of offices of 13\*\* Geologists, revealed that 883 mining/quarry lease holders, either did not extract any mineral during the year or royalty paid on removal/consumption of minerals extracted was less than dead rent payable. Hence, they were liable to pay dead rent or difference between dead rent payable and royalty actually paid respectively. Concerned Geologists had failed to review the Demand and Collection Register and raise the demands for dead rent. This resulted in non/short levy of dead rent of Rs.4.10 crore.

On this being pointed out, the Geologists concerned accepted the audit observations in 752 cases and recovered dead rent of Rs.0.22 lakh in 3 cases. Recovery particulars, if any, and reply in the remaining cases had not been received (August 2003).

**7.3.13** In case of the Gujarat Mineral Development Corporation Ltd. (GMDC) holding mining lease of Base Metal Ores over an area measuring 1402-83-53 hectares in Palanpur District, it was observed that lessee had paid dead rent at pre-revised rate of Rs.150 per hectare instead of at Rs.300 per hectare from April 1997 and at the rate of Rs.350 per hectare from September 2000 onwards. Demands for differential dead rent, however, were not raised by the department after necessary scrutiny and closing of the Demand and Collection Register maintained by the Geologist. This resulted in short levy of dead rent of Rs.25.63 lakh including interest.

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\* Junagadh, Valsad, Himatnagar, Porbandar, Bhuj, Surat, Jamnagar and Palanpur.

\*\* Junagadh, Vadodara, Valsad, Bharuch, Himatnagar, Palanpur, Porbandar, Amreli, Bhuj, Surat, Jamnagar, Ahmedabad and Bhavnagar.

The Geologist Palanpur accepted the audit observations and agreed to recover the amount.

**7.3.14** Government fixed between April 1992 and June 1999 a lump sum rate of royalty for bricks manufacturers on the basis of quantity of bricks manufactured during the year.

During test check of the records of offices of 3\* Geologists, it was observed that liability to pay lump sum royalty was fixed without ascertaining the actual number of bricks manufactured. However, demands had not been raised in 66 cases even on the basis of quantity of bricks estimated to be manufactured as mentioned by the manufacturer in the applications. This resulted in non/short levy of royalty of Rs.24.28 lakh.

On this being pointed out, the Geologists concerned accepted the audit observations and agreed to recover the amount.

**7.3.15** Under the Act and Rules made thereunder, every lessee is liable to pay royalty in respect of each mineral removed or consumed from the leased area, at the rates and within the time specified in the Act. Where advalorem rate of royalty is prescribed in case of any mineral captively consumed by the lessee, rate of royalty is fixed by Commissioner of Geology and Mining. Though provisional rate of royalty on "Marl" was fixed at Re.1.00 per MT from April 1999, Rs.1.25 per MT from January 2000 and Rs.1.50 per MT from April 2000, the final rates for these periods had not yet been fixed.

During test check of records of the Office of the Geologist, Junagadh it was noticed in two cases that the payments on account of consumption of Marl made for periods between December 1997 and March 2002 with reference to final rates fixed upto March 1999 and provisional rates from April 1999, fell short by Rs. 24.18 lakh.

On this being pointed out, the Geologist, Junagadh accepted the audit observations and agreed to recover the amount.

Though checks were available in the form of Demand and Collection Registers, their quarterly review in the case of royalty and annual review in the case of dead rent and annual closing of registers, Geologists failed to make use of these available checks which resulted in non/short levy of royalty and dead rent.

### **Non/short-levy of interest**

**7.3.16** The Government vide circular dated 22 December 2000 instructed all the District Geologist Offices to collect royalty of minerals in advance. The Act provides that in case of default, interest at the rate of twenty four *per cent* is to be charged on the unpaid amount for the period of delay. Royalty

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\* Vadodara, Surat and Bharuch.

alongwith interest if not paid by the lessee can be recovered as arrears of land revenue.

