Chapter-II

CHAPTER - II

2. Performance Audit of Government Company

Working of the Jharkhand State Mineral Development Corporation Limited (JSMDC)

Executive Summary

Introduction

The Jharkhand State Mineral Development Corporation Limited (Company) was incorporated as a Company wholly owned by the State Government in May 2002 after bifurcation of the State of Bihar. The main objectives of the Company are to explore, prospect, develop, administer, manage and control mines after taking mining leases in the State and sell the minerals with or without processing.

(Paragraph 2.1)

Financial position

The Company has not finalised its annual accounts for the years 2009-10 to 2013-14 as of December 2014. As per working results, the Company earned profit of ₹ 29.35 crore in 2009-10 which declined since 2010-11 and was reduced to ₹ 2.15 crore in 2013-14 owing to non production of coal from Sikni coal mine which was the only operating coal mine of the Company.

(Paragraph 2.6)

Coal Mining and Trading Activities

The Ministry of Coal (MoC), Government of India (GoI) had allocated Sikni coal mine in 1987 and Jagaldaga coal mine was transferred from Coal India Limited in 1996. The MoC further allocated eight coal blocks to the Company under Government Company dispensation during 2006-2008.

(Paragraph 2.8)

Non-operation of coal mines

The Sikni coal mine was in operation during the period April 2009 to December 2011 after which coal mining was stopped by Director General of Mines Safety (DGMS) due to violation of Coal Mines Regulations. Mining of coal in Jagaldaga coal mine was not commenced for want of forest clearance.

(Paragraphs 2.9 and 2.12)

Non-commencement of mining in eight coal blocks

The Company failed to develop and commence mining in eight coal blocks allocated under Government Company dispensation. The allocation of these coal blocks was cancelled by the Supreme Court of India on 24 September 2014 and the entire expenditure of ₹ 18.31 crore incurred by the Company on these coal blocks became infructuous.

(Paragraph 2.11)

Non allocation of coal by Coal India Limited

Coal India Limited did not allocate 279252 MT of coal to the Company during 2009-10 to 2013-14 due to delay in execution of Fuel Supply Agreement for the respective years. As a result the Company could not distribute the coal to the consumers thereby forgoing revenue of ₹ 2.16 crore.

(Paragraph 2.13)

Mineral mining and other activities

Non-operation of mines

The Company had nine leasehold mines of limestone, graphite, kyanite, stone and granite. Out of these, mining plans of five mines were approved, forest clearance for only one mine was obtained and environment clearance and consent of Jharkhand State Pollution Control Board for operating the mine were not obtained for any of the mines.

The mining operations in four mines were discontinued in 2012-13 in absence of statutory clearances. Four other mines were inoperative for more than 14 years. Chelangi granite mine was the only mineral mine which was in operation as of December 2014.

(Paragraphs 2.14, 2.16, 2.19, 2.20 and 2.22)

Idle expenditure on non-operational grinding factory

The Company failed to ensure supply of required quantity of the limestone lump to its grinding factory to produce limestone dust resulting in loss of ₹ 40.04 lakh. The Company also failed to utilise the infrastructure to earn revenue and incurred idle expenditure of ₹ 87.80 lakh.

(Paragraph 2.17)

Shortfall in production of limestone, graphite, kyanite and granite

The shortfall in production of minerals ranged between 45.90 per cent to 95.72 per cent of the target of production for different minerals for operational period of the mines during 2009-14. The shortfall in production of granite blocks in Chelangi mine was 95.72 per cent which led to under-performance of Tupudana granite tiles plant.

(Paragraphs 2.21 and 2.23)

Under-utilisation of granite tiles plant

The plant remained inoperative during 2007-2010 due to non-availability of granite blocks. The annual production of granite tiles was only 7.97 per cent to 30.12 per cent of the capacity during the years 2011-12 to 2013-14. Thus, the plant remained under-utilised.

(Paragraph 2.24)

Non-conducting annual physical verification and shortage of minerals

The Company did not carry out physical verification of stocks of minerals since May 2010 and failed to take remedial action for huge shortage of minerals found in last physical verification.

(Paragraph 2.26)

Avoidable payment of dead rent

Avoidable payment of dead rent of ₹ 99.83 lakh was made by the Company during 2009-10 to 2013-14 due to its failure to get statutory clearances for operating the mines.

(Paragraph 2.27)

Deficiencies in Internal Control Mechanism

The Company did not prepare project-wise cost sheet after 2009-10 and also did not devise any comprehensive Management Information System (MIS). The Company has no vigilance and monitoring system in order to ensure fair and transparent working in the mines. The Company had no internal audit wing of its own and had also not prepared Internal Audit manual.

(Paragraph 2.28)

2.1 Introduction

The Jharkhand State Mineral Development Corporation Limited (Company) was incorporated in May 2002 after bifurcation of the State of Bihar as a Company wholly owned by the State Government. All the assets and liabilities of Bihar State Mineral Development Corporation Limited (BSMDC) falling under geographical area of Jharkhand State were transferred to the Company on the date of its incorporation. The main objectives of the Company are to explore, prospect, develop, administer, manage and control mines after taking mining leases in the State and sell the minerals with or without processing.

Two coal mines *viz*. Sikni and Jagaldaga were transferred to the Company from BSMDC at the time of incorporation in May 2002. The Sikni coal mine was in operation. Further, Ministry of Coal (MoC), Government of India (GoI) allocated eight[1] coal blocks to the Company during 2006-2008 under Government dispensation route[2]. The allocation of these eight coal blocks was cancelled by Supreme Court (September 2014) as discussed in paragraph 2.11. The Company was also distributing the coal allocated to it by Coal India Limited (CIL) to meet the requirements of the small and medium sector consumers of the State under the New Coal Distribution Policy (NCDP), 2007.

Besides, the Company had nine[3] leasehold mines of limestone, graphite, kyanite, stone and granite. Out of these, four[4] mines were in operation for different periods up to the year 2012-13 and only one mine (Chelangi granite mine) was in operation as of December 2014. Remaining four[5] mines were not in operation for

[1] (i)Sugia, (ii) Rauta, (iii) Burhakhap, (iv) Latehar, (v) Pindra Devipur, (vi) Patratu, (vii) Rabodh and (viii) Jageshwar & Khas-Jageshwar.

[2] Under Government Dispensation Route the allocation of coal blocks is made by MoC through allocation to public Sector Enterprises only for their captive use or commercial mining.

[3] (i) Semra Salatua (limestone), (ii) Benti-Bagda (limestone), (iii) Salhan (limestone); (iv) Jyoti pahari (kyanite), (v) Sirboi (kyanite); (vi) Mahugain-Tulbula (graphite); (vii) Manasoti (graphite); (viii) Chelangi (granite) and (ix) Chandula-Simalgoda (stone).

[4] (i) Semra Salatua (limestone), (ii) Benti-Bagda (limestone), (iii) Jyoti pahari (kyanite), and (iv) Mahugain-Tulbula (graphite).

[5] (i) Salhan (limestone); (ii) Manasoti (graphite); (iii) Chandula-Simalgoda (stone); and (iv) Sirboi (kyanite).

more than 14 years. The Company was also operating plants for production of granite tiles (Tupudana granite plant) and limestone dust (Sudna grinding factory).

