

CHAPTER-VI
STATE EXCISE

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6.1 Tax administration

The Secretary, Finance (Revenue) is the administrative head at Government level. The Department is headed by the Excise Commissioner (EC). The Department has been divided in seven zones which are headed by the Additional Excise Commissioners (AECs). District Excise Officers (DEOs) and Excise Inspectors working under the control of the AECs of the respective zones are deputed to monitor and regulate levy/collection of excise duties and other levies.

6.2 Internal audit

The Department has an Internal Audit Wing under the charge of Financial Advisor. This wing has to conduct test check of cases of assessment as per the approved action plan and in accordance with the criteria decided to ensure adherence to the provisions of the Act and Rules as well as Departmental instructions issued from time to time.

The position of last five years of internal audit is as under:

Year	Pending units	Units added during the year	Total units	Units audited during the year	Units remained unaudited	Percentage of units remaining unaudited
2012-13	7	41	48	41	7	15
2013-14	7	41	48	42	6	13
2014-15	6	41	47	47	0	0
2015-16	0	41	41	37	4	10
2016-17	4	41	45	40	5	12

Source: Furnished by the concerned Department.

It would be seen from the above that five units selected for internal audit had remained unaudited during 2016-17.

Year-wise break up of outstanding paragraphs of internal audit reports is as under:

Year	upto 2011-12	2012-13	2013-14	2014-15	2015-16	Total
Paragraphs	119	51	118	150	287	725

Source: Furnished by the concerned Department.

It was noticed that 725 paragraphs were outstanding at the end of 2015-16 of which 119 paragraphs were outstanding for more than five years. The huge pendency of paragraphs defeated the very purpose of internal audit. The position of outstanding paragraphs for 2016-17 was not furnished to