

EXECUTIVE SUMMARY

Tax collection	In 2010-11, the collection of taxes under State Excise, which stood at ` 8284.74 crore, increased by 19 <i>per cent</i> over the previous year which was attributed by the Department to increase in rate of tax and better compliance due to e-administration.
Internal Audit Wing	The Internal Audit Wing (IAW) is functioning in the State Excise Department with working strength of one Senior Audit Officer and two Assistant Audit Officers. There are 311 offices in the Department out of which 104 offices were planned for audit during 2009-10 and 108 offices were audited. During 2005-06 to 2009-10 IAW raised 506 observations involving ` 33.79 crore, of which 39 observations involving ` 31.18 lakh were settled which was only eight <i>per cent</i> of the total objections raised.
Insignificant recovery by the Department of observations pointed out by us in earlier years	<p>During the last five years, through our Audit Reports, we had pointed out non/short levy, non/short realisation, and loss of revenue, etc., with revenue implication of ` 183.54 crore in three paragraphs. Of these, the Government/Department had accepted audit observation in two paragraphs involving ` 10.44 crore and had since recovered ` 23.95 lakh.</p> <p>The Government needs to take concerted actions on the audit paragraphs in interest of revenue and for better tax compliance.</p>
Results of audit conducted by us in 2010-11	We conducted a test check of records of 29 offices of the State Excise Department (SED). We found non/short levy of penalty, non/short levy of licence fee, non/short levy of excise duty, non/short levy of interest, amounting to ` 443.31 crore in 57 cases.
What we have highlighted in this Chapter	In this Chapter we present a Performance audit on ' State Excise receipts '. Wherein we have pointed out faulty licensing policies of the Government for retail vending of liquor which have resulted in revenue forgone of ` 48.43 crore. License fees for distilleries/breweries were not revised since July 2000 despite increasing sales turnovers of IML. Norms for yield of rectified spirit from molasses were not revised, which could have fetched additional revenue of ` 121.52 crore to the Government. In absence of any mechanism to keep track of new areas entering municipal limits, Government lost revenue on account license fee of ` 29.57 lakh. Penalty was not levied on shortlifting of Indian Made Liquor (IML) by licensees.
Our conclusion	The Department may like to take action on the recommendations made by us on the deficiencies both

	systemic and compliance related based on the Performance Audit.
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CHAPTER-III: STATE EXCISE

3.1 Tax administration

The State Excise duty is levied on any liquor, any intoxicating drug, opium or other narcotics and non-narcotic drugs which the State Government may, by notification declares to be an excisable article. The Karnataka Excise (KE) Act, 1965 and Rules made thereunder govern the law relating to the production, manufacture, possession, import, export, transport, purchase and sale of liquor and intoxicating drugs and levy of duties of excise thereon. The State Excise Department (SED) is under the administrative control of the Finance Department and is headed by the Excise Commissioner, who is assisted by Joint Commissioners of Excise. The excise duty is administered by the Deputy Commissioners of Excise at the district level and the Superintendents of Excise, Deputy Superintendents of Excise, Inspectors of Excise and other sub-ordinate officers at the distilleries and range offices.

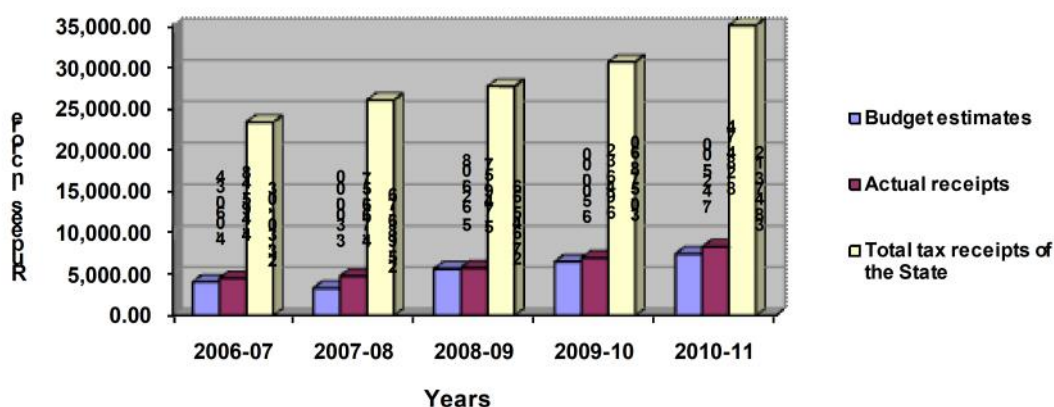
3.2 Trend of receipts

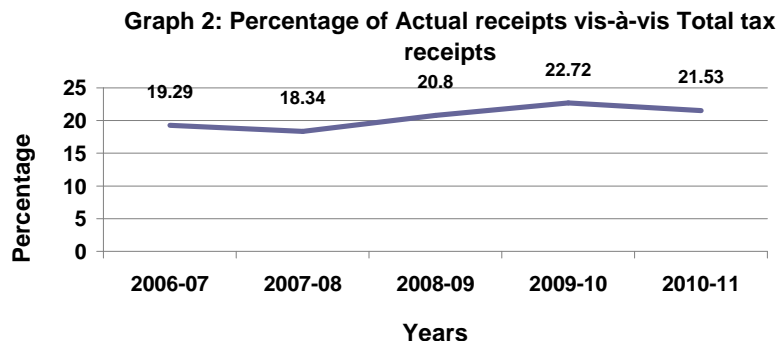
Budget Estimates (BEs) and actual receipts from State Excise along with the total tax receipts during the years 2006-07 to 2010-11 are exhibited in the following table and graphs:

(` in crore)

Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	4,060.34	4,495.48	(+) 435.14	(+) 10.72	23,301.03	19.29
2007-08	3,300.00	4,766.57	(+)1,466.57	(+) 44.44	25,986.76	18.34
2008-09	5,626.08	5,749.57	(+) 123.49	(+) 2.19	27,645.66	20.80
2009-10	6,500.00	6,946.32	(+) 446.32	(+) 6.87	30,578.60	22.72
2010-11	7,425.00	8,284.74	(+) 859.74	(+) 11.58	38,473.12	21.53

Graph 1: Budget estimates, Actual receipts and Total tax receipts





3.3 Cost of collection

The gross collection in respect of state excise, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for the respective preceding years were as follows:

Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the preceding year
	(` in crore)			
2008-09	5,754.42	55.78	0.97	3.27
2009-10	6,948.72	60.55	0.87	3.66
2010-11	8,286.83	68.35	0.82	3.64

3.4 Impact of Audit Reports

During the last five years, through our audit reports, we had pointed out non/short levy, non/short realisation, and loss of revenue, etc., with revenue implication of ` 183.54 crore in three paragraphs. Of these, the Government/ Department had accepted audit observation in two paragraphs involving ` 10.44 crore and had since recovered ` 23.95 lakh. The details are given in the following table:

(` in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount ¹	Number	Amount ¹
2006-07	--	--	--	--	--	--
2007-08	01	0.23	01	0.23	01	0.09
2008-09	--	0	--	0	--	--
2009-10	01	1.02	01	1.02	--	--
2010-11	01	182.29	0	9.19	0	0.15

¹ Indicates the amount of acceptance and recovery in respect of individual cases included in the respective paragraphs.

