

## CHAPTER-VII: NON-TAX RECEIPTS

### 7.1 Results of audit

Test check of records of the concerned departmental offices, conducted during the year 2008-09, disclosed non/short recovery of receipts amounting to Rs. 62.42 crore in 76 cases which fall under the following categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
1.	<b>Receipts of the Public Works Department (A review)</b>	<b>1</b>	<b>0.00</b>
<b>Forestry and Wildlife</b>			
1.	Non/short levy and non-recovery of lease rent	6	26.85
2.	Non/short recovery of forest development tax	9	0.22
3.	Other irregularities	24	21.22
<b>Total</b>		<b>39</b>	<b>48.29</b>
<b>Mineral Receipts</b>			
1.	Short levy of royalty	8	12.91
2.	Non/short levy of interest/penalty	5	0.14
3.	Other irregularities	6	0.64
<b>Total</b>		<b>19</b>	<b>13.69</b>
<b>Minor Irrigation</b>			
1.	Non/short raising of demands for water rate/penal water rate	7	0.38
<b>Total</b>		<b>7</b>	<b>0.38</b>
<b>Other Administrative Services</b>			
1.	Non/short raising of demands for fuel and maintenance charges	10	0.06
<b>Total</b>		<b>10</b>	<b>0.06</b>
<b>Grand Total</b>		<b>76</b>	<b>62.42</b>

During the course of the year 2008-09, the departments accepted audit observations involving Rs. 45.24 crore in 91 cases and recovered Rs. 56.10 lakh in 28 cases pointed out in the earlier years.

A review on **Receipts of the Public Works Department** and few illustrative audit observations involving Rs. 19 lakh are mentioned in the following paragraphs.

## 7.2 Review on Receipts of the Public Works Department

### Highlights

There were huge variations between Budget Estimates and actual realisation indicating that the BEs were unrealistic.

**(Paragraph 7.2.6)**

Fixation of concessional lease rent by Government in respect of properties leased to non-charitable private bodies/individuals resulted in foregoing of revenue of Rs. 1,205.97 crore.

**(Paragraph 7.2.8)**

Non-levy of centage charges and Establishment, Tools and Plant (ETP) charges resulted in loss of revenue of Rs. 19.30 crore.

**(Paragraph 7.2.11)**

### 7.2.1 Introduction

Public Works Department (PWD) is responsible for road works including maintenance of National Highways, State Highways and major district roads and construction and maintenance of Government Buildings. It also undertakes constructions under the Deposit Contribution works<sup>1</sup>. The receipts of the PWD mainly comprise revenue from rent and lease of residential and non-residential properties, sale of tender forms, collection of charges for use of inspection bungalow and travelers bungalow, etc. Besides, revenue in the form of centage charges<sup>2</sup>, establishment, tools and plant (ETP) charges<sup>3</sup>, fines also called as 'liquidated damages' for delay in completion of work are also realised in PWD.

Public Works Receipts are classified under three major heads of accounts, namely, '1054-Roads & Bridges' relating to agency charges, etc., of roads and bridges, '0216-Housing' relating to rents recovered in respect of Government residential buildings and '0059-Public works' relating to revenues of all other activities not covered under the above two heads of account. The receipts of PWD are governed by the provisions contained in the Karnataka Public Works Accounts (KPWA) Code and Karnataka Public Works Department (KPWD) Code.

### 7.2.2 Organisational set up

The PWD is headed by a Principal Secretary and a Secretary. At field level, the Department has three Zones, namely, Communication and Buildings (C&B) South Zone, C&B North Zone and National Highways (NH). Each Zone is headed by a Chief Engineer. The Zonal offices consist of 'Circles' and

<sup>1</sup> Execution of works on behalf of local bodies or other departments of Government and others after receiving deposits in advance against such works.

<sup>2</sup> Charges leviable at prescribed rates for services rendered by PWD (other than actual execution of works) to other departments of Government/other Governments/others.

<sup>3</sup> Charges leviable at prescribed rates for works executed by PWD to other Governments.