2.2 Organisational setup

The Company is under the administrative control of the Department of Mines & Geology, Government of Jharkhand (GoJ). The Managing Director (MD) is the only full time Director and is the Chief Executive Officer of the Company. The Company has seven Directors in its Board including the Chairman and the MD at present. The MD is assisted by General Manager (Finance) and General Manager (Mines) in day to day working of the Company. The Company also has a full time Company Secretary. Organisational chart of the Company is given in ***Annexure-2.1***.

2.3 Audit Objectives

The objectives of the Performance Audit were to assess whether:

- Development of allocated coal blocks and other mineral mines was carried out economically, efficiently and effectively and statutory clearances were obtained timely;
- Production and sale of minerals and mineral products were carried out economically, efficiently and effectively; and
- Effective and efficient internal control mechanism and monitoring system were prevalent in the Company.

2.4 Audit Criteria

The audit criteria were drawn from the following sources:

- Annual production plan and production reports of projects;
- Project reports /feasibility reports/ mining plans of the projects;
- Terms and conditions of tender documents and agreements with contractors;
- Regulations/provisions of Land Acquisition Act/Environment Protection Act,1986/ Forest Conservation Act, 1980/ Mineral Conservation and Development Rules (MCDR), 1988/Mines & Minerals (Regulation & Development) Act (MMDR), 1957, Coal Mines (Nationalisation) Act, 1973; Coal Mines Regulations, 1957 and
- Agenda and Minutes of the meetings of Board of Directors (BoDs).

2.5 Scope and Methodology of Audit

The performance audit was conducted during April to June 2014 covering the functioning of the Company for the period 2009-10 to 2013-14 in respect of development of mines, production activities, sale of minerals, acquisition of lease for minerals and financial performance of the Company. Audit examination

involved scrutiny of records of corporate office and all five project offices[6] of the Company.

An entry conference with the Management of the Company was held (March 2014) to discuss the objectives, scope and methodology of audit. The audit findings were issued (August 2014) to the Company and the Government. Reply of the Government and the Company has been received (December 2014). The exit conference was held (December 2014) with Secretary, Department of Mines & Geology, GoJ and MD of the Company. The reply of the Government and views expressed by the Management and the Government in exit conference have been suitably incorporated in the performance audit.

2.6 Financial Position

The Company carries out its day to day activities with its internal resources such as income from sale of minerals and interest earned on fixed deposits with the banks. The Company has not finalised its annual accounts for the years 2009-10 to 2013-14 as of December 2014. The working results for five years ending 2013-14 are detailed in ***Annexure-2.2.***

The Company earned profit of ₹ 29.35 crore in 2009-10 which declined since 2010-11 and was reduced to ₹ 2.15 crore in 2013-14 owing to non-production of coal from Sikni coal mines which was the only operating coal mine of the Company. The main sources of revenue of the Company were coal mining operations, coal trading and interest on investment of own funds. Out of total revenue of ₹ 121.11 crore from sale of minerals during the period 2009-10 to 2013-14, revenue from sale of coal from Sikni coal mine was ₹ 114.84 crore (94.82 *per cent*). However, in 2012-13 and 2013-14 earnings were mainly from coal trading and interest on investment of own funds rather than from operation of mining projects.

2.7 Non-recovery of dues for more than three years

The amount recoverable from sundry debtors was ₹ 2.04 crore as on 31 March 2010 of which ₹ 1.75 crore was outstanding for more than three years. The position of sundry debtors for the years 2010-11 to 2013-14 was not furnished to audit in absence of finalisation of accounts.

The main reasons of long outstanding debtors were absence of a system in the Company for monitoring the recoveries at periodical intervals and proper follow up action. It is indicative of inefficient debt management and may result in non-recovery of long outstanding dues.

Audit Findings

2.8 Coal Mining and Trading Activities

The MoC, GoI had allocated Sikni coal mine in 1987 and Jagaldaga coal mine in 1996 to BSMDC which were transferred to the Company in May 2002 after its

[6] (i) Project office, Daltonganj (controlling Semra Salatua, Mahugain-Tulbula, Manasoti mines and Sudna grinding factory) (ii) Project office, Benti-bagda (controlling Benti-Bagda and Salhan mines) (iii) Project office, Tupudana Granite plant and Chelangi mine (iv) Project office, Bahragora (Jyoti pahari and Sirboi mines) (v) Project office, Chandula-Simalgoda (Chandula-Simalgoda mines).

incorporation. On the basis of application made by the Company and recommendation of GoJ, eight coal blocks were allocated to the Company under Government Company dispensation as per the provisions of section 3(3)(a)(i) of the Coal Mines (Nationalisation) Act, 1973 during 2006-2008. These coal blocks were to be developed and mining of coal was to be done as per the milestones set by MoC. However, all the blocks allocated under Government Company dispensation were cancelled (September 2014) by the Supreme Court of India as discussed in para 2.11.

Sikni coal mine of the Company was the only coal mine in operation during the period April 2009 to December 2011. Production of coal in the mine was 9.78 lakh metric tonne (MT) and revenue of ₹ 114.84 crore was realised by selling the coal during this period. There was no production and sale of coal from January 2012 to April 2014 due to suspension of mining operations in the mine as discussed in paragraph 2.12. The Company was also distributing the coal allocated to it by CIL to meet the requirements of the small and medium sector consumers of the State and distributed 12.37 lakh MT of coal on which it earned ₹ 12.63 crore as service charge during 2009-14.

The shortcomings noticed in audit relating to the development of coal blocks, mining of coal and trading activities are discussed in the succeeding paragraphs.

2.9 Non commencement of mining in Jagaldaga coal block

Mining in Jagaldaga coal mine was not started in absence of forest clearance even after lapse of 18 years from its allocation.

After allocation of the Jagaldaga coal block in 1996, BSMDC carried out exploration in the 94.41 acres area for which MoC, GoI approved (October 1997) the Mining Plan (MP)[7] and granted the Mining lease (February 1998). The Company (JSMDC) submitted (March 2006) the forest diversion proposal (FDP) to the Department of Forest and Environment, GoJ for obtaining forest clearance[8] in respect of 69.38 acres of forest land of the coal block after a period of 10 years from the date of allocation against the stipulated time period of 45 months. However, diversion of the forest land was not granted by the Ministry of Environment and Forest (MoEF) as of December 2014 for want of compensatory afforestation land and failure of the Company to submit the differential global positioning system (DGPS) map for the mining lease area. Thus, the mining in Jagaldaga coal mine was not started even after lapse of 18 years from allocation of the coal block for want of forest clearance. Environment clearance[9] of the coal mine area was accorded by the MoEF in May 2008.

[7] As per section 9(1) of the Mineral Conservation and Development Rules, 1988, no person shall commence mining operations in any area without an approved mining plan. Mining plan describes activities to be conducted at the site over the life of operation of the mine.

[8] As per section 2 of the Forest (Conservation) Act, 1980 for any diversion of forestry land for non forestry use prior approval of the Central Government is needed and compensatory afforestation charges are payable.