(` in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount ¹	Number	Amount ¹
Total	03	183.54	02	10.44	01	0.24

As seen from the above table, the recovery made by the Department is only 0.9 per cent of the amount involved in the total accepted cases.

The State Government may take more concerted action on the Audit Reports in interest of revenue and better tax compliance.

3.5 Results of audit

We conducted a test check of records of 29 offices of the State Excise Department during the year 2010-11 and found non/short levy of penalty, non/short levy of licence fee, non/short levy of excise duty, non/short levy of interest, amounting to ` 443.31 crore in 57 cases. The observations broadly fall under the following categories:

(` in crore)

Sl. No.	Category	Number of cases	Amount
	State Excise		
1	State Excise Receipts (A Performance audit)	1	182.29
2	Non/short levy of licence fee, additional licence fee and shifting fee	5	248.17
3	Non/short levy of excise duty and additional excise duty	4	0.17
4	Non-levy of interest on outstanding arrack shop rentals	1	10.25
5	Irregular acceptance of lapsed EVC	1	0.74
6	Non-levy of fee on rectified spirit	1	1.65
7	Other irregularities	44	0.04
	Total	57	443.31

During the course of the year 2010-11, the Department accepted under assessments and other deficiencies of ` 8.58 lakh in four cases pointed out during the year. Further, the Department also recovered ` 26.20 lakh in eight cases pointed out in earlier years.

A Performance Audit on 'State Excise Receipts' involving system and compliance deficiencies besides revenue forgone of ` 182.29 crore is mentioned in the following paragraphs. Of this, the Department accepted our observation involving ` 9.19 crore and recovered ` 14.95 lakh.

3.6 Performance Audit on 'State Excise Receipts'

Highlights

Though the Rules and the licence condition provide for, sale of liquor in sealed bottles we observed that in many cases loose sale of liquor was made. We observed that retail liquor outlets were in close proximity of religious and educational institutions, hospital etc. in violation of the Rules.

(Paragraph 3.6.7.4, 3.6.7.5)

The State Government has not issued any fresh retail vending licences since December 1992, even though the population of the State has increased from 4.48 crore in 1991 to 5.27 crore in (2001 census) despite demand for grant of licences. During this period though 238 retail shop licences (CL-2) and 225 bar licences (CL-9) were not renewed, no action was taken by the Department to issue an equal number of licences to new applicants, thereby Government revenue of not less than ` 48.43 crore was forgone. Further, considering the demand, there was no attempt to exploit the revenue resources through auction of licences.

(Paragraph 3.6.9)

Though the sales turnover of IML increased from 96.40 lakh carton boxes in 2003-04 to 408.60 lakh carton boxes in 2009-10, i.e., an increase of 323.85 *per cent*, the rate of licence fee for distilleries, breweries were not revised since July 2000.

(Paragraph 3.6.10)

The State Government did not take any action on recommendations of a Technical committee constituted by themselves to revise the norms for yield of rectified spirit from molasses. Even the lowest yield recommended by the Committee would have fetched additional revenue of ` 121.52 crore during 2008-09 and 2009-10.

(Paragraph 3.6.12)

We noticed that the licence of a Sugar Company Limited, Mandya was renewed for the year 2000-01 to 2008-09 without levying and collecting licence fee and additional licence fee resulting in non-levy/collection of licence fee of ` 2.76 crore.

(Paragraph 3.6.13)

We found that with increase in population and village areas coming under municipal limits, there was no suitable mechanism in place in the Department to keep track of new areas entering municipal limits, based on notification passed by the Urban Development Department. Absence of the mechanism resulted in short recovery of license fee of ` 29.57 lakh in four cases.

(Paragraph 3.6.14)

Though consumption statement regarding the quantity of liquor lifted by the licensees (CL2 and CL9) was received by the Range offices from Karnataka State Beverages Corporation Limited (KSBCL) regularly, the Department

failed to levy penalty leviable for short lifting of Indian Made Liquor (IML). The non-levy of penalty amounted to ` 9.04 crore.

(Paragraph 3.6.15)

3.6.1 Introduction

The Karnataka Excise Act 1965, and rules made thereunder govern the licensing of manufacture, possession, transportation, sale or purchase, import and export of any liquor or opium or any intoxicating drug called 'excisable articles' in the State. The state excise receipts mainly comprise levy and collection of licence fee on manufacture of 'excisable articles' in distilleries, breweries, wineries, etc., on dealers in such articles viz., distributors, bar and restaurants, hotels, retail shops, etc., and excise duty (ED) and additional excise duty (AED) on such articles besides levy of penalty for offenses and levy interest on belated payment of excise revenues.

KSBCL was established as a private Limited company under the Companies act, 1956 for the Sourcing and Distribution of Indian made Liquor and Foreign Liquor. For this purpose, Government of Karnataka has issued a Distributors license to KSBCL under Karnataka Excise (Sale of Indian and Foreign Liquors) Rules, 1968. All manufacturers/suppliers who want to sell liquor or beer in Karnataka, whether produced in Karnataka or outside have to channelise it through KSBCL only (Liquor includes Indian made Liquor and Foreign Liquor, beer and wine).

3.6.2 Organisational Setup

At the Government level, the general superintendence of the State Excise Department (SED) is vested with the Principal Secretary to Government in the Finance Department. The Excise Commissioner (EC) is the Head of the Department and is responsible for administration of excise matters in the State. Joint Commissioners of Excise at State level and 32 Deputy Commissioners of Excise (DCOE) at district level, 63 Superintendents of Excise (SOE), 406 Inspector of Excise (IOE) and other staff at field level assist the EC.

3.6.3 Audit objectives

We conducted the Performance Audit to ascertain whether

- i) Proper levy and realisation of excise receipts;
- ii) System existed for monitoring the arrears of revenue;
- iii) The norms prescribed regarding yield of Rectified Spirit and IML are adequate;
- iv) Intelligence and Enforcement measures adopted by the Department are adequate to check violation of the Excise provisions; and
- v) Internal control mechanism provide for effective functioning of the Department.

3.6.4 Scope and methodology of audit

We conducted audit during the period from February 2011 to September 2011 and examined levy and collection of excise duty for the period 2005-06 to 2009-10. We selected 10 Districts out of 29 Districts and also selected 20 Distilleries/Breweries out of 42 Distilleries/Breweries coming under 10 Districts selected for detailed check.

3.6.5 Acknowledgement

We acknowledge the Co-operation of the State Excise Department in providing necessary information and records for audit. We held an Entry conference with the Commissioner of Excise, State Excise Department during February 2011 wherein the scope of audit, methodology and audit objectives including sampling were explained. We requested the Government/Department for an exit conference to discuss the findings of the Performance Audit but despite several requests, the Department have not responded.