'Divisions'. The Divisions are under the control of Circles and Circles are under the control of Zones. Each Circle is headed by a Superintending Engineer. The Divisions are headed by Executive Engineers (EE). There are 13 Circle offices (2 under NH, 5 under South Zone and 6 under North Zone) and 52 Divisions (7 under NH, 26 under South Zone and 19 under North Zone). In addition, World Bank aided 'Karnataka State Highways Improvement Project' (KSHIP) is implemented for up-gradation/rehabilitation of State Highways and is headed by a Project Director. Besides, the Office of the Chief Architect is engaged in preparation of designs and drawings.

### **7.2.3 Audit objectives**

The review was undertaken to ascertain:

- the effectiveness of the system for assessment, collection/recovery of revenue in relation to the provisions envisaged in the departmental codes/manuals; and
- whether the codal provisions and departmental instructions were properly observed.

### **7.2.4 Scope and audit methodology**

The records of all the three zonal offices and 12 divisions<sup>4</sup> were test checked for the period 2003-04 to 2007-08. In addition, the records of the Project Director, KSHIP and Chief Architect were also test checked. The review was conducted between March and May 2009.

### **7.2.5 Acknowledgement**

Indian Audit and Accounts Department acknowledges the co-operation of the Public Works Department in providing necessary information and records for audit. An entry conference was held with the Secretary to Government, Public Works Department in February 2009, wherein the scope of audit, methodology and audit objectives including sampling were explained. The draft review was forwarded to the Government in May 2009 and discussed in the exit conference held in July 2009. The Secretary to Government, Public Works Department represented the Government.

### **7.2.6 Financial Performance**

The Karnataka Budget Manual stipulates that in the preparation of the budget, the aim is to achieve as close an approximation to the actuals as possible. It is therefore, essential that the estimates should show only the amounts actually expected to be received during the budget year including the arrears, if any that would be realised within that year and also receipts of a fluctuating nature after careful analysis of all abnormal factors in addition to normal conditions.

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<sup>4</sup> No. 1 and No. 2 Buildings Division, Bangalore, ESI Buildings Division, Bangalore, R&B Special Division, Bangalore, PWD Divisions at Bangalore, Chitradurga, Dharwad, Mangalore and Mysore and NH Divisions at Bangalore, Chitradurga and Mangalore.

The budget estimates (BEs), actual realisation of revenue, variations in receipts over BEs and percentage of variation for the years 2003-04 to 2007-08 were as under:

Year	(Rupees in crore)					
	0059 – Public works		1054- Roads & Bridges		0216- Housing <sup>5</sup>	
	Budget	Actual/ Percentage of variation	Budget	Actual/ Percentage of variation	Budget	Actual/ Percentage of variation
2003-04	8.68	12.12/ (+)39.63	32.00	33.80/ (+)5.63	8.00	38.14/ (+)376.75
2004-05	9.11	14.00/ (+)53.68	171.24	13.83/ (-)91.92	8.09	10.75/ (+)32.88
2005-06	9.11	27.27/ (+)199.34	174.24	25.01/ (-)85.65	8.09	10.49/ (+)29.67
2006-07	13.65	31.32/ (+)129.45	174.24	24.18/ (-)86.12	11.29	10.25/ (-)9.21
2007-08	14.33	21.75/ (+)51.78	30.00	14.05/ (-)53.17	11.85	15.39/ (+)29.87

It may be noticed from the above that the percentage of variation between BEs and actuals ranged from (-) 91.92 to (+) 376.75 for the three heads of account.

The actual realisation under the Heads of Account 0059 and 0216 were consistently far higher than the estimates except under the Head of Account 0216 during 2006-07. The Department attributed the increase in realisation of revenue in 2003-04 under 0216 to recovery of arrears of rent.

The actual realisation under the Head of Account 1054 was consistently lesser than the estimates. It was noticed that budget estimates for 2006-07 were the same as those of 2005-06. Further, due regard to the actual realisation during previous years was not given. In respect of wide variations in realisation over BEs for the years 2004-05 to 2006-07, scrutiny revealed that a provision of Rs. 137 crore for 2004-05 and Rs. 140 crore each for 2005-06 and 2006-07 respectively was made in the budget towards 'Rural road development cess' against which no revenue was realised. Thus, there was a wide variation between BEs and actual collection which clearly indicates that BEs were not being prepared on realistic basis.