[9] To undertake any new project or the expansion or modernisation of any existing industry or project, application for environment clearance is to be submitted to the MoEF, GoI along with an Environmental Impact Assessment (EIA) and Environment Management Plan (EMP) as per the Environmental Impact Assessment Notification 2006.

The Government replied that as per decision of State Government steps were initiated for selecting Joint Venture (JV) partner for operation of mine. However, due to procedural delay the formation of JV did not materialise.

The reply is not acceptable as mining could not commence due to failure of the Company to obtain forest clearance for want of compensatory afforestation land and DGPS map.

2.10 Eight Coal blocks allocated under Government Company dispensation

For the eight coal blocks allocated to the Company under Government Company dispensation during 2006-08, prospecting/detailed exploration and mining was to be carried out by the Company or by a separate Government company eligible to do coal mining to be created with participation of the Company.

As per the terms and conditions of allocation, for explored coal blocks the Company was to purchase Geological Report (GR)[10] from the Central Mine Planning and Design Institute Limited (CMPDIL) or Geological Survey of India (GSI) within one and half month of allocation and GR for the unexplored blocks was to be prepared within two years from the date of issue of prospecting licence.

The Company had to submit Mining Plan (MP) within six months of obtaining GR and get it approved from MoC, GoI obtain forest clearance and environment clearance from MoEF, GoI within 18 months of the date of obtaining GR. Mining from the coal blocks was to be commenced within 36 to 54 months from the date of obtaining GR of the coal blocks as per the milestones prescribed by MoC, GoI. Allocation of the coal blocks was liable to be cancelled in case of non-achievement of the milestones.

2.11 Non-commencement of mining in eight coal blocks

The progress in development of the eight coal blocks allocated under Government Company dispensation was not satisfactory as per the milestones in respect of preparation of GRs, preparation and approval of MPs and obtaining forest and environment clearances as detailed in ***Annexure-2.3***. The Company decided to develop these mines through JV route. However, the JV companies were not formed as of September 2014 though expenditure of ₹ 40 lakh was incurred on the consultant employed for the formation of JV companies.

The MoC, GoI de-allocated (January 2013) four[11] coal blocks on recommendations of Inter-Ministerial Group (IMG)[12] due to failure of the Company to develop coal blocks and obtain necessary statutory clearances. Also, the MoC decided to invoke the bank guarantees (BG) of ₹ 18.82 crore[13] submitted against two de-allocated coal blocks for non-achievement of prescribed milestones. The Company however, filed (April 2013) a writ petition with the

[10] Geological report is a concise, informative and well documented report used to present, analyse and summarise field data for mining purpose prepared after detailed exploration of reserve area.
[11] Pindra devipur, Latehar, Rabodh and Patratu.
[12] Having members from Ministry of Power, Ministry of Steel, Ministry of Commerce & Industry, Department of IPP, Ministry of Law and Justice, Department of Legal Affairs and Department of Economic Affairs.
[13] 50 *per cent* of the BGs (₹ 31.00 crore for Rabodh and ₹ 6.64 crore for Patratu).

High Court of Jharkhand, Ranchi for restoration of these blocks, the decision on which was pending (September 2014).

The Company failed to develop and commence mining in eight coal blocks as per stipulated milestones The expenditure of ₹ 18.31 crore incurred on these blocks became infructuous on cancellation of their allocation by the Supreme Court of India.

Meanwhile, the Supreme Court of India vide its judgment dated 24 September 2014 held that the allotment of coal blocks made by the Screening Committee of the GoI and through the Government Company dispensation route were arbitrary and illegal and hence, cancelled all the eight[14] coal blocks allocated to it under Government Company dispensation. However, the Company had already incurred expenditure of ₹ 18.31 crore on consultancy service (₹ 0.40 crore), detailed geological exploration (₹ 0.84 crore), purchase of GRs (₹ 16.33 crore), bank guarantee commission (₹ 0.74 crore) etc. for development and mining of these coal blocks.

Thus, the Company failed to develop the coal blocks and commence mining in these blocks even after lapse of a period ranging from six to 59 months after the due dates as per the milestones. If production from the coal blocks had started as per stipulated milestones, the Company could have recovered the cost incurred on these mines by the revenue generated from operation of the coal mines. The entire expenditure of ₹ 18.31 crore incurred by the Company on these coal blocks became infructuous on cancellation of these coal blocks by Supreme Court of India.

The Government while accepting the facts stated that steps were initiated for selecting JV partners as per decision of State Government. However, due to procedural delay and subsequent CBI enquiry formation of JV did not materialise.

The reply is not acceptable as there were inordinate delay in development of mines by the Company. This is also evident from the fact that four coal blocks were de-allocated by MoC, GoI due to lack of progress.

2.12 Stoppage of operations in coal mine due to violation of mining regulations.

As per the Coal Mines Regulations, 1957 the sides of the coal mine were to be kept sloped at an angle not exceeding 45 degree for safety or the sides were to be kept benched[15] with height not exceeding three metres and the breadth to be not less than the height. The terms and conditions of the agreement with the contractor for Sikni coal mine stipulated that the agency will have to maintain benches as per Coal Mines Regulations, 1957.

The mining activities in Sikni mine was stopped for 28 months due to non compliance of the prescribed mining norms.

However, the contractor was carrying out mining without proper benching as height of the south western part of the quarry benches was 25 meter against the permissible height of three meters and coal was being extracted from the toe of the wall. Due to non-compliance of Mining Regulations the Director General of Mines Safety (DGMS) prohibited (October 2011) the employment of persons in the mine and mining of coal was stopped (December 2011). On request

[14] (i) Sugia, (ii) Rauta, (iii) Burhakhap, (iv) Latehar, (v) Pindra Devipur, (vi) Patratu, (vii) Rabodh and (viii) Jageshwar & Khas-Jageshwar.

[15] The mineral or overburden is removed in successive layers, each of which is a bench. Several of which may be in operation simultaneously in different part and at different elevations in an open pit mine or a quarry.

(March 2014) of the Company permission to form the benches of 10 meter high and to keep the side of bench slope up to 70 degree was granted in March 2014 and mining was started (May 2014) after rectification of the defects by the contractor.

Thus, due to non compliance of the prescribed mining norms the mining activities remained suspended for 28 months.

The Management stated that the compliance could not be ensured due to shortage of statutory/technical manpower.

The fact remains that mining operations were suspended due to non compliance to the provisions of the regulations.

2.13 Non allocation of coal by Coal India Limited

As per New Coal Distribution Policy (NCDP), 2007 of MoC, the State Government was to nominate a state nodal agency to distribute coal to the eligible consumers[16] within the State. The notified agency was to enter into Fuel Supply Agreement (FSA) with coal company to be designated by the Coal India limited (CIL). The FSA would continue to remain in force till the State Government de-notifies the agency or CIL shifts the obligation to some other coal company. The nodal agency was to charge five *per cent* as service charges over the basic price of CIL. Accordingly, the State Government notified JSMDC as the nodal agency for distributing the coal allocated by CIL to the consumers in Jharkhand.

Due to delay in signing of annual Fuel Supply Agreements there was short allocation of 279252 MT coal by Coal India Limited for distribution among small and medium sector consumers.