Audit Findings

3.6.6 Arrears of revenue

The arrears of revenue as on 31st March 2010 amounted to ` 737.78 crore. The year wise position of arrears of revenue is mentioned in the following table:

(` in crore)

Year	Opening Balance of Arrears	Amount collected during the year	Closing balance of arrears	Percentage of amount collected to opening balance of arrears
2005-06	781.24	1.03	780.21	0.13
2006-07	780.21	36.74	743.47	4.71
2007-08	743.47	2.33	741.14	0.31
2008-09	741.14	1.64	739.50	0.22
2009-10	739.50	1.72	737.78	0.23

The arrears of revenue as on 31 March 2010 was ` 737.78 crore. The arrears comprised of Principal amount of ` 250.35 crore and interest of ` 487.43 crore. Of this, ` 6.26 crore were stayed by courts, ` 245.39 crore were referred to Revenue Department pertaining to 166 cases to recover as arrears of land revenue and balance ` 486.13 crore were with the SED. During the year 2010-11, the Department collected only ` 6.21 crore from the defaulters.

The age wise pendency of arrears furnished by the Department is as mentioned below:

Age	Arrears amount (` in crore)
Above 25 years	118.28
From 15 years to 25 years	363.37
From 10 years to 15 years	23.79
From 5 years to 10 years	232.34
Total	737.78

The above table indicates that 68.5 per cent (` 505.42 crore) of the arrears are pending for more than 10 years.

The total Principal amount due of ` 250.35 crore includes about ` 100.05 crore from the ten dealers and pertains to the period from 1993-94 to 2001-02 as mentioned in the following table:

(` in crore)

Sl. No.	Name of the Defaulters	Period	Principal amount due	Follow-up action by the Department
1	Krishnappa N.V	2001-02	21.35	Department stated that the defaulter did not own any property for recovery of the arrears.
2	Narayanaswamy D.P	1995-96	12.57	It was reported by the Department during 2000-01 to the Public Accounts Committee that ` 6 lakh was recovered by auctioning two houses held in the name of the defaulter except this he had no other properties in his name.
3	Somashekar H.V	2001-02	11.37	The Department stated that the defaulter did not own any property for recovery of the arrears.
4	Eshwaraswamy .G	1993-94	11.79	It was reported that though the case was covered by RRC, the Deputy Commissioners of Bangalore and Mysore stated that there was no property in the name of the defaulter.
5	Lokesh	2001-02	8.35	The Department stated that the defaulter did not own any property for recovery of the arrears
6	Krishna T	1999-00	7.57	-do-
7	Srinivas .M.V	2001-02	6.86	-do-
8	Babu Bheemesh Mugali	2001-02	5.61	-do-
9	Ragavendra T	2001-02	9.63	22 properties held by the defaulter have been identified. However, it was stated that the contractor approached the Hon'ble High Court requesting to adjust the forfeited earnest money deposit amount against his arrears. The case is pending before Hon'ble High Court of Karnataka.
10	M/s. Torgal Groups	2001-02	4.95	Department stated that the defaulter did not own any property for recovery of the arrears.
Total			100.05	

From the year 2005-06 onwards the Department obtained bank guarantee from the Nationalised banks as a result of which there was no accumulation of arrears from that year.

Mention of huge arrears was reported in the Audit Report for the year ended 31 March 1995 and the same was discussed by PAC during the year 2000. However recommendations are awaited.

The Department stated that the Government introduced 'Karasamadhana Scheme' on 29.5.2010 and was able to collect principal amount of ` 16.56 lakh from the defaulters. It is also stated that, arrears amount outstanding from the defaulters would be recovered by identifying their property particulars and suitable action would be taken to forfeit the same to Government. The Department's reply is not convincing looking at the very old arrears for whose recovery; no action was taken all these years.

3.6.7 Enforcement Activity

The KE Act empowers the Excise officer not below the rank of a Sub-Inspector of Excise to exercise powers conferred on an Officer-in-charge of a Police station by the provisions of the Code of Criminal Procedure, 1973 with regards to offences under the Act. These powers include power to enter and inspect places of manufacture and sale at any time, by day or by night, to examine the accounts and registers, examine, test, measure or weigh any materials, stills, utensils, implements apparatus or intoxicant found in such place.

3.6.7.1 The Department was conducting surprise inspection of the licensed premises to ensure that licensees are adhering to the excise rules and licence conditions and also raids were being made based on the information received regarding illegal activities involving excisable articles.

Sl. No.	Excise Year	No. of Raids Conducted	Cases booked	No. of persons arrested	No. of Vehicle Seized	LIQUOR SEIZED IN LITRES			
						IML	Beer/ fenny	RS/NS/ DS	Arrack
1	2005-06	63029	7488	4706	882	134912	89764	157036	241898
2	2006-07	62093	5455	3037	663	80796	25216	274263	33864
3	2007-08	69787	7454	3720	810	143890	51859	300423	623731
4	2008-09	64025	9994	4521	999	369963	57292	199835	14726
5	2009-10	64583	11086	4345	841	196006	116828	134555	6456
	Total	323517	41477	20329	4195	925567	340959	1066112	920675

We noticed from the crime statistics maintained by the Department that there was increase in crime from the year 2007-08 onwards.

It would be seen from the above that in 13 per cent of the raids conducted by the Department, cases were booked against the offenders but for the balance 87 per cent of the cases, the outcome is not known.

3.6.7.2 Fixation of targets: We noticed that the Department has not fixed any target for the Enforcement wing with regard to number of inspections to be conducted by them. The district wise inspections/raids conducted, cases booked and their success rate in terms of percentage of cases booked to the number of raids conducted during the years 2008-09 and 2009-10 were as mentioned in the following table:

Sl.	District	2008-09	2009-10	Total
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No.		No. of raids conducted	No. of cases booked	Percentage of cases booked to No. of raids	No. of raids conducted	No. of cases booked	Percentage of cases booked to No. of raids	No. of raids conducted	No. of cases booked	Percentage of cases booked to No. of raids
1	Bangalore (U)	8719	802	9.20	6276	1315	20.95	14995	2117	14.12
2	Bangalore (R)	2165	140	6.47	1204	197	16.36	3369	337	10.00
3	Bagalkot	1916	387	20.20	2531	437	17.27	4447	824	18.53
4	Belgaum	2744	611	22.27	2501	739	29.55	5245	1350	25.74
5	Bellary	2274	380	16.71	2214	412	18.61	4488	792	17.65
6	Bidar	1650	425	25.76	1163	260	22.36	2813	685	24.35
7	Bijapura	2202	265	12.03	1378	289	20.97	3580	554	15.47
8	Chamarajanagar	1916	119	6.21	1733	128	7.39	3649	247	6.77
9	Chickmagalur	4090	385	9.41	2757	524	19.01	6847	909	13.28
10	Chikkaballapura	1151	208	18.07	1313	330	25.13	2464	538	21.83
11	Chithradurga	1160	244	21.03	960	245	25.52	2120	489	23.07
12	D' Kannada	2369	334	14.10	3293	211	6.41	5662	545	9.63
13	Davangere	2332	296	12.69	3141	206	6.56	5473	502	9.17
14	Dharawad	1679	295	17.57	1967	335	17.03	3646	630	17.28
15	Gadag	1080	269	24.91	1402	372	26.53	2482	641	25.83
16	Gulbarga	2242	606	27.03	3385	458	13.53	5627	1064	18.91
17	Hassan	3453	616	17.84	4461	663	14.86	7914	1279	16.16
18	Haveri	1452	286	19.70	2302	296	12.86	3754	582	15.50
19	Kodagu	637	97	15.23	1339	183	13.67	1976	280	14.17
20	Kolar	1942	598	30.79	2399	569	23.72	4341	1167	26.88
21	Koppal	371	30	8.09	395	82	20.76	766	112	14.62
22	Mandya	2697	345	12.79	3497	488	13.95	6194	833	13.45
23	Mysore	2719	571	21.00	1350	416	30.81	4069	987	24.26
24	Raichur	2205	262	11.88	2095	143	6.83	4300	405	9.42
25	Ramanagara	523	110	21.03	767	327	42.63	1290	437	33.88
26	Shimoga	1563	521	33.33	1574	480	30.50	3137	1001	31.91
27	Tumkur	2074	382	18.42	3085	555	17.99	5159	937	18.16
28	Udupi	1071	259	24.18	844	225	26.66	1915	484	25.27
29	U' Kannada	3629	151	4.16	3257	201	6.17	6886	352	5.11
	Total	64025	9994	15.61	64583	11086	17.17	128608	21080	16.39

The above table would show that in respect of Chamarajanagar, Dakshina Kannada, Davanagere, Raichur and Uttara Kannada Districts percentage of cases booked to number of raids conducted were less than 10 per cent.

3.6.7.3 Leniency in dealing with crime

The Chief Minister, who was functioning as State Finance Minister, in his budget speech for the year 2008-09, stated that the Excise Act would be amended to provide for cancellation of licences in proven cases of liquor shops charging higher prices than the maximum retail price (MRP) prescribed by the Excise Commissioner. Accordingly, the conditions for allotment of CL-2 licence were amended with effect from 15 January 2009 to include a condition stipulating that the licensee shall sell or permit to sell liquor at prices not exceeding the MRP indicated on the labels of the bottles as declared under the provisions of the Karnataka Excise (Excise duties and fees) Rules, 1968. Therefore, sale of liquor at prices exceeding the MRP after the said amendment constitutes violation of conditions of licence.

In this regard we noticed that, the offence which is in the nature of violation of conditions of licence could be dealt by the authorities under the different sections of the KE Act having different scope and consequences as detailed below:

Sl. No.	Section of the KE Act	Provision
1.	29 (1) (b)	Subject to such restrictions as the State Government may prescribe, the authority granting any licence or permit under this Act shall cancel it in the event of any breach by the holder thereof, or by any of his servants or by any one acting on his behalf with his express or implied permission, of any of the terms and conditions thereof.
2.	36 (1) (b)	Whoever, being the holder of a licence or permit granted under this Act, or being in the employ of such holder and acting on his behalf willfully does or omits to do, anything in breach of any of the conditions of his licence, or permit, not otherwise provided for in this Act shall, on conviction, be punished with imprisonment which may extend to three months or with fine which may extend to five hundred rupees or with both.
3.	45(1)	The EC, the DCOE or any Excise Officer specifically empowered in this behalf may accept from the licensee a sum of money not less than five thousand rupees but which may extend to fifty thousand rupees by way of compensation for the offence which may be committed.

We noticed from the scrutiny of 'Crime Register' maintained in Bangalore (Rural), Bangalore (Urban) and Mandya districts in respect of 12 cases booked during 2009-10 to 2011-12 for violation of licence conditions, that the cases were later compounded by levying compounding fee between ` 12,000 and ` 15,000 only.

Sl. No.	District	Name of the licensee (M/s)	Nature of offences noticed	Period of offence Date of compounding order	Amount levied on compounding
1.	Bangalore (Rural)	Sujatha Wines, Hosakote taluk	1. Selling price exceeding MRP 2. Accounts not upto date. 3. Loose sale of liquor 4. Non-production of blue print	2009-10 (25.5.2010) 16.6.2010	15,000
2.		J.R.D Wines, Hosakote	1. Selling price exceeding MRP 2. Loose sale of liquor 3. Cash receipt not issued	2009-10 (1.3.2010) 4.6.2010	15,000
3.		Venkateshwara wines, Hosakote	1. Selling price exceeding MRP 2. Loose sale of liquor 3. Bill book not produced 4. Allowing consumption at premises	2009-10 4.6.2010	15,000
4.		Highway Wines, Hosakote	1. Selling price exceeding MRP 2. Loose sale of liquor	2009-10 4.6.2010	15,000
5.		Manjunatha Wines, Hosakote	1. Selling price exceeding MRP 2. Bill book not produced 3. Allowing consumption at premises	2009-10 4.6.2010	15,000
6.		J.R.D Wines, Hosakote	1. Selling price exceeding MRP 2. Loose sale of liquor	2009-10 (19.2.2010) 4.6.2010	15,000
7.		Honnu Wines, Hosakote	1. Selling price exceeding MRP 2. Loose sale of liquor 3. Cash receipt not issued	2009-10 4.6.2010	15,000
8.		Sujatha Wines, Hosakote taluk	1. Selling price exceeding MRP 2. Bill book not produced 3. Allowing consumption at premises	2009-10 (15.2.2010) 14.6.2010	15,000
9.		Honnu Wines, Hosakote	1. Raja whisky sold for `42 which is more than MRP	2009-10 16.1.2010	15,000
10.	Bangalore	Balaji Wine,	1. Selling price exceeding MRP	2009-10	15,000

Sl. No.	District	Name of the licensee (M/s)	Nature of offences noticed	Period of offence Date of compounding order	Amount levied on compounding
	(Urban)	Lingarajapura	2. Allowing consumption at premises	24.11.2009	
11.	Mandya	Renuka Wines, Maddur	1. Selling price exceeding MRP	2011-12 14.10.2011	12,000
12.	Mandya	Gururaja Wines, Maddur	1. Selling price exceeding MRP 2. Loose sale of liquor	2011-12 14.10.2011	15,000

It may be seen from the above illustrative cases that the Department has taken a lenient view in dealing with the cases booked for violation of licence conditions. Even in respect of licensees who appear to be habitual offenders, i.e., who repeated the same offences within a span of three months (sl.no. 1 and 8 and sl.no. 2 and 6 of the above table), each time compounding amount of ` 15,000 only was levied. Besides, other stringent provisions of cancellation of licences, imprisonment etc available under the law were not invoked.