During the Entry Conference held with the Department in February 2009, the Secretary to Government stated that the final decision regarding levy and collection of cess for use of State PWD bridges was under consideration. He also directed the departmental officers to submit realistic budget proposals in future.

### 7.2.7 Arrears of revenue

As per the provisions of the Karnataka Financial Code (KFC) 1958, every Government servant responsible for collection of moneys due to Government should maintain the records of assessment, demand, recovery and outstanding balance of revenue (DCB) and the controlling officers of every department should closely watch the progress of realisation of revenue under their control.

<sup>5</sup> Figures relate to head of account '0216-01-700-0-01 – Rents' to which rents are credited by the Public Works Department.

Out of 12 divisions test checked, in 3 divisions the outstanding rents recoverable in respect of occupants of PWD buildings as at the end of March 2008 amounted to Rs. 4.90 lakh.

Audit scrutiny revealed that though the divisions had maintained registers for watching recovery of rents, no returns had been prescribed by the Government to enable preparation of consolidated DCB. In the absence of this, audit could not ensure the effectiveness of controls exercised by the Department/Government in realisation of arrears of revenue and period to which such dues relate.

The Government stated (July 2009) that annual returns in this regard will be prescribed in future to obtain the information in relation to arrears of revenue and to keep watch over their recovery.

## **Audit Findings**

### **System Deficiencies**

#### **7.2.8 Non-revision of lease rent**

The KPWD Code envisages leasing out of Government lands and buildings to private bodies, associations, companies or individuals. Paragraph 206 thereof stipulates the following norms for fixation of annual rent in respect of lease of lands:

- a) Lease rent should be fixed based on the rates secured in the open auction.
- b) In cases where auctions are not held, the rates should be fixed in consultation with the jurisdictional Deputy Commissioners with reference to those obtainable in similar localities.
- c) The lease in each case should not be for more than five years at a time.

As per paragraph 354 of the KPWD Code, the lease rent per annum of a building occupied as residential quarters was seven *per cent* of the capital cost of the building. Lease rent in respect of lands and buildings leased by the department were being computed on the same basis while forwarding proposals to Government for grant of lease. The department computes the capital cost by adopting the guideline value published by the Revenue Department. Capital cost includes the cost of land and building thereon after allowing for depreciation.

**7.2.8.1** Mention was made regarding determination of lower lease rent in paragraph 6.2 of Chapter VI in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 (Revenue Receipts) of Government of Karnataka. The foregoing of revenue of Rs. 513.40 crore on account of fixation of concessional lease rent in respect of lands leased to Bangalore Golf Club (BGC), Karnataka State Cricket Association (KSCA) for the period from 1 April 1999 to 31 March 2004 and Indu Muddappa, Indian Oil Corporation (IOC) dealer for the period from 1 April 1999 to 31 March 2005 was brought to notice of Government.

In this context, the Law Department in December 2003, in respect of fixation of rent for BGC, had opined “If the Government has to show a sizeable concession, there should be some public purpose, also involving a charitable or non-commercial aspect. The Golf Club activities do not come within the above parameters since the Club’s activities are commercial and profit-making and only affluent class of people can aspire to become its members. Therefore, the present nominal rent would be against public interest and may be constituted as an undue favour shown towards an affluent and influential group of persons”.

However, no action was taken by the Government to review and revise the rent in cases of the lease of land to lessees mentioned above. The further revenue foregone in respect of these cases amounted to Rs. 575.03 crore as indicated below:

(Rupees in crore)

Sl. No.	Name of the lessee and extent of area leased	Period under review	Guideline value fixed by Revenue Department			Lease rent to be levied <sup>6</sup>	Lease rent fixed	Revenue foregone
			From	To	per square feet (In Rupees)			
1.	BGC 2629935 sq.ft.	1.4.04 to 31.3.08	April 2004	July 2004	3,400	20.86	0.01	390.36
			August 2004	October 2005	4,312	99.23		
			November 2005	April 2007	5,082	140.34		
			May 2007	March 2008	7,700	129.94		
			<b>Total</b>			<b>390.37</b>		
2.	KSCA 752499 sq.ft.	1.4.04 to 31.3.08	April 2004	July 2004	7,200	12.64	0.01	184.67
			August 2004	October 2005	6,930	45.63		
			November 2005	April 2007	8,470	66.92		
			May 2007	March 2008	12,320	59.49		
			<b>Total</b>			<b>184.68</b>		
<b>Total</b>								<b>575.03</b>

A committee constituted in July 2006 for revising the lease rent of lands leased to BGC was yet to finalise the revised lease rent. No action was initiated to review and revise lease rent in other cases where the lessees were not involved in activities of public interest.