During test check of records of the offices of 9 Geologists, it was noticed that interest of Rs.10.51 crore was not levied in 91 cases as detailed below:

(Rupees in crore)

Sr. No.	Name of the office	No.of cases	Amount of interest	Nature of irregularity
1	Bharuch, Bhuj, Junagadh and Surat.	4	1.84	Though royalty of Rs.33.29 crore was not paid in advance between January 2001 to March 2002, interest was not demanded.
2	Porbandar, Amreli and Junagadh.	5	7.53	Exemption from issue of triplicate passes was allowed subject to payment of royalty in advance. However, royalty of Rs.76.97 crore between April 1997 to March 2002 was paid with delay ranging between 2 days to 105 months but interest was not demanded.
3	Amreli, Bharuch, Vadodara and Jamnagar.	77	1.12	Interest recoverable on outstanding dues of Rs.1.78 crore upto the month preceding the date of issue of recovery certificate was not included in the certificate issued.
4	Palanpur.	5	0.02	Interest on delayed payment of royalty and dead rent was not demanded.
	<b>Total</b>	<b>91</b>	<b>10.51</b>	

On this being pointed out in audit, Geologists concerned accepted the audit observations in 52 cases and in the remaining cases reply had not been received from the Department (August 2003).

### Loss of revenue due to reduction of rate of interest

**7.3.17** Under the MMDR Act, 1957 and the Rules framed thereunder, Central Government can, by notification, enhance or reduce the rate of royalty recoverable in respect of any mineral with effect from such date as may be specified in the notification. Failure to pay royalty within prescribed time attracts simple interest at the rate of twenty four *per cent* per annum for the period of delay. No specific powers are vested with the State Government to reduce the rate of interest in the Act or Rules.

During test check of records of the office of the Geologist, Amreli, it was noticed that M/s Narmada Cement Company (a lessee) had filed in 1992 a

petition in the Gujarat High Court against the upward revision of royalty. The petition was admitted with direction to lessee to pay the royalty at the pre-revised rate and to furnish bank guarantee for the balance amount. Though the High Court of Gujarat had dismissed in October 1994 a petition in another case, (M/s. Digvijay Cement Vs. Union of India and others) and upheld the increase in the rate of royalty, an out of court settlement was accepted by State Government in August 2000. The Government allowed the lessee in January 2001 to pay the outstanding dues in instalments and reduce the rate of interest to twelve *per cent* per annum. Thus, inspite of the fact that the Court had upheld the revision of the rate of royalty and Government had security in the form of bank guarantee to recover the dues, acceptance of the out of court settlement resulted in delay in recovery of Rs.11.84 crore (in instalments) and in loss of interest of Rs.7.10 crore at the differential rate.

### **Loss of revenue due to non-registration of lease deed**

**7.3.18** Under the Registration Act, 1908, deeds conveying lease hold rights for periods beyond one year are required to be registered compulsorily. Under the provisions of the Bombay Stamp Act, 1958 as applicable to Gujarat, in case of lease of a mine in which royalty or share of produce is received as rent or part of a rent, stamp duty and registration fees are leviable based on average annual royalty.

During test check of records of offices of 8<sup>#</sup> Geologists, it was observed that in 28 cases, lease deeds for mining of various minerals were not got registered with the registering authorities though these leases were for more than one year. This resulted in loss of revenue of Rs.6.78 crore.

### **Acceptance of surrender of lease before recovery of Government dues**

**7.3.19** Under the Act and the Rules made thereunder, a lease holder can surrender whole or part of his quarry lease subject to payment of royalty, rent, fees, etc. upto the date of surrender of such leased area.

During test check of the records of offices of 3<sup>\*</sup> Geologists, it was observed that surrender of area of lease, either wholly or partly, were accepted in 26 cases between December 1997 and January 2002 without recovery of Rs.16.55 lakh on account of dead rent, royalty and interest.

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<sup>#</sup> Vadodara, Valsad, Porbandar, Amreli, Bhuj, Jamnagar, Bharuch and Junagadh.

<sup>\*</sup> Vadodara, Amreli and Bhuj.



### **Non-recovery of Government dues after expiry of lease**

**7.3.20** Under the Act and the Rules, a quarry lease holder is liable to pay dead rent or royalty whichever is higher at the rates prescribed by Government. In case of default during the subsistence of lease, competent authority can enter the premises of leased area, take possession of the minerals or movable property and take suitable action to recover government dues.