3.6.7.4 Violation of excise rules by retail shop

Under the KE (SI and FL) Rules, the retail shop licences are issued in the Form CL-2, for sale of liquor in sealed bottles to any person in a quantity not less than 0.180 litres at a time is prohibited. Further, the licence condition also stipulates that no liquor shall be allowed to be consumed on the premises. However, we observed that in many cases loose sale of liquor continued to be made and consumption of liquor by public in the premises itself were allowed as shown below.



Picture No. 1-Loose sale and consumption of liquor at one of the outlets in Bangalore

3.6.7.5 Sales outlets irregularly operating in the vicinity of religious institutions and educational institutions

The Karnataka Licenses (General Conditions) Rules, 1967 stipulates maintenance of a distance of 100 meters between the licensed sale outlets and educational institutions, religious institution, hospital, any office of the State Government or Central Government of local authorities or in any residential locality. However, we observed that sale of liquor near religious and educations institutions in violation of the restrictions imposed, as shown below:



Picture No. 2- A wine store situated at a distance within 50 metres from a Church, in Bangalore.



Picture No. 3- A Bar and Restaurant located at a distance of 50 metres from a temple in Bangalore.



Picture No. 4 - A Bar and Restaurant located within 50 metres distance from an Education Institution in Bangalore.

3.6.8 Social obligation of Government in mitigating the effects of alcoholism

Social responsibility is an ethical ideology or theory by which an entity, be it an individual, organisation or Government has an obligation to act for the

benefit of society at large. A socially responsible approach would involve attention to social and environmental concerns in addition to financial goals. The SED which is earning second highest tax revenue to the State Government may discharge their social obligation by promoting responsible use of excisable articles which means moderate consumption, enforcing legal age of drinking, promoting zero tolerance for drinking while driving or performing sports activities, etc.

Government of Karnataka constituted an autonomous body in October 1984, the Karnataka State Temperance Board, which is entrusted with task of eradicating alcoholism and hazardous drug addiction through public awareness and educational programmes involving Governmental and non-Governmental agencies. During the period 2005-06 to 2009-10 grants released to the board is detailed in the following table:

Year	Grant released (` in lakh)
2005-06	33.20
2006-07	32.78
2007-08	39.48
2008-09	40.88
2009-10	42.50

As per the information furnished by the Karnataka Temperance Board, 50 *per cent* grant goes to the Pay and allowance of the Staff of the Board and the balance of 50 *per cent* incurred towards production of documentary movies, handouts and advertisements through media.

In Kerala State, the Temperance commission is spreading awareness among the public on the ill-effects of consuming liquor. In addition, it also treats addicts of Alcohol and Drugs improving the personality of the addicts to bring them to a new life. This includes medical treatment, psychological helps, spiritual encouragement and social support. The commission also gives anti-alcohol treatment free of cost.

Andhra Pradesh State Government earmarked ` 50 crore to educate general public about the ill effects of consuming liquor.

We recommend that Government may consider widening the scope and activities of temperance board similar to that of neighbouring States with adequate budgetary support and also to disseminate information about MRP, introduction of barcodes affixing by wholesale distributors, and also propaganda material to persuade safe and healthy drinking methods.

3.6.9 Non-issue of licences in CL-2 (Retail sale) and CL-9 (Bar Licence)

In Karnataka, various types of licences for retail sale of Indian and Foreign liquor are issued on payment of fee under the provisions of the Karnataka Excise (Sale of Indian and Foreign liquors) Rules, 1968. These licences are required to be renewed annually on payment of prescribed fee. The sale/transfer of licences is also permissible in the event of death of the licensee to the legal heirs of the deceased under the provisions of the Karnataka Excise Licences (General Conditions) Rules, 1967.

The maximum number of licences to be granted in an area shall be determined from time to time by the Department with reference to population and probable demand. The State Government has stopped issue of fresh licences with effect from 5 December 1992. No further licences were issued even though the population of the State has increased from 4.48 crore in 1991 to 5.27 crore in 2001 census and several applications were received for grant of licence. As a result the licences which existed prior to 1992 were being renewed annually and being transferred on sale/inheritance basis.

We noticed from the statistical information maintained by the Department that due to various reasons 238 retail shop licences (CL-2) and 225 bar licences (CL-9) were not renewed. No action was taken by the Department to issue an equal number of licences to new applicants. Non-issue of these licences deprived the Government a revenue not less than ` 48.43 crore at the lowest rate of licence fee payable as applicable to 'other areas' for the period from 2005-06 to 2009-10 as mentioned in the following table:

(` in crore)

Year	Licence fee for 238 CL2 licences			Licence fee for 225 CL9 licences			Total revenue foregone
	Licence fee (fee per licence)	Additional licence fee (@ 15%)	Total	Licence fee (fee per licence)	Additional licence fee (@ 15%)	Total	
2005-06	2.38 (0.01)	0.36	2.74	2.25 (0.01)	0.34	2.59	5.32
2006-07	2.38 (0.01)	0.36	2.74	2.25 (0.01)	0.34	2.59	5.32
2007-08	4.76 (0.02)	0.71	5.47	4.50 (0.02)	0.68	5.18	10.65
2008-09	4.76 (0.02)	0.71	5.47	4.50 (0.02)	0.68	5.18	10.65
2009-10	7.14 (0.03)	1.07	8.21	7.20 (0.032)	1.08	8.28	16.49
Total	21.42	3.21	24.63	20.70	3.12	23.82	48.43

Further as per the statistical information maintained by the Department there were 3835 CL-2 and 3447 CL-9 licences in operation during the year 2009-10. Many writ petitions were filed before the Honourable High Court of Karnataka by the applicants for grant of new licences and the High Court disposed of these petitions by directing the respondents to fix the quota based on the population. The Excise Commissioner has worked the quota of CL-2 and CL-9 licences based on population. As per the quota worked by the Excise Commissioner in 2003, additional 489 CL-2 and 618 CL-9 licences were to be issued, however no fresh licences were issued as of November 2011.

Under these circumstances, it was necessary for the Government to have a re-look in the existing procedure of issue of such licences to cater to the needs of the increase in population as well as to prevent unauthorised sale of liquor.

In this regard, it is pertinent to mention that in the State of Andhra Pradesh, there is a system of auctioning of the licences with a validity period of two years. It was seen that during the year 2010-11, the Government of Andhra

Pradesh had received ` 6,904 crore from auction of 6,505 licences. In Karnataka, the revenue realised from issue of all types of licences including additional licences fee was only ` 1,134.74 crore during the year 2009-10. Since no new licences are being issued in the State, auctioning of the existing licences each year would have yielded additional revenue to the Government apart from providing level playing field for new entrants and discouraging monopoly and cartelisation. This was pointed out to the Department in November/December 2011 and their reply is awaited (January 2012).