7.2.8.2 Scrutiny of records in four test-checked divisions<sup>7</sup> revealed that fixation of concessional rent while leasing Government lands/buildings for non-charitable commercial purposes in respect of four premises resulted in foregoing of revenue of Rs. 630.94 crore for the period from 1 April 2003 to 31 March 2008 as mentioned below:

<sup>6</sup>  $\{(Area * Guideline\ value * 7\%)/12\} * (No.\ of\ months).$

<sup>7</sup> No.1 Buildings Division, Bangalore; No.2 Buildings Division, Bangalore; Special (R&B) Division, Bangalore and PWD Division, Mysore.

(Rupees in crore)

Sl. No.	Name of the organisation	Extent of land/ building leased and the period of lease	Lease rent to be realised	Amount of lease rent realised	Revenue forgone
1.	Bangalore Turf Club (BTC)	3217995 sq.ft 1.1.89 to 31.12.2009	525.62	0.92	524.70
2.	State Bank of India at JB Nagar complex	4687 sq.ft 5 years from 2002 to 2006	0.28 (1.4.03 to 31.12.06)	0.12	0.16
3.	Bhoomika interiors and Exterior decorators	2080 sq.ft 25 years from 2004	0.21	0.01	0.20
4.	Mysore Race Club Ltd. (MRC)	6707151 sq.ft 10 years from 1.4.96	105.96 (1.4.03 to 31.3.06)	0.08	105.88
<b>Total</b>			<b>632.07</b>	<b>1.13</b>	<b>630.94</b>

Fixation of concessional lease rent in respect of non-charitable and commercial activities not involving any public interest thus resulted in foregoing of a total revenue of Rs. 1,205.97 crore.

After this was brought to notice, the Government stated in May 2009 that no policies were laid down in respect of fixation of concessional lease rent.

**7.2.8.3** The Government in September 2000 extended the lease to BTC for 20 years from 1 January 1989. The lease period should have ended by 31 December 2008 but while issuing the order, it was indicated as ending on 31 December 2009 thus extending benefit for one more year. The omission resulted in loss of revenue of Rs. 173.19 crore being the differential lease rent realisable for the year 2009.

**7.2.8.4** The lease period of land leased to MRC expired on 31 March 2006. No action was taken either to renew the lease or to take possession of land immediately after the expiry of lease. The decision regarding extension of lease to MRC was pending with the Government. The lessee continued to hold possession of the land beyond the lease period without payment of lease rent. This resulted in non-realisation of lease rent of Rs. 96.36 crore from 1 April 2006 to 31 March 2009.

**7.2.8.5** In case of default in payment of dues, Karnataka Value Added Tax Act, Karnataka Stamps Act, Karnataka Minor Mineral Concession Rules, etc., provide for levy of simple interest at 15 *per cent* per annum in respect of all amounts due to Government. However, there is no provision for levy of interest on belated payment of dues under the KPWA code.

The Government in September 2000 enhanced the annual lease rent of BTC from Rs. 5 lakh to Rs. 10 lakh from 1989 to 2000 and 10 *per cent* annual increase thereafter till 2009. It stipulated that the arrears should be paid immediately and annual rent should be paid in advance for subsequent years. However, the BTC continued to pay the annual lease rent at Rs. 5 lakh till 2005 and paid the arrears of Rs. 1.15 crore for the period from 1989 to 2005 in three instalments between May 2005 and April 2006. In the absence of

provision for levy of interest, the same could not be levied. The resultant revenue foregone amounted to Rs. 60 lakh for the period September 2000 to March 2006.

## Compliance Deficiencies

### 7.2.9 Register of Properties

Register of Buildings and Property accounts showing the properties under the control of the division required to be maintained under Article 348 of KPWD Code was not maintained in PWD, Mysore. In absence of the same, audit could not ascertain the number of properties/buildings owned by this division and their proper utilisation.