Test check of records of the offices of 5<sup>&</sup> Geologists revealed that though the lease period had expired between 1997-98 and 2001-02 in 483 cases, no action was initiated by the competent authority to enter the premises of leased area and to take possession of mineral or movable property to recover the dues of Rs.1.78 crore (which became due during the period of lease) before the expiry of the lease period. Thus, inaction on the part of the Geologists to recover the dues before expiry of the lease indicated procedural lapse.

### **Irregular issue of permits**

**7.3.21** Under the Act, any State Government, after consultation with the Central Government can undertake prospecting or mining operations, in any area within the state, in respect of any mineral specified in the first schedule to the Act.

During test check of records of Geologists, Vadodara and Bhuj it was noticed that work permits for excavation of mineral and bauxite falling under Schedule I to the Act, were issued in four cases during the year 2001-02 without consultation with the Central Government. Out of these in one case the permit holder excavated 9961.3 MT of mineral during 2001-02; the details in other cases were not available.

**7.3.22** Under the Gujarat Minor Mineral Rules, 1966, a competent authority can grant quarrying permits for extraction and removal of specified quantity of minor mineral, not exceeding 4000 MT under any one permit, on payment of royalty calculated at the prevailing rates.

Test check of records of Geologist, Amreli, revealed that permit to excavate the major mineral, other than that specified in Schedule-I was issued in 20 cases without the permission of State Government and the permit holder had exploited 45,404.0 MT of mineral between January 2000 and June 2001. The action on the part of Geologists to permit the exploitation of mineral without the approval of the State Government was irregular.

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<sup>&</sup> Himatnagar, Porbandar, Amreli, Bhuj and Jamnagar.

### **Non-clearance of stock of mineral after closure of mines**

**7.3.23** Under the MMDR Act, 1957 and conditions of lease deed executed thereunder, where mineral is not removed within a calendar month after issue of notice on closure of mine, such mineral is deemed to be the property of the State Government and may be sold or disposed of in such manner as it may decide. The rate of flourspar mineral was Rs.300 per MT during February 1998.

During test check of records of the Geologist, Vadodara, it was observed that GMDC holding mining lease of fluorspar did not clear 25,925.31 MT of mineral lying in forest area after closure of the mine in view of the Supreme Court's decision. The lessee was directed in November 1997 to lift the mineral after payment of royalty of Rs.11.67 lakh. Though the mineral was lying in forest area for more than four years after issue of notice for clearance, no action was initiated to lift and dispose of the mineral by the department, resulting in non-recovery of cost of mineral valued at Rs.77.78 lakh.

### **Inadequate inspection of mines and quarries**

**7.3.24** As per instructions issued in July 1986 by Government, each mine and quarry is required to be inspected once in a year by the District Geologist, with a view to get a sample of the mineral for analysis, to assess the excavation of minerals and to ascertain whether the same had been accounted for and the royalty paid correctly on the mineral removed from the mine.

- During test check of the records of offices of 11\* Geologists, it was observed that out of total 31,391 mining leases / quarries required to be inspected for the period from 1997-98 to 2001-02, only 6559 mining leases/quarries were inspected. Inadequate inspection might lead to proliferation of illegal excavation and mining with resultant loss of revenue.
- Geologist, Vadodara had detected between February 1999 and March 2000, illegal excavation of dolomite by the lease holders in 36 cases and raised additional demand of Rs.9.37 crore.

On petition filed by lease holders regarding defective nature of show cause notice, the Honourable Gujarat High Court had disposed of the applications with directions in April 2002 to Geologist, Vadodara to issue fresh show cause notice to each lease holder separately indicating the period for which royalty

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\* Junagadh, Vadodara, Valsad, Bharuch, Himatnagar, Palanpur, Porbandar, Amreli, Bhuj, Surat and Jamnagar.

was sought to be recovered within a period of 2 months from 15 April 2002. But, no fresh show cause notice as per the directions of court was issued.

On this being pointed out, the Geologist, Vadodara replied in January 2003 that action to issue show cause notice was under progress. The inaction on the part of Geologist to issue notice even after a lapse of eight months has rendered the recovery of dues of Rs.9.37 crore doubtful.