We observed that the State Government was nominating the nodal agency every year though as per the provisions in the NCDP, the nomination was not required to be made each year. This caused delay in execution of FSA in each year resulting in delay of one to three months in allotment of coal. In absence of valid FSA, monthly quantity of 37250 MT of coal was not allocated by CIL in the months of May 2009, April 2010 to June 2010, April 2011 and April 2012 and quantity was short allocated in May 2011 (32930 MT) and April 2013 (22822 MT). As a result, the Company could not distribute 279252 MT of coal to the consumers thereby forgoing the service charges of ₹ 2.16 crore.

The Government stated that FSA was being done on yearly basis as per CIL policy. Further, the Management stated that the matter is being taken up with CIL and State Government authorities to permit JSMDC to continue as nodal agency till nomination of any other nodal agency.

The fact remains that due to non adherence to the provisions of NCDP and in absence of valid FSA, the CIL did not allocate coal. As a result the Company could not distribute the coal to the consumers forgoing the service charges thereon.

2.14 Mineral mining and other activities

The Company had nine leasehold mines of limestone, graphite, kyanite, stone and granite. The Company was raising and selling lime stone, kyanite, and graphite in

[16] The small and medium sector consumers having requirement upto 4200 MT per annum not having any access to purchase of coal or FSA with coal companies

four[17] mines through private contractors as well as by departmental operation. Production in these mines was stopped during 2012-13 for want of environment clearances. The Company was also extracting granite blocks departmentally in Chelangi granite mine. Remaining four[18] mines were not in operation for want of statutory clearances. The status of statutory clearances of these mines of the Company is given in ***Annexure-2.4.***

The Company was also operating Tupudana granite plant for production of granite tiles and Sudna limestone grinding factory for production of limestone dust by utilising the granite blocks and limestone lump produced in its mines.

The mine-wise production and sales performance of the Company during 2009-10 to 2013-14 is given in **Table – 2.1.**

Table – 2.1

Name of the mines	2009-10		2010-11		2011-12		2012-13		2013-14	
	Qty. produced and sold (MT)	Value (₹ in lakh)	Qty. produced and sold (MT)	Value (₹ in lakh)	Qty. produced and sold (MT)	Value (₹ in lakh)	Qty. produced and sold (MT)	Value (₹ in lakh)	Qty. produced and sold (MT)	Value (₹ in lakh)
Semra Salatua limestone mine	37310	115.41	25174	79.30	10805	44.18	4048	16.82	-	-
Benti Bagda limestone mine	-	-	2818	9.51	39883	135.09	8378	28.41	-	-
Mahugain-Tulbula graphite mine	-	-	-	-	-	-	1518	9.81	-	-
Jyoti pahari kyanite mine	4420	55.55	3547	47.50	4012	54.77	1015	13.90	-	-
Chelangi granite mine (Production in No. of blocks)	-	-	-	-	133*	-	203*	-	359*	-

(Source: Data compiled from the information furnished by the Company)

It would be seen from the above table that during the period production of limestone was 128416 MT, kyanite 12994[19] MT, graphite 1518 MT and 695 granite blocks. The Company realised ₹ 6.10 crore by selling these minerals. Further, there was no production and sale of minerals during 2013-14 except 359 granite blocks produced in Chelangi granite mine.

The deficiencies noticed in operation of the mineral mines and plants of the Company are discussed in the succeeding paragraphs.

2.15 Non renewal of mining leases

As per Rule 24A of the Mineral Concession Rules (MCR), 1960, application for renewal of a mining lease was to be made to the State Government at least twelve

[17] (i) Semra Salatua (limestone) (ii) Benti-Bagda (limestone) (iii) Jyoti pahari (kyanite) and (iv) Mahugain-Tulbula (graphite)

[18] (i) Salhan (limestone) (ii) Sirboi (kyanite) (iii) Manasoti (graphite) and (iv) Chandula-Simalgoda (stone).

* The granite blocks extracted from Chelangi granite mine were transferred to Tupudana granite plant for production of granite tiles.

[19] Includes 4833 MT of kyanite extracted from Jyoti Pahari mine departmentally during April 2009 to April 2010.

months before the expiry of existing lease. The lease periods of eight[20] mines of the Company expired by the year 2004. For renewal of the leases and operating the mines, approval of their MPs and forest and environment clearances from the GoI and consent for operation from Jharkhand State Pollution Control Board (JSPCB) were to be obtained. Status of leases of various mines is illustrated in ***Annexure 2.5***.

We observed that the Company had submitted applications to the appropriate authority for renewal of eight[21] leases during 1995 to 2003. However, renewal has been granted only for Chandula-Simalgoda mines.

The Government replied that initially the environment clearance was not insisted upon by the MoEF. Subsequently, environment clearance has been made prerequisite for grant/renewal of mine leases. The Company had applied for renewal of all leases in time.

However, the fact remains that the Company failed to obtain statutory clearances consequently renewal of the leases could not be made and mines were in-operational even after lapse of 11 to 19 years from the date of application for renewal.

Limestone Mines and grinding factory

2.16 Non operation of limestone mines in absence of statutory clearances

Limestone is a sedimentary rock composed largely of calcium carbonate to be used in steel plants as lump and dust is used for cement production. The Company has three limestone mining leases at Semra-Salatua, Benti-Bagda and Salhan. Audit scrutiny revealed the following:

- The application for renewal of lease of Semra-Salatua mines over an area of 2578.28 acres was submitted (April 1995) by BSMDC and the FDP in respect of the mines was approved by MoEF (June 1998). The Company (JSMDC) submitted (June 2014) the MP of the mine to Indian Bureau of Mines (IBM) for approval after a considerable period of 19 years from submission of the application for renewal as it failed to prepare the MP due to its lackadaisical approach. The approval of same was not received (December 2014). The MoEF issued (February 2009) Terms of Reference[22] (TOR) for environment studies for three years which expired (February 2012) due to non submission of Mining Scheme[23] (MS).

[20] Lease for 20 years in respect of (i) Semra Salatua (Limestone), (ii) Benti-bagda(Limestone), (iii) Salhan(Limestone), (iv) Jyoti pahari (Kyanite), (v)Sirboi (Kyanite), (vi) Mahugain-Tulbula(Graphite), (vii)Manasoti (Graphite) and for 10 years in respect of (viii)Chandula-Simalgoda Stone mine

[21] excluding new lease of Chelangi granite mine granted in January 2011

[22] TOR is determined to address all relevant environmental concerns for preparation of Environment Impact Assessment (EIA) Report and Environment Management Plan (EMP).

[23] Under the Mineral Conservation & Development Rules 1988, lessees have to review the mining plan and submit mining scheme (MS) alongwith a progressive mine closure plan (PMCP) for the every five years of the lease of submitting mining plan. It contains activities to be conducted at the site over the next five year of the operation.

The Semra-Salatua mines remained in-operative since June 2012 for want of environment clearance.

The Company engaged (January 2013) consultant for generation of baseline data and preparation of Environment Impact Assessment (EIA) and Environment Management Plan (EMP), however, the fresh application for TOR for environment studies was not submitted (December 2014) and the environment clearance could not be obtained. The Company has also not submitted the application for obtaining consent for operating from JSPCB.