### 7.2.10 Utilisation of assets

Audit noticed that land measuring 14 acres 39 guntas with building in respect of a Government factory<sup>8</sup> was idle since 1998. Out of this, an area of 9 acres and 5 guntas (including the building) was leased in September 2005 to a private party for revival of the industry. In respect of the remaining 5 acres 34 guntas, proposals for lease/sale of land to a transport company were forwarded in July 2003 by the Transport Department to PWD. However, the proposal has not received the approval of Government even after six years and the land has remained unutilised. The resultant foregoing of rent for the period of three years from 2005-06 to 2007-08 amounted to Rs. 10.14 lakh.

### 7.2.11 Non-levy and recovery of Centage and ETP charges

#### 7.2.11.1 Centage charges

Article 329 of KPWD code stipulates levy of centage charges at prescribed rates for services rendered<sup>9</sup> by PWD (other than actual execution of works) to other departments of Government/other Governments/local bodies.

Review of records of 12 test-checked divisions revealed that the centage charges amounting to Rs. 17.19 crore in respect of 1,820 works were not levied for services rendered by PWD during 2003-04 to 2007-08 as mentioned below:

(Rupees in crore)		
Services rendered to	Number of works	Centage charges leviable
Other departments of Government	1,511	12.99
Local bodies	24	1.23
Others	285	2.97
<b>Total</b>	<b>1,820</b>	<b>17.19</b>

The department stated in May 2009 that the services were rendered to other departments of the Government and hence no centage charges were levied. The reply is not in consonance with the provisions of KPWD code which stipulates levy of centage charges for services rendered to other departments of Government also.

<sup>8</sup> Government Brick Factory under the control of PWD, Bangalore Division.

<sup>9</sup> Preparation and scrutiny of estimates (3%), audit of bills (3%) and supervision and check of measurements (6%).

### **7.2.11.2 ETP charges**

As per Appendix E of KPWA code Volume-II, ETP charges are leviable for works executed by PWD for other Governments and non-Government bodies.

Audit scrutiny of the records of ESI Building Division, Bangalore revealed that ETP charges amounting to Rs. 2.11 crore were not levied in respect of 264 works executed for Employees' State Insurance Corporation during 2003-04 to 2007-08 though provisions for the same were made in the estimates of these works.

After this was brought to notice, the divisional officer stated that these charges would be recovered in consultation with higher authorities. However, further report in this regard has not been received (November 2009).

### **7.2.12 Delay in finalisation of Extension of Time (EoT)**

As per clause 49.1 of the standard contract agreement, the contractor shall pay liquidated damages (LD) to the employer at the prescribed rate per day as included in the contract for each day of delay in completion of work, excluding the extended period, and the same shall not exceed 10 *per cent* of the contract price. The contracts entered into provide for adjustment of LD recovered in subsequent payments to contractor on approval of EoT.

No time limit has been prescribed for finalisation of EoT by the Steering Committee headed by the Principal Secretary, PWD. In respect of eight packages<sup>10</sup> executed by KSHIP, 9 to 51 months had elapsed after the period stipulated for completion of these works. The LD recoverable at prescribed rates as computed in audit as per terms of contract was Rs. 16.20 crore against which the department had recovered only Rs. 2.26 crore including bank guarantee obtained which may lead to non/short recovery of LD leviable on a later date. The Project Director, KSHIP stated in May 2009 that EoT proposals were submitted to the Steering Committee which is yet to finalise the appropriate EoT in respect of these eight works.

### **7.2.13 Delay in revision of rent of a guest house**

In respect of Cauvery guest house, Bangalore, Government fixed in August 2003 revised rates of rent<sup>11</sup> and the same was applicable for a period of one year only from the date of order. However, proposals for revision of rent for enhancement ranging from Rs. 20 to Rs. 200 per day for the subsequent periods submitted belatedly by the Department in January 2005 was approved by the Government in September 2006 after a lapse of almost 20 months. Government attributed (May 2009) the delay to administrative reasons. Delayed revision of rents resulted in foregoing of revenue of Rs. 10.92 lakh<sup>12</sup> at the minimum differential rate.