### **Other topics of interest**

#### **Improper maintenance of records and registers**

**7.3.25** Under the Act and Rules made thereunder, monthly returns showing quantity of mineral excavated and removed/consumed during the month and balance quantity of mineral is to be submitted to the Geologists concerned by the lease holders within a prescribed period. On the basis of returns, a Demand and Collection Register in respect of each lease is to be maintained. Quantity of mineral excavated, removed / consumed and balance of mineral is to be entered from monthly returns in each case of lease in the Demand and Collection Register. Royalty payable by the lessee against such removal / consumption for each quarter is to be worked out at prevailing rate on such minerals. Demands for royalty/dead rent short paid during the year and interest on belated payments are raised after closing each account under the attestation of District Geologist.

Illustrative cases of improper maintenance of records and registers noticed during test check of records of the offices of 4 Geologists are as under:

- Test check of records of the Geologist, Porbandar revealed that monthly returns received from a lessee (M/s. H.M.P.Cement Ltd, Porbandar) were not posted in the Demand and Collection Register for the months of April 1997, February, March and April 1998. The scrutiny of returns revealed that lessee had also not paid royalty during these months. This resulted in demand of Rs.17.42 lakh not being raised.
- Test check of records of the Geologist, Jamnagar revealed that in case of M/S. Bombay Mineral Supply Co., dues of Rs.2.94 crore was outstanding as on 31 March 2001. The lessee had paid royalty amounting to Rs.77.94 lakh through 51 challans between September 1993 and June 2000 but these were not entered in the Demand and Collection Register by the Geologist during relevant period. Improper maintenance of records and registers resulted in delay in recovery of royalty including interest of Rs.2.94 crore besides rendering the correctness of the records doubtful.

- Test check of records of 3<sup>\$</sup> Geologists revealed that in 7 cases royalty/dead rent leviable and levied was computed incorrectly and hence demands for outstanding royalty/dead rent shown in the revenue recovery certificate issued to revenue authorities for recovery was short to the extent of Rs.80.05 lakh.
- Test check of records of Offices of 3<sup>\$</sup> Geologists revealed that annual closing of Demand and Collection Registers for the period 1997-98 to 2001-02 in respect of each lease holder's account was not completed. The entries relating to royalty outstanding as at the end of the year were neither attested nor the interest on belated payment during each year worked out and demanded.

On this being pointed out, the Geologists agreed to issue revised recovery certificate.

### **Non-finalisation of royalty assessments**

**7.3.26** Where the rates of royalty of minerals are fixed by Central or State Government on advalorem basis, assessments of royalty payable by the lease holders on removal/consumption of such minerals are to be carried out on receipt of monthly returns in respect of such minerals. No time limit for completion of such assessments has been laid down in the Act or Rules framed thereunder. As per Rule 64 D of the Mineral Concession Rules, 1960, the sale value of bauxite is to be worked out in accordance with London Metal Exchange (LME) rate.

During test check of records of the offices of 2\* Geologists, it was noticed that in 20 cases of mining leases, assessment of royalty, recoverable demand from lease holders of mines of bauxite removed/consumed during the period from September 2000 to March 2002 involving royalty of Rs. 9.81 crore provisionally paid by lessees on estimation basis, were yet to be finalised due to non-availability of London Metal Exchange (LME) Rates and exchange rate of Dollar for the relevant period. In the absence of provisions prescribing any time limit for completion of assessment, additional amounts, if any, due from the lessees were not ascertained and demanded.

On this being pointed out in audit, one of the Geologists stated that LME rate and Foreign Exchange rate were not made available to him, hence rates adopted by the lease holders were taken into account for recovery of royalty. The other Geologists stated that LME rate and aluminium content would be collected from the lease holder and from press and assessment would be finalised. However, the reply is not tenable because requisite data in this regard should be obtained by the Geologists from the department at regular

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<sup>\$</sup> Bharuch, Porbandar and Ahmedabad.

\* Bhuj and Jamnagar.

intervals. Due to lack of any effective mechanism for supply of necessary data for assessment of royalty resulted in delay in finalisation of assessment and non-raising of additional dues, if any.