We also noticed that M/s Mysore Sales International Limited (MSIL), a Government of Karnataka undertaking was sanctioned 463 retail licences in form CL 11(c) on 3 July 2009. As there was demand for quality liquor in all the districts, Government may consider increasing the outlets operated by Government agencies to prevent unhealthy crimes of charging of rates beyond MRP by other retailers and sale of unauthorised and unsafe liquor, as well as for augmenting government revenue.

3.6.10 Non-revision of licence fee

The Karnataka Excise (Distillery and Warehouse) Rules 1967 and Karnataka Excise (Brewery) Rules, 1967 stipulates the fee payable for grant or renewal of Distilleries and Breweries. With effect from 1.7.2000, the Government fixed the rate of licence fee for the Distilleries/Breweries at the following rates.

Type distillery/brewery	Licence fee per annum (` in lakh)
Distilleries Which distill spirit out of molasses	22.50
Distilleries Which use spirit for manufacture of Indian liquor	30.00
Distilleries Which distill spirit out of tapioca/sweet potato	17.50
Breweries	18.00

There was no provision of revision of licence fee based on production capacity of Distillery/Brewery.

Time limit was not prescribed in the Act/Rules for periodical revision of the rate of licence fee. As per Basic Excise Statistics Report published by the State Excise Department, Government of Karnataka, the sales turnover of IML increased from 96.40 lakh carton boxes in 2003-04 to 408.60 lakh carton boxes in 2009-10, i.e., an increase of 323.85 *per cent*, the rate of license fee remained unchanged/unrevised since July 2000.

The trend of revenue from licence fee on distilleries/breweries during 2005-06 to 2009-10 is given in the following table:

Year	Number of licensees	Licence fee/Additional licence fee (` in crore)
2005-06	31	17.68
2006-07	31	18.47
2007-08	44	23.71
2008-09	44	23.71
2009-10	39	22.51

We noticed that Government increased (double) the licence fee in respect of retail vending of IML with effect from 1 July 2007 in the State and lowered

the profit margin of retail sales from 20 to 10 *per cent* with effect from 28 February 2009 due to increase in sale of IML on abolition of sale of arrack. This was done along with increase in excise duty/additional excise duty and increased repatriation of privilege fee from sole distributor. The production of IML increased from 1509.65 lakh BLs in 2006-07 to 2981.26 lakh BLs in 2007-08. However, the licence fee of distilleries was not revised upwards, commensurate with increase in excise duty/additional excise duty and increased sales.

It was stated that the Department in consultation with Government is examining the proposal of revising the distillery licence fee.

3.6.11 Comparative price of liquor in the neighbouring States

As per Article 47 of the Constitution of India, the State shall endeavour to bring about prohibition of consumption of liquor. Being a demerit commodity, it was expected that the tax on liquor should be high enough to discourage its consumption and at the same time result in augmentation of revenue. However, it was seen that the cost of liquor for the consumers at MRP is less when compared with the neighbouring States, as per the information collected by us from websites are mentioned in the following table:

(Amount in `)

Sl. No.	Brand (750 ML)	Karnataka	Andhra Pradesh	Kerala	Maharashtra	Tamil Nadu
1	Whyte and Mackay	1000	1266	NA	1260	NA
2	Black Dog Delux Aged 12years	1700	1976	NA	1900	1790
3	Mc Dowells No.1 Reserve	328	368	370	NA	400
4	Black and White	1049	NA	1538	NA	1240

It would be seen from the above that the MRP of the liquor is less in the State compared to neighboring States. Government may consider revision of rates of Excise Duty/Margins of state wholesale distributors to maintain MRP at par with neighboring States. This would boost the excise revenues of the Government.

3.6.12 Need for revision of norms in respect of Minimum yield of spirit from molasses

The Karnataka Excise (Regulation of Yield etc.,) Rules, 1998, lays down the norms for minimum quantity of yield of spirit/liquor from the raw materials used. According to these norms, one ton of grade - I molasses should yield 220 BLs of rectified spirit with 166 degree proof strength. For manufacture of IML, such spirit has been reduced to a strength of 75° proof.

Though the rule came into force from 4-8-1998, these norms were fixed by the Government as early as 1980. We pointed out a need for revision of norms in the Audit Report (Revenue Receipts)

for the year 2004-05. A technical committee constituted by Government on 22 December 2005 in this regard submitted their report to the Department on 5 October 2007. The technical committee observed that the reason for varying

yield of RS within the grade of molasses was the Total Reducible Sugar (TRS) percentage in the molasses. Based on the TRS factor the Committee recommended revised norms for yield of RS as mentioned in the following table:

Yield of Rectified Spirit (under Grade 'A')

No	Type of process	TRS	Existing requirement	Modification proposed
1	Batch process	(i) > 52	220	255
		(ii) 51-51.9	220	250
		(iii) 50-50.9	220	245
2	Continuous process	(i) > 52	220	270
		(ii) 51-51.9	220	265
		(iii) 50-50.9	220	260

However, the Government did not take any action on the recommendations of the Technical committee.

We noticed that the average yield of RS obtained per ton of grade - I molasses during the period 2005-06 to 2009-10 by 20 distilleries were between 222 BLs and 272 BLs as mentioned in the following table:-

Sl. No.	Name of the Distillery	Sector	Molasses used (MT)	RS produced (BLs)	Average production of RS(BLs)
	Yield obtained more than 250 Bls per tonne				
1	M/s HSSKN, Sankeshwara	Co-operative	163924	44589929	272
2	M/s United Spirits, Hospet	Private	142212	28455313	270
3	M/s Godavari Bio-refinery, Sameerwadi	Private	265394	71688945	270
4	M/s Renuka Sugars, Soundatti	Co-operative	313048	84219718	269
5	M/s Samson. Distillery, Duggavathi	Private	218358	57858687	265
6	M/s Doodhganga KSSKN, Chikodi	Co-operative	101452	26413039	260
7	M/s Siddapura Distillery, Siddapura	Private	184022	47143603	256
8	M/s Chamundeswari Sugars, KM Doddi	Private	243563	61853358	254
9	M/s Sovereign Distillery, Singapura	Private	322572	81594358	253
	Yield obtained less than 250 Bls per tonne				
1	M/s Ugar Sugars, Ugar Khurd	Private	220882	53949687	244
2	M/s Bannariamman, Nanjungud	Private	136527	33013507	242
3	M/s Malaprabha SSKN, MK Hubli	Co-operative	44105	10624373	241
4	M/s Venkateshwara Distillery, Balki	Private	69168	16495498	238
5	M/s Vishwanatha sugars, Hukkeri	Private	96941	22694215	229
6	M/s Ravindra Distillery, Mallik Mirjapura	Private	28709	6572483	228
7	M/s Gemini, Nanjungud	Private	72757	16616914	223
8	M/s SPR Groups, Chamundeswari, TN Pura	Private	101678	22628147	223
9	M/s SLN Distillery, Garag	Private	146960	32826872	223

Sl. No.	Name of the Distillery	Sector	Molasses used (MT)	RS produced (BLs)	Average production of RS(BLs)
10	M/s JP Distilleries, Heggadathihalli	Private	184743	42576293	223
11	Mysore Sugar Co. Ltd, Mandya	GoK undertaking	67150	14881271	222

Taking the minimum yield of 245 BLs recommended by the Committee as basis, short yield of RS by 18 distilleries works out to 49.57 lakh BLs during the excise years 2008-09 and 2009-10. The consequent revenue implication on account of excise duty and additional excise duty forgone worked out to ` 121.52 crore as under:

Year	Molasses distilled in MT	Expected yield of RS in BL (at 245 BL per MT of molasses)	Actual yield of RS In BL	Shortfall in BLs	Estimated IML at 75° proof.	ED at 45 per BL of IML	AED on IML
						(` in lakh)	
2008-09	157209	38516205	35938411	2577794	5705517	2567.48	3423.31 (@ ` 60 per BL)
2009-10	223277	54702865	52323614	2379251	5266076	2369.73	3791.57 (@ ` 72 per BL)
Total	380486	93219070	88262025	4957045	10971593	4937.21	7214.88
Grand Total (ED+AED)						12152.09	

When we pointed out this, the Government stated that the term of the Committee had expired on 15 April 2011 and they have constituted a new standing technical committee and the issue would be examined. They have not furnished their comments for their inaction all these years on the Committee's recommendation.

We recommend that the Government may revise the norms in respect of minimum yield of spirit from molasses at the earliest based on the available Report.

3.6.13 Non-levy of licence fee and Additional licence fee

According to Rule 6 of the Karnataka Excise (Distillery and Warehouse) Rules, 1967, a distillery licence may be renewed on application submitted to the Commissioner at least one month before the expiry of the licence already granted along with licence fee prescribed under Rule 7 of the said rules.

We noticed from the records of the EC during December 2010 that the distillery licence of M/s. Mysore Sugar Company Limited, Mandya was renewed for the year 2000-01 to 2008-09 without levying and collecting licence fee and additional licence fee as prescribed under Rule 7 of Karnataka Excise (Distillery and Warehouse) Rules, 1967. This resulted in non-levy/ collection of licence fee of ` 2.76

crore as mentioned in the following table:

(` in lakh)			
Year	Licence fee and Addl. licence fee payable	Fee Paid	Balance

	Current year	Arrears		
2005-06	34.50	172.50 (2000-01 to 2004-05)	Nil	207.00
2006-07	34.50	207.00	Nil	241.50
2007-08	34.50	241.50	Nil	276.00
2008-09	34.50	276.00	34.50	276.00
2009-10	34.50	276.00	34.50	276.00

The Department replied that the company had approached the Government, for waiver of license fees. The reply is not tenable as the licence was to be renewed on payment of licence fee.

3.6.14 Short levy of licence fee and Additional licence fee

Karnataka Excise (Sale of Indian and foreign liquors) Rules 1968, prescribes the rate at which the licence fee is leviable in respect of different kinds of licences issued for sale of Indian and foreign liquor in the State. In respect of each kind of licence, different amount of fee was prescribed depending on the area or population of the area where such liquor vending units are situated.

3.6.14.1 License fee payable for retail sale of liquor licenses is based on the population of the place/ town/area where the license is to be operated. We found that with increase in population and village areas coming under municipal limits, there was

no suitable mechanism in place in the Department to keep track of new areas entering municipal limits, based notification passed by the Urban Development Department. Some such instances resulting in short recovery of license fee of ` 29.57 lakh are mentioned in the following table:

Sl No	Name of the lessee	Year	Type of licence	Licence/Additional licence fee (` in lakh)		
				Payable	Paid	Short
A	As per urban Development Departments notification dated 16.01.2007, where in Doddathoguru was included in the area Bangalore Mahanagar Palike. But license fee as applicable to "other areas" were collected.					
1.	M/s. Lemon Tree Hotels,	2009-10	CL 7	7.59	3.22	4.37
		2010-11	CL 7	7.59	3.22	4.37
2.	M/s. Oasis Hotels	2010-11	CL 9	6.90	3.68	3.22
3.	M/s. Fairmount Hotels	2008-09	CL 7	7.59	3.22	4.37
		2009-10	CL 7	7.59	3.22	4.37
		2010-11	CL 7	7.59	3.22	4.37
B	As per Urban Department Notification dated 27.7.2007, Gopasandra Cross comes under Chinthamani CMC. But license fee as applicable to "other areas" was collected.					
4.	M/s. M/s. Vinayaka	2007-08	CL 2	3.80	2.30	1.50
		2008-09	CL 2	3.80	2.30	1.50
		2009-10	CL 2	3.80	2.30	1.50
Total						29.57

The above cases are only illustrative ones; there could be many more such instances. The Government may consider issuing directions to the Department to consider the notifications issued by the UDD from time to time before levying the license fee in accordance with the Act.

Under the Karnataka Excise (General Condition) Rules any licensee who wishes to transfer the license held by him in favour of any other person shall pay the transfer fee equivalent to the annual licence prescribed for such license. In case, the constitution of a firm changes, the new firm shall be treated a fresh licensee.

3.6.14.2 We noticed from the records of the DCOE, Bangalore (south) that from M/s. Nexus Enterprises, a partnership firm which had CL-9 licence for the excise year 2007-08. Subsequently, one of the partner retired with effect from 1 April 2008 and remaining two partners continued the business. Thereafter, the partnership deed was dissolved and a new partnership deed was executed

on 1 April 2008 among the existing partners. Since the constitution of the firm was changed, the licence also should have been transferred to the newly executed firm after the payment of transfer fee equivalent to an annual licence fee. The same was not demanded by the Department which has resulted in non-realisation of transfer fee of ` 6.90 lakh.

Under the Karnataka Excise (General Condition) Rules DCOE may permit any licensee to shift the location of his shop from one place to another within the limits of Grama Panchayat or Municipal area or City Municipal Corporation on payment of fee equivalent to 25 per cent of licence fee charged on the licence in respect of such shop.

3.6.14.3 We noticed from the records of two DCOEs in July/September 2010 that five licensees were permitted to shift their shops in Bagalkot and Bangalore Urban (South) districts without levying and collecting the prescribed fee. The non-

levy of the fee amounted to ` 2.78 lakh as mentioned in the following table:

Name of the lessee current location	Previous location	Kind of licensee	Licence/Additional licence fee		
			Payable	Paid	Short (in `)
M/s. Vijayalakshmi Association, Jamkhandi (CMC)	Savalgi Village, Jamkhandi (others)	CL 2	94875	57500	37375
Sro M.J. Thoragal, Jamkhandi	Mudhol Jamkhandi Taluk (others)	CL 2	94875	57500	37375
Sro M.J. Thoragal, Jamkhandi (CMC)	Heppargi, Village, Jamkhandi (others)	CL 2	94875	57500	37375
Sri. Manoj Janpanna, Thoragal, Rabakasi, Jamkandi (CMC)	Hebbal Village, Jamkhandi Taluk (others)	CL 2	94875	57500	37375
Total					149500
Classic Wine Mall, No.20,21,22 Northern Portion, Ground Floor, Hosur Road, Bangalore	Classic Wine Mall, No.20,21,22 Southern Portion, Ground Floor, Hosur Road, Bangalore	CL2	128225	0	128225
Grand Total					277725

Under the Karnataka Excise (Sale of Indian and Foreign liquors) Rules 1968, a licence in form CL 6-A shall be issued by the DCOE to Star Hotels for possession and sale of liquor.

3.6.14.4 As per Ministry of Tourism, Government of India, M/s. Ananth Residency, Hubli, Dharwad District and M/s. Grand Pevilian,

K.H. Road, Bangalore were classified as Star hotels with effect from 24 January 2006 and 17 July 2007 respectively. We noticed from the records of DCOE, Dharwad and DCOE Bangalore (South) Division, these star hotels obtained licence in Form CL 7 applicable to Hotels and Boarding houses instead of in Form CL 6-A resulting in short levy of licence fee and additional licence fee of ` 14.95 lakh as mentioned in the following table:

Star hotel	Year	Licence fee/Additional licence fee (` in lakh).		
		Leviabale as per CL 6-A	Levied as per CL 7	Short levy
M/s. Ananth Residency, Hubli, Dharwad District	2005-06	4.60	3.34	1.26
	2006-07	4.60	3.33	1.27
	*2007-08	*9.20	6.67	2.53
	2008-09	9.20	6.67	2.53
	2009-10	9.20	6.67	2.53
M/s. Grand Pevilian, K.H. Road, Bangalore	2007-08	9.20	7.59	1.61
	2008-09	9.20	7.59	1.61
	2009-10	9.20	7.59	1.61
Total		64.40	46.45	14.95

* Licence fee enhanced during the year 2007-08.

After we pointed out, the Department collected the entire differential amount of ` 14.95 lakh.

3.6.15 Non-levy of penalty for short lifting of IML

Under the Karnataka Excise (Sale of Indian and Foreign liquors) Rules, 1968, licensees holding retail shop licences in Form CL-2 and bar licences in Form CL-9 shall lift for sale from a wholesale licensee, the minimum quantity of liquor fixed per month. In case, the licensees fail to lift the prescribed minimum quantity of IML so fixed per month, they shall be liable to pay a penalty at the rate of ` 100 for every bulk litre on the quantity short lifted.

Consumption register maintained by the Inspector of Excise at Range level and statements furnished to DCOEs shows the actual quantity of IML lifted every month by the CL-2 and CL-9 licensees. We noticed during test check of records of nine DCOEs between December 2010 and April 2011 that 245 licensees had short lifted IML to the tune of 889123 BLs for the period 2005-06 to 2009-10. Though consumption statement regarding the quantity of liquor lifted by the licensees holding CL-2 and CL-9 licenses is being sent to the Range offices from KSBCL regularly, the Department failed to levy penalty for short lifting of IML. The non-levy of penalty amounted to ` 9.04 crore.

After we pointed out this between January 2011 and April 2011, the Department accepted the objection and stated that action would be taken to recover the amount after verification.

3.6.16 Working of Internal Audit Wing

The Internal Audit Wing (IAW) is functioning in the State Excise Department with working strength of one Senior Audit Officer and two Assistant Audit Officers. There are 311 offices in the Department out of which 104 offices were planned for audit during 2009-10 and 108 offices were audited. Year wise details of the number of objection raised and settled with duty effect and recoveries effected during the preceding five years are as under:

(` in lakh)

Year	Objection raised		Objection settled		Objection pending	
	No. of objection	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	419	2,989.40	32	23.48	387	2,965.92
2006-07	56	358.20	01	0.11	55	358.09
2007-08	02	1.40	01	0.12	01	1.28
2008-09	19	19.28	03	0.19	16	19.09
2009-10	10	10.74	02	7.28	08	3.46
Total	506	3,379.02	39	31.18	467	3,347.84

From the above, it was observed that only Eight *per cent* of the total objection raised have been settled and a huge number of objections are pending settlement for over five years.

We recommend that the Department take appropriate steps for speedy clearance of outstanding objections, particularly those pending for more than five years.

3.6.17 Conclusion

The review on receipts from State excise revealed a number of policy shortcomings. The Enforcement Activities of the Department showed leniency in dealing with excise crimes as evidenced from the low rate of offences booked after conducting raids and meagre penalty levied on offenders. There were instances of sale of loose liquor in licensed premises violating license conditions. We came across instances of liquor outlets operating in proximity of religious/educational institutions. Old arrears of excise revenue were not tackled in time, making their recovery doubtful. There were instances of short realisation of licence fee due to application of wrong rates. The State Government had stopped issue of fresh retail vending licenses with effect from 5 December 1992. No further licenses were issued even though the population of the State had increased from 4.48 crore in 1991 to 5.27 crore in 2001 census and several applications were received for grant of license. During this period through 238 retail shop licenses (CL-2) and 225 bar licenses (CL-9) were not renewed, no action was taken by the Department to issue an equal number of licenses to new applicants, thereby Government revenue of not less than ` 48.43 crore was forgone. Further, considering the demand, there was no attempt to exploit the revenue resources through auction of licenses.

The State Government did not take any action on recommendation of a Technical committee constituted by them to revise the norms for yield of rectified spirit from molasses. Even the lowest yield recommended by the committee would have fetched additional revenue of ` 121.52 crore during 2008-09 and 2009-10. We noticed license of a Sugar Company was renewed for the year 2000-01 to 2008-09 without levying and collecting licence fee and additional license fee. There was no suitable mechanism in place in the Department to keep track of new areas entering municipal limits, based on notifications passed by the Urban Development Department resulting in short levy of licence fee for retail sale of liquor. Though consumption statement regarding the quantity of liquor lifted by the licensees holding CL2 and CL9 licences were received by the Range offices from Karnataka State Beverages Corporation limited (KSBCL) regularly, the Department failed to levy penalty leviable for short lifting of Indian Made Liquor (IML).

3.6.18 Summary of recommendations

The Government may consider the following recommendations for improving the system and compliance:

- **To review their policy regarding issue of fresh retail vending licenses considering the increased population and demands for fresh licenses.**
- **Consider widening the scope and activities of temperance board similar to that of neighboring States with adequate budgetary support and also to disseminate information about MRP, introduction of barcodes affixing by wholesale distributors, and also propaganda material to persuade safe and healthy drinking methods.**
- **Take action on recommendation of a Technical committee constituted by them to revise the norms for yield of rectified spirit from molasses to save the Government from further losses.**
- **Renew the license of a Sugar Company(ies) regularly after levying and collecting license fee and additional license.**
- **A suitable mechanism need to be put in place by the Department to keep track of new areas entering municipal limits, based on notifications of the Urban Development Department, for license fee purposes.**