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<sup>10</sup> U6, M4, U10, BP1, U4BR, M4R, U3BR and M27.

<sup>11</sup> Rent was different for different classes of users.

<sup>12</sup> In respect of Cauvery guest house, 70 rooms \* 780 days \* minimum enhanced rate of Rs.20 per day.

### 7.2.14 Register of rents of buildings and lands

As per article 194 of KPWA code, register of rents of buildings and lands should be maintained in the divisional office to show, in separate parts, the monthly assessments, realisation and balance on account of rents of residential/non-residential buildings and lands.

Audit scrutiny revealed that:

- the registers were incomplete in four divisions<sup>13</sup>. The entries were not made for a period ranging from 24 to 60 months. Hence audit could not ascertain the correctness of the assessments, realisation and balances of rents;
- the treasury schedules were not obtained by Executive Engineers of three divisions<sup>14</sup> for posting in the register. In PWD, Mangalore division, though the treasury schedules were obtained, the treasury figures were not reconciled.

After this was brought to notice, the divisional officers accepted to maintain the registers properly and to recover the outstanding dues.

### 7.2.15 Non-transfer of lapsed deposits to revenue

As per provisions of Article 399 of KPWA Code, balances of deposits in respect of completed works lying unclaimed in the deposits register for more than three complete account years and also deposits valuing less than Rs. 100 should be credited to Government account as lapsed deposits by following the procedure indicated thereunder. Further, refund of deposits already lapsed should be made only after being duly pre-audited by Accountant General (Accounts and Entitlement) (AG (A&E)).

It was observed that in eight divisions<sup>15</sup> security deposits amounting to Rs. 2.18 crore were held under 'Civil Deposits' for over three years in respect of completed works as at the end of March 2008. These amounts should have been credited to revenue head '0059' but were still lying in deposits even though period of more than five years has elapsed as mentioned below:

(Rupees in crore)		
Period	Number of items	Amount
Above 5 years but below 10 years	319	1.34
Above 10 years	448	0.84
<b>Total</b>	<b>767</b>	<b>2.18</b>

In addition, refund of deposits more than three years old amounting to Rs. 30 lakh was made in 17 test-checked cases without pre-audit by the AG (A&E) since they were not lapsed to Government.

After this was brought to notice, the Chief Engineer, NH, reported in July 2009 adjustment of outstanding deposits to revenue head.

<sup>13</sup> No.1 Buildings Division, Bangalore, ESI Buildings Division, Bangalore and PWD Division, Bangalore, PWD, Dharwad.

<sup>14</sup> PWD Divisions at Bangalore, Dharwad and Chitradurga.

<sup>15</sup> No.2, Buildings Division, Bangalore, PWD Bangalore, NH Chitradurga, PWD Chitradurga, PWD Dharwad, NH Mangalore, PWD Mangalore and PWD Mysore.

### **7.2.16 Remittances and reconciliation**

As per Article 506 of KPWA Code, as soon as possible, after the expiry of the month, a monthly settlement should be effected with all treasuries in respect of the transactions of the entire division with them. Further, as per Article 507, the remittances made into treasury during each month should be reconciled with the monthly consolidated treasury receipt issued by the treasury officer.

In five test-checked divisions<sup>16</sup>, it was observed that the preparation of schedule of settlement with treasuries (SST) was in arrears ranging from 4 to 42 months for the period ending March 2009 and remittances amounting to Rs. 2.60 crore were shown as un-reconciled differences. Thus, the divisions did not ensure whether the resultant differences were only due to misclassification or otherwise. The divisional officers accepted to reconcile remittance and to update the preparation of SSTs.

### **7.2.17 Conclusion**

Fixation of concessional rent while leasing Government lands/buildings for non-charitable commercial purposes resulted in foregoing of revenue. Reconciliation with treasury figures was in arrears indicating weak internal controls. There is no provision to levy interest on belated payment of dues.

### **7.2.18 Recommendations**

Government may consider:

- evolving a system to provide for revision of lease rent based on the guideline market value for lease of Government properties; and
- providing for penal clause to act as a deterrent against delayed payment of dues.

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<sup>16</sup> KSHIP, Bangalore, ESI Buildings Division, Bangalore, PWD Division, Bangalore, PWD and NH Divisions at Chitradurga.