We observed that the Company was carrying out mining operation without approved MP and environment clearance. As a result, the production was suspended (June 2012) by district mining authorities due to non availability of environment clearance.

- The application for renewal of lease of Benti–Badga mines over an area of 334.87 acres was submitted (May 1995) by BSMDC. The MP of Benti-Bagda mine was approved by IBM in August 2002. The FDP over an area of 22.41 acres out of total 69.87 acres of forest land was approved by MoEF in July 2005. Subsequently, the Company submitted (July 2013) FDP for remaining forest land of 47.46 acres. We however, observed that the Company was to re-submit the FDP proposal after demarcation of potential mineralised zone and to surrender the balance unusable land which is yet to be done (December 2014).

The Benti-Bagda mine remained in-operational since July 2012 due to suspension of mines by the district mining authorities for want of environment clearance.

For obtaining environment clearance, a consultant was appointed (January 2007), who prepared EIA and EMP and the application for environment clearance was submitted in July 2007 after lapse of 12 years after application for renewal of lease. The MoEF issued (May 2008) the TOR for undertaking EIA study. As called for by the MoEF, the Company submitted the Mining Scheme (MS) cum Progressive Mine Closure Plan (PMCP)[24] in March 2013. The MoEF rejected (June 2013) the proposal owing to expiry (May 2012) of the validity of TOR. The Company again submitted (July 2013) application for TOR which was issued (December 2013) by the MoEF for environmental studies, however EIA/EMP was yet to be prepared by the Company.

Consequently, the production of the mines was suspended (July 2012) as district mining authorities did not release the mining challans due to absence of environment clearance. Further, the Company submitted (May 2014) application for consent for operating from JSPCB and the same was awaited (December 2014).

- The application for renewal of lease of Salhan mine over an area of 257.03 acres was submitted (May 1995) by BSMDC. We noticed that the Company submitted (May 2014) MP of Salhan limestone mine to IBM for approval after a delay of 19 years from the date of application owing to lackadaisical approach of the Company and the approval of same was pending (December 2014). The Company submitted (June 2013) the FDP to State Forest Department which was yet to be forwarded by the Forest Department to the MoEF for approval. The Company did not initiate action for environment clearance and did not apply for

Salhan mine remained inoperative since 1997 in absence of statutory clearances.

[24] It involves planning effectively for all activities required before, during, and after the operating life of a mine that are needed to produce an acceptable landscape and reclamation economically.

consent for operation of the mine from JSPCB so far (December 2014). As a result the mine remained inoperative since 1997.

Thus, due to failure of the Company in obtaining statutory clearances all the above limestone mines remained in-operative as of December 2014.

The Government while accepting the facts stated that the IBM has conducted the inspection for approval of the MPs for Semra-Salatua and Salhan mines. The proposals of forest clearance for Benti-Bagda and Salhan mines are pending with the Forest Department. TOR for Benti Bagda mines has been received from MoEF and preparation of EIA/EMP is under process.

The fact remains that the mines remained inoperative in absence of the statutory clearances.

2.17 Idle expenditure on non-operational grinding factory

The Company engaged (August 2007) a contractor[25] for raising limestone lumps from Semra-Salatua mines and grinding for production of limestone dust in its Sudna Grinding factory (factory) and purchase of the products for a period of three years. As per terms of the contract, the contractor was to produce and purchase minimum 36,000 MT of limestone lump per annum. Further, the contractor was required to supply and grind 3600 MT limestone lump per annum at the factory at approved rates and to purchase the limestone dust so produced after paying differential amount of selling price and raising, grinding along with transportation charges.

The Company failed to ensure supply of required quantity of the limestone lump to produce dust and suffered loss of ₹ 40.04 lakh.

We noticed that the contractor extracted 46296 MT of limestone lump though it supplied only 1,853 MT of limestone lump to the factory against the target of production of 10,500 MT of limestone dust (shortfall of 8647 MT) during September 2007 to August 2010. Thus, the Company failed to ensure the supply of required quantity of the limestone lump by the contractor to produce dust which resulted in loss of ₹ 40.04 lakh[26].

On expiry (September 2010) of the above contract the Company awarded (May 2011) the work to another contractor[27]. Although the contractor was to supply of 4800 MT limestone lump per annum to the factory for grinding as per the contract, it did not supply any limestone lump to the factory as the same was closed since September 2010 due to failure of the Company to operate it departmentally or by engaging outside agency. Further, the production of limestone lump at Semra-Salatua limestone mines, which were supplying raw material to the factory, was also discontinued since June 2012 due to non-availability of environment clearance.

Thus, the Company failed to operate the grinding factory since September 2010 resulting in idle expenditure of ₹ 87.80 lakh on salary and wages (₹ 83.43 lakh) and electricity charges (₹ 4.37 lakh) up to March 2014.

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[25] MLC Ltd.

[26] Selling price ₹ 750 – (cost of raising ₹ 110 + transportation cost ₹ 75 + grinding cost ₹ 82+ penalty ₹ 20) i.e. ₹ 463 per MT * 8647 MT= ₹ 40.04 lakh.

[27] Bhawani Industries.

The Government replied that the first contractor had failed to comply with the terms and conditions of the agreement. Notices were issued and payment to the agency has been withheld to recover the penalty. Engagement of contractor could not be made as no response was received in the tender. Also, the factory could not be operated departmentally.

The fact remains that the Company failed to ensure supply of agreed quantity of limestone lump to the factory by the contractor and operate the factory which resulted in non utilisation of the infrastructure to earn revenue.

The Company needs to take steps to operationalise the factory by removing the bottlenecks and run it profitably.

2.18 Violation of Mining Regulations in limestone mines

As per rule 106 of the Metalliferous Mines Regulations, 1961 (applicable for all mines other than coal and oil) the sides of mines were to be kept benched and the height of any bench was not to exceed 1.5 metres and the breadth was not less than the height.

Director General of Mines Safety prohibited employment of persons in Semra-Salatua mines due to non compliance of regulations.

We observed from scrutiny of records that the excavation in Semra-Salatua limestone mines was carried out by creating inadequate bench widths at about 40 meter high as against the permissible bench height of 1.5 metres. The DGMS directed (September 2010) the Company to rectify the defects within 60 days. As the Company failed to comply, the DGMS prohibited (November 2011) employment of persons in the mines. However, we noticed that production in mine continued till May 2012. Thereafter, the mine remained in-operative till date (December 2014) in the absence of environment clearance.

The Government while accepting the fact stated that after obtaining statutory clearances, the Company will ensure the compliance of the provisions.

The fact remains that mining operations remained suspended due to non compliance to the provisions of the regulations.

Graphite mines

2.19 Non-operation of graphite mines for want of statutory clearances

Graphite is a crystalline modification of carbon used in manufacturing of dry cell, refractionaries, pencils, electrodes, lubricant, explosives and paints etc. The BSMDC had two graphite mines leases at Mahugain-Tulbula and Manasoti covering 1285.18 acres. After expiry of lease period (Mahugain-Tulbula - October 1996 and Manasoti -September 1999) of these mines, the renewal of leases was not granted due to non-fulfillment of the pre-requisite conditions as detailed below:

Mining operation in Mahugain-Tulbula mines without environment clearance and approved mining scheme was stopped by district mining authorities.