### **Non-reconciliation of receipts**

**7.3.27** The Bombay Treasury Rules, 1960 provide that when Government money in the custody of a Government Officer is paid into a treasury or a bank, the head of the office making such payments should reconcile the figures with the treasury officer's or bank's receipt with entry in cash book before attesting it and satisfy himself that the amount has actually been credited into the treasury or bank. He should as soon as possible after the close of the month, obtain from the treasury a consolidated receipt for all remittances made during the month and reconcile the same with the cash book.

During test check of the records of the offices of 4\* Geologists it was noticed that no such reconciliation was carried out for the various periods between 1998-99 and 2001-02.

### **Internal Control**

**7.3.28** In order to ensure that royalty is paid on correct quantities, the departmental officers are empowered to carry out necessary inspections to verify the correctness of the returns submitted by various lessees/licensees.

In spite of formation of a separate Directorate of Petroleum in 1997, no inspection was conducted by the officers of the Directorate or by concerned Geologist to ensure the above requirements. Government had also not issued any instructions in regard to the Directorate indicating the authorities with whom such returns were to be filed and time schedule for receipt and scrutiny of returns.

### **Internal audit**

**7.3.29** An independent and effective internal audit under the direct control of the Head of the Department is essential for ensuring compliance with rules and procedures, prompt raising of demands, collection of receipts and proper accounting thereof, and overall functioning of the mineral administration in the State.

However no Internal audit arrangement is in place in the Department of Geology and Mining.

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\* Porbandar, Surat, Bhuj and Jamnagar.

## Recommendations

**7.3.30** Basic records as required under the Acts and Rules were not maintained properly and monitored affecting the collection of royalty and dead rent. Action as per provisions of Acts and Rules was not taken during the period of lease to recover dues accrued during such period. Assessments were not finalised promptly to ascertain and recover additional dues. Reconciliation of receipts was also not done as per the provisions of Rules. No procedures were in place in the Energy and Petrochemicals Department for acceptance and scrutiny of returns filed by oil companies. Government had not ascertained the procedure for fixation of value at wellhead of natural gas. However, to improve the position, Government may consider taking following steps to:

- review and strengthen existing system for ensuring correctness of royalty paid by lessees in respect of mineral oil and natural gas.
- ascertain and ensure compliance with procedure for fixation of value at well-head of natural gas for royalty.
- ensure compliance with the requirement of Act, Rules as regards maintenance of basic records, assessment and recovery of royalty etc., so as to fully protect revenue.

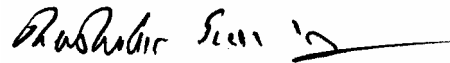
The above facts were brought to the notice of the Department and Government in April 2003 followed with reminder to Chief Secretary to the Government of Gujarat in July 2003; reply was awaited (August 2003).

## 7.4 Non levy of interest

According to Government Resolution of 11 September 1995 of the Industries and Mines Department, an industrial unit with project costing more than Rs.10 crore and eligible to avail Sales Tax Incentive under New Incentive Policy of 1995-2000 shall have to contribute 2 *per cent* of sales tax in case of exemption and 3 *per cent* of sales tax in case of deferment availed during the year for Gokul Gram Yojana before June of each financial year. In case of failure to contribute the amount on due date, interest at the rate of 2 *per cent* per month is leviable.

During test check of records of Assistant Commissioner, Jamnagar and Sales Tax Officer, Nadiad, it was noticed in the assessment of 3 dealers for the periods 1999-00 and 2000-01 that interest was not levied for late payment of contribution ranging from two to nineteen months. This resulted in non levy of interest of Rs.4.27 crore.

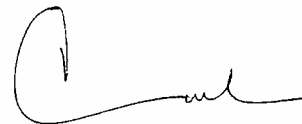
The above facts were brought to the notice of the department between May and July 2002 and of Government in April 2003. The Department accepted in April 2003 the audit observations involving an amount of Rs.0.71 lakh in one case. Particulars of recovery, if any, and reply in the remaining cases had not been received (August 2003).



**Ahmedabad**  
**The:**

**(Raghubir Singh)**  
**Principal Accountant General (Audit) Gujarat**

**Countersigned**



**New Delhi**  
**The :**

**(Vijayendra N. Kaul)**  
**Comptroller and Auditor General of India**