## MINERAL RECEIPTS

### 7.3 Other audit observations

*Scrutiny of assessment records of mineral receipts revealed cases of short levy of royalty and interest as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of the officers are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is a need for the Government to improve the internal control system including strengthening of internal audit.*

### 7.4 Non-observance of provisions of the Acts/Rules

*The Mines and Minerals (Development and Regulation) Act, 1957 and the Karnataka Minor Mineral Concession Rules, 1994 provide for:*

- (i) levy of royalty on minerals removed or consumed by the lessee; and*
- (ii) levy of interest for belated payment of dues.*

*The AAs had not followed the above provisions in cases as mentioned in paragraphs 7.4.1 and 7.4.2. This resulted in short levy of royalty and interest of Rs. 19 lakh.*

#### 7.4.1 Short levy of royalty

As per the Mines and Minerals (Development and Regulation) Act, 1957, the holder of a mining lease shall pay royalty in respect of any mineral removed or consumed by him or his agent at prescribed rates. Department of Mines and Geology levied the royalty on limestone used in the manufacture of cement on the quantity of limestone computed using the ratio of clinker production to limestone. The ratio of clinker production to limestone was fixed for each cement factory after tests with National Council for Cement and Buildings.

Test check of records of the Senior Geologist, Chitradurga in January 2009 revealed that in respect of a cement company holding a mining lease for limestone, royalty of Rs. 93.41 lakh was levied for the years 2005-06 and 2006-07 on the basis of limestone consumption computed by adopting the ratio of limestone to clinker production. Audit scrutiny revealed that the quantity of limestone despatched by the lessee from the leased area during the years was more than the limestone consumption computed. Royalty of Rs. 1.06 crore was leviable on the basis of quantity of limestone despatched. Non-consideration of quantity of limestone despatched resulted in short levy of royalty of Rs. 12.88 lakh as detailed below:

**(Rupees in lakh)**

Year	Quantity of limestone (in metric tonnes)		Royalty at Rs. 45 per metric tonne		
	Limestone despatched by lessee from leased area	Computed on the basis of ratio of limestone to clinker production	Leviable	Levied	Short levy
2005-06	87769.02	67517.25	39.49	30.38	9.11
2006-07	148458.83	140072.54	66.80	63.03	3.77
<b>Total</b>	<b>236227.85</b>	<b>207589.79</b>	<b>106.29</b>	<b>93.41</b>	<b>12.88</b>

The case was brought to the notice of the Senior Geologist, Chitradurga in January 2009 and reported to the Director of Mines and Geology in February 2009; reply has not been received (November 2009).

The matter was reported to the Government in May 2009; reply has not been received (November 2009).

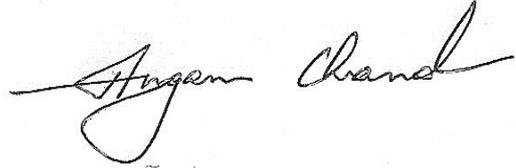
#### **7.4.2 Short levy of interest on dead rent**

As per the Karnataka Minor Mineral Concession Rules, 1994, a holder of a quarrying lease shall pay dead rent or royalty at the rates specified whichever is more, whether minor mineral is removed or consumed by him. The dead rent shall be paid in advance every six months. Accordingly, fifty per cent of the dead rent was payable on 1 April and the balance on 1 October of each year. The KMMC Rules also stipulate levy of interest at 15 *per cent* per annum on dues not paid from the sixtieth day after the expiry of date fixed for payment of such dues.

Test check of records of two Senior Geologists, Hassan and Koppal between June and August 2008 revealed that 25 quarrying leases had been idle during the period from 2000-01 to 2006-07. It was noticed that dead rent was not paid on the due dates in any of the cases. However, instead of levying interest from 1 June and 1 December of the relevant year, that is, sixtieth day from the date for payment of dead rent, the Department had levied interest from 1 April of succeeding year. This resulted in short levy of interest of Rs. 5.74 lakh.

After the cases were brought to notice, the Department reported in June 2009 that demand notices for recovery of interest short levied had since been issued.

The matter was reported to the Government in May 2009; reply has not been received (November 2009).



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