- The application for renewal of lease of Mahugain-Tulbula graphite mines over an area of 552.15 acres was submitted (October 1995) by BSMDC and the MP was approved (August 1999). The Company submitted (April 2008) proposal for diversion of 48.98 acres of forest land which was not cleared by the State Forest Department as it was incomplete and contained various deficiencies. Further, the

application for environment clearance was submitted to MoEF in July 2013 the approval of which was awaited (December 2014).

The Company was carrying out mining operation without environment clearance and approved MS. As a result, operation of the mines was stopped (January 2013) by the district mining authorities and IBM prohibited (February 2014) the mining operation in the mines without approved MS. Further, the Company applied (July 2012) for consent from JPSCB. However, JSPCB issued (December 2012) show cause notice for operating the mine after expiry of mining lease without environment clearance, no objection certificate and consent to operate and the consent for operating the mine has not been granted so far (December 2014).

The Manasoti graphite mine remained inoperative since 1985 in absence of statutory clearances.

- The application for renewal of lease of Manasoti graphite mine over an area of 733.03 acres was submitted (August 1998) by BSMDC. The Company (JSMDC) did not prepare the MP owing to non-availability of related documents. The Company did not initiate action for approval of FDP and environment clearance as well as consent from JSPCB so far (December 2014). As a result the mine remained inoperative since 1985.

The Government while accepting the fact stated that MS and PMCP in respect of Mahugain-Tulbula mine has been prepared and being submitted to IBM for approval. The FDP submitted to the Forest Department was returned for revision of area in respect of mineralised zone. The surrender of the lease for Manasoti mine is under consideration.

The fact remains that due to failure in obtaining statutory clearances the Mahugain-Tulbula mine remained in-operative. Further, the proposal for surrender of Manasoti mine was yet to be submitted.

Kyanite Mines

2.20 In-operative kyanite mines in absence of statutory clearances

Kyanite is chemically high alumina silicate mineral mainly used in refractory production. The Company acquired two mining leases of kyanite at Jyoti pahari and Sirboi in East Singbhum. Audit scrutiny revealed the following:

- The Company submitted (August 2003) application for renewal of lease of Jyoti pahari mine over an area of 50.25 acres. The MP of mine was approved in March 2007, however mining scheme (MS) and progressive mine closure Plan (PMCP) submitted by the Company was not approved due to discrepancies therein. The Company submitted (January 2014) the revised MS which was inspected (March 2014) by the IBM however, the same has not been approved so far (December 2014).

The MoEF issued (February 2009) TOR for environment studies which expired (February 2012) due to non submission of MS and the fresh TOR was yet to be received. The EIA and EMP could not be prepared and the environment clearance could not be obtained. The Company did not apply for consent of JSPCB for operation of the mine (December 2014).

The mining operation in Jyoti pahari was stopped since August 2012 in absence of approved mining scheme and environment clearance.

We observed that the Company was carrying out mining operation without approved MS and PMCP and environment clearance. As a result, IBM suspended (June 2012) the mining operation and the district mining authorities also refused (August 2012) to issue transit challan for plying the vehicles in mining area in absence of environment clearance. Thus, the mining operations were stopped in absence of approved MS and PMCP and environment clearance.

- The Company submitted (August 2003) application for renewal of lease of Sirboi mine over an area of 168.40 acres. The MP of Sirboi was approved in July 2000. On submission (February 2008) of proposal for diversion of forest land, the Forest Department directed (May 2008) to submit no objection certificate of JSPCB and also to rectify the deficiencies in the proposal. The Company took unduly long period of more than five years in complying the same and submitted (January 2014) revised forest diversion proposal which has not been cleared by the Forest Department so far (December 2014). Thus, the proposal is yet to be forwarded to the MoEF for approval.

The Company failed to obtain forest and environment clearances and did not obtain consent of JSPCB for Sirboi mine owing to which the mine was inoperative since 1992.

The MoEF issued (February 2010) TOR for environment study, however, the Company failed to get environment clearance within the validity period (February 2013) of TOR. Subsequently, the Company did not apply for determination of TOR for environment clearance. Also, the consent of JPSCB for operation of the mine was not obtained so far (December 2014). As a result the mine remained inoperative since 1992.

The Government while accepting the facts stated that the IBM has carried out inspection for approval of the MS of Jyoti pahari mine. TOR is under finalisation by the State Environmental Impact Assessment Committee, Jharkhand and the FDP for Sirboi mine is pending with the Forest Department.

The fact remains that renewal of leases of above mines were unduly delayed and the mines remained inoperative due to delay in obtaining statutory clearances.

2.21 Shortfall in production of limestone, graphite and kyanite through private contractors

The Company was extracting limestone lump from Benti Bagda and Semra-Salatua mines and graphite from Mahugain-Tulbula mines for varying period during 2009-2013. Mining of kyanite from Jyoti Pahari mines was done through private contractors as well as departmentally. The mine-wise contractual production target vis-à-vis actual production of minerals during the period 2009-10 to 2012-13 is given in **Table - 2.2.**

Table - 2.2

(Figures in MT)

Name of mines	Name of mineral	Period of Mining	Awarded quantity	Actual production	Shortfall	Shortage (*Per cent*)
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (6)/(4)x 100
Benti-Bagda	Lime stone	01.12.10 to 30.06.12	93127	50381	42746	45.90
Semra-Salatua	Lime stone	01.04.09 to 31.05.12	153785	77337	76448	49.71
Mahugain-Tulbula	Graphite	01.05.12 to 31.12.12	10865	1518	9347	86.03
Jyoti Pahari	Kyanite	01.05.10 to 31.07.12	16370	8161	8209	50.15

(Soucre: Data compiled from information furnished by JSMDC)

There was shortfall in production of limestone, graphite and kyanite ranging from 45.90 *per cent* to 86.03 *per cent* of the awarded quantity.

From the above it is evident that the contractors failed to achieve the targets of production during the period of contract and there was shortfall in production of limestone (119194 MT), graphite (9347 MT) and kyanite (8209 MT) which ranged from 45.90 *per cent* to 86.03 *per cent* of the awarded quantity of these minerals during 2009-10 to 2012-13. The shortfalls were due to delayed and inadequate deployment of machineries, negligence on the part of the contractors and lack of monitoring on the part of the Company. The shortfalls in production resulted in significant loss of revenue to the Company.

The Company did not take effective measures to increase production despite continued failure of the contractors in achieving the target. Also it did not explore the possibility of engaging competent contractors to enhance production.

The Government replied that the Company had imposed penalty considering the shortfall in production and that the shortfall in production was also due to some unavoidable circumstances like local law and order situation, naxal bandh etc. and seasonal fluctuation in the market demand which were beyond the control of the agencies as well as the Company.

The reply is not acceptable as the penalty imposed by the Company was not sufficient to compensate for the loss of production. Further, the Company had already revised the production targets for the mines considering the above circumstances due to which their production was affected. Thus, the Company has failed to take effective action against the contractors for the shortfall in production.

The Company should ensure that contractors adhere to the production targets.

Stone Mine

2.22 Non-operation of stone mines

The Company had stone mine at Chandula-Simalgoda over a area of 172.80 acres. The MoEF, GoI approved (July 2010) the FDP (stage I clearance) of Chandula – Simalgoda stone mines subject to the payment of Net Present Value (NPV) to the GoJ for the entire forest area (69.93 hectares). The GoJ directed (August 2010) the Company for payment of ₹ 5.61 crore towards NPV (revised to ₹ 4.38 crore in

December 2011) and ₹ 1.25 crore for compensatory afforestation for diversion of the forest land.

The Company floated (May 2013) a tender for selection of Mine Developer cum Operator (MDO) for the mines. As per the condition of tender the amount of NPV and afforestation charges were to be paid by the selected agency. Though a number of bidders attended the pre-bid meeting, no bid was received owing to high initial investment and uncertainty in obtaining statutory clearances. Also, the Company did not pay the NPV and afforestation charges and the forest clearance was not obtained (December 2014).

The Chandula-Simalgoda stone mines remained in-operative since 2000 due to failure in obtaining statutory clearances.

The Company submitted MP to IBM only in January 2014 which was yet to be approved. TOR was issued (March 2014) by the MoEF for environmental studies, however EIA/EMP was yet to be prepared by the Company. Thus, the environment clearance has not been granted by MoEF so far (December 2014). The Company did not apply for consent of JSPCB for operation of the mine.

Thus, the Chandula–Simalgoda stone mines remained non-operational since 2000 due to failure of the Company in obtaining statutory clearances and engaging MDO.

The Government while accepting the fact stated that action has been taken for approval of MP. The selection of MDO is under process. The condition of initial capital investment by the MDO was fixed to avoid blockage of fund of the Company. TOR has been received from the MoEF and preparation of EIA/EMP is under process.

The fact remains that the mines were not in operation for the last 14 years in absence of the statutory clearances and appointment of MDO.

Granite mine and granite tiles plant

2.23 Under-performance of granite mine

Granite is an intrusive igneous rock extensively used in building construction and architectural design. The Company has a granite mine at Chelangi having lease areas of two acres.

There was under-performance of Tupudana granite plant due to 95.72 *per cent* shortfall in production of granite blocks by the Company.

The Company was extracting granite blocks from Chelangi granite mine departmentally. As per approved MP of the Chelangi granite mine the targeted production of granite block was 6499 cubic meter (Cu m) per year. Against the target of production of 16248 Cu m granite blocks for the period 2011-12 to 2013-14, the Company could produce 695 Cu m (4.28 *per cent*). The shortfall of 15553 Cu m (95.72 *per cent*) in production of granite blocks was due to shortage of manpower which also led to under-performance of Tupudana granite tiles plant as discussed in paragraph 2.24**.**

The Management replied that the capacity of Tupudana granite plant is sufficient to handle small blocks only and there is no market for small granite blocks in the vicinity. As the production is restricted to the capacity of the plant and therefore less manpower was engaged.

The reply is not acceptable as the plant remained under-utilised for want of granite blocks.

2.24 Under-utilisation of granite tiles plant

The BSMDC established a granite cutting and polishing plant (plant) at Tupudana in 1997 with production capacity of 2500 sq. ft. per month. The plant remained inoperative during 2007-2010 due to non-availability of granite blocks. The Company re-started (May 2011) the granite plant commencing production of granite blocks departmentally from its mine (Chelangi). The production performance of the plant for the years 2011-12 to 2013-14 is given in **Table -2.3.**

Table - 2.3

Particular	2011-12	2012-13	2013-14
Annual production capacity (Sq. ft.)	30000	30000	30000
Annual production (sq.ft.)	2392	9036	8872
Percentage of production to annual capacity	7.97	30.12	29.57

(Source: Data compiled from the information furnished by the Company)

The annual production of granite tiles was 7.97 *per cent* to 30.12 *per cent* of production capacity in 2011-12 to 2013-14.

It would be seen from **Table 2.3** that the annual production of granite tiles was 2392 sq. ft in 2011-12, 9036 sq. ft. in 2012-13 and 8872 sq. ft. in 2013-14 which was 7.97 to 30.12 *per cent* of the annual production capacity during this period. The reasons for under-utilisation of the plant were non availability of granite blocks, diamond blade, cutting oil etc.

Consequently, the plant incurred loss of ₹ 46.49 lakh, ₹ 62.11 lakh and ₹ 96.46 lakh during 2011-12, 2012-13 and 2013-14 respectively which was increasing consistently. The reasons for the loss were expenditure on salary and wages of idle manpower and non up-gradation of the plant.

We observed that the Company prepared the proposal for up-gradation of plant in May 2013, however upgradation was yet to be done (December 2014) and the Company was operating the plant without ensuring its viability.

The Government replied that the Tupudana plant was a pilot plant; the Management will endeavour to initiate corrective measures for commercial production.

The reply is not acceptable as the plant was already in commercial production. The proposal for up-gradation of the plant was yet to be approved even after more than 18 months since its initiation.

The Company should take steps to utilise the idle capacity of the plant and ensure its commercial viability.

Thus, out of nine existing non coal mines MPs of only five mines[28] were approved, forest clearance for only one (Semra-Salatua) mine was obtained and environment clearance and consent of JPSCB for none of the mines could be obtained so far (December 2014) as discussed in preceding paragraphs.

[28] Benti-Bagda, Jyoti Pahari, Sirboi, Mahugain-Tulbula, Chelangi.

As a result, eight mines were inoperative as of December 2014, though mining from four[29] mines was done during different periods and the same was stopped by the Government in absence of forest and environment clearances and MP and MS. Consequently, the manpower (115 employees) engaged in these mines remained idle since January 2013.

The Company failed to operate the Sudna grinding factory which remained closed since September 2010 resulting in idle expenditure of ₹ 87.80 lakh owing to non-operation of the factory. The Tupudana granite plant incurred loss of ₹ 2.05 crore during 2011-14 due to expenditure on salary and wages of idle manpower and non up-gradation of the plant.

The Company needs to devise system for development of mines and timely compliance with the statutory requirements.

2.25 Non disposal of stock of minerals

There was unsold stock of kyanite (921 MT), limestone (3198 MT), magnetite (304 MT) and graphite (6917 MT) as on 31 March 2010. The minerals were lying in the forest area. The estimated realisable price of these minerals was ₹ 23.71 lakh based on the reserve price fixed by the Company for tendering in 2008.

Stock of minerals valuing ₹ 23.71 lakh remained undisposed in absence of forest clearance

We noticed that tendering for disposal of these minerals was done in 2008 and 2009 and work orders were issued. As the Forest Department did not permit lifting of the minerals from forest area in absence of forest clearance, the same could not be disposed. The non-liquidation of the minerals stock resulted in blocking of working capital and its value was declining due to deterioration in their quality. Further, prolonged storage of stock of minerals was susceptible to theft and shortage.

The Government while accepting the fact stated that possibilities for its disposal including writing off will be explored.

The facts remain that Company could not obtain forest clearance and did not pursue for obtaining permission for lifting of stock of minerals in the forest area.

2.26 Non-conducting annual physical verification and shortage of minerals

As per decision (May 1989) of BSMDC, the stock of minerals at the sites of the mines should be physically verified every year and the permissible limit/norm for handling losses of the minerals was fixed at 0.25 to 1.50 *per cent.* It was however observed that the stock of minerals at the sites of the mines was last verified by a physical verification committee in May 2010 and significant shortages were found in mineral stock of four mines as depicted in **Table-2.4.**

[29] Benti Bagda (operated during December 2010 to June 2012), Semra Salatua (September 2007 to May 2012), Jyoti Pahari (May 2010 to July 2012) and Mahugain-Tulbula (May 2012 to December 2012).

Table – 2.4

Name of Project	Name of minerals	Book stock (MT)	Verified stock (MT)	Shortage	
				Quantity (MT)/ *(per cent)*	Value in ₹ lakh
Mahugain-Tulbula graphite mine	Graphite	4577.032	735.545	3841.487 (83.93)	13.83
Ranka graphites mine (Closed mine)	Graphite	21568.350	6181.086	15387.264 (71.34)	23.08
Semra-Salatua limestone mine	Limestone	21817.776	1909.700	19908.076 (91.25)	29.86
	Magnetite	16858.982	304.330	16554.652 (98.19)	48.01
Manasoti graphite mine	Graphite	8870.233	2029.740	6840.493 (77.12)	10.33
Total		**73692.373**	**11160.401**	**62531.972 (84.86)**	**125.11**

(Source: data compiled from information furnished by the Company)

Physical verification conducted in May 2010 revealed the abnormal shortage of 71.34 to 98.19 *per cent* of the stock of minerals as against the norms of 0.25 to 1.5 *per cent*.

It may be seen from the above table that there was abnormal shortage of 71.34 to 98.19 *per cent* of the stock of minerals as against the norms of 0.25 to 1.5 *per cent*. The total shortage of minerals was 62431.972 MT valuing ₹ 1.25 crore[30]. The Company had not analysed the reasons for the abnormal shortage. Further, adjustment of the shortfall in the books of account was awaited in absence of finalisation of accounts since 2009-10.

The Government while accepting the facts stated that the stock gets subsided due to prolonged stacking and weathering effect. The closing stock measurement in the recent years could not be carried out due to restrictions imposed by the Department of Forest as well as due to grown up bushes on the stock.

However, the fact remains that the Company had neither conducted physical verification after the year 2010 nor investigated the reasons for huge shortages in May 2010.

Avoidable payment of dead rent

2.27 As per provision of the Mines and Minerals (Regulation and Development) Act, 1957, the mining lease holder was liable to pay royalty to the GoJ for the mineral removed or consumed from the leased area or dead rent in case of short/non production of minerals in respect of that area whichever was higher.

Avoidable payment of dead rent of ₹ 99.83 lakh was made due to failure to get statutory clearances for operating the mines.

We observed that during 2009-10 to 2013-14, dead rent of ₹ 99.83 lakh was paid in respect of five[31] mines of the Company due to non production/short production of minerals owing to non renewal of the leases. Of this, ₹ 77.76 lakh was pertaining to the stone mines at Chandula-Simalgoda which were closed since 2000 as it did not have the forest and environment clearance due to which the Forest Department imposed restriction on operation of the mines. Although renewal of the lease has been accorded in January 2012, registration of the lease deed was not done in absence of forest and environment clearances.

Mining in the other four mines could not be done (except in Mahugain-Tulbula graphite mine during May 2012 to December 2012) owing to failure of the Company to obtain forest and environment clearance leading to payment of dead rent of ₹ 22.07 lakh during 2009-10 to 2013-14. Thus, avoidable payment of dead

[30] Based on the reserve price fixed by the Company for tendering in 2008.
[31] Salhan, Sirboi, Chandula Simalgoda, Mahugain-Tulbula and Manasoti.

rent of ₹ 99.83 lakh was made by the Company due to its failure to get statutory clearances for operating the mines.

The Government replied that dead rent is being paid as dynamic capital expenditure. Reply is not acceptable as the payment of dead rent is revenue in nature.

The fact remains that the mines were inoperative in absence of statutory clearances and the payment of dead rent was being made without any production.

2.28 Deficiencies in Internal Control Mechanism

Internal control system comprises evolving long and short term planning for achievement of objectives, periodical reviews of plans, defining controls for each responsibility area and their evaluation, designing of systems and review of the system and proper operating and accounting procedures to ensure the accuracy and reliability of accounting data. However, following deficiencies were noticed in the internal control and monitoring mechanism of the Company;

There was absence of vigilance and monitoring mechanism and comprehensive Management Information System.

- The Company did not prepare project-wise cost sheet after 2009-10. In the absence of the cost sheet, the Company was unable to take appropriate decision to operate the various mines in a cost-effective manner;

- The Company has no vigilance and monitoring system in order to ensure fair and transparent working in the mines;

- The Company had not devised any comprehensive Management Information System (MIS) for collection, consolidation and analysis of various information/data in absence of which the management was not in a position to take decisions in the best interest of the Company and to improve its profitability.

The Government stated that the audit observation has been noted for action.

2.28.1 Non-conducting of stipulated number of meetings of Board of Directors

Only five meetings of BoDs were held against required eight meetings during 2012-13 to 2013-14.

Section 285 of the Companies Act, 1956 provides that every Company shall hold a meeting of Board of Directors (BoDs) at least once in three months and at least four such meetings is to be held every year. The Company held five meetings of BoDs out of eight meetings to be held during 2012-13 to 2013-14 and did not hold any meeting after June 2013. In the absence of regular meetings, it could not be ascertained in audit if BoDs monitored the activities of the Company effectively.

The Government accepted the observation and stated that due to non formation of complete BoDs, leaving vacancy in the post of key managerial personnel, the meeting could not be held.

2.28.2 Internal Audit

Internal audit is an essential component of internal control. Internal auditors examine the effectiveness of internal control and recommend improvements. The Company had no internal audit wing of its own. The Company had also not prepared Internal Audit manual so far (December 2014). In the absence of internal

The Company had no internal audit wing of its own and had also not prepared Internal Audit manual.

audit wing, the Company hires chartered accountants for conducting internal audit of its corporate office and project offices. However, their functions were confined mainly to test check of accounts on cash basis. The auditor did not examine the project wise profitability/viability and utilisation of manpower deployed in various projects.

The Government stated that the audit observation has been noted for action.

The Company needs to establish and strengthen various internal control mechanisms and MIS system.

Conclusion

- The Company could not achieve prescribed milestones for development of the allotted coal blocks resulting in non-commencement of mining in nine blocks. Out of these eight coal blocks were cancelled by the Supreme Court of India and the entire expenditure of ₹ 18.31 crore incurred by the Company on these coal blocks became infructuous;

- The Company failed to obtain statutory clearances leading to discontinuance of mining activities in respect of four mineral mines during 2012-13. Four other mineral mines were inoperative for more than 14 years;

- There was no production and sale of coal and other minerals during 2013-14 except in Chelangi granite mine;

- There was significant shortfall in production of limestone, graphite and kyanite by private contractors ranging from 45.90 *per cent* to 86.03 *per cent* of the awarded quantity;

- There was absence of vigilance and monitoring mechanism and comprehensive Management Information System. The Company had no internal audit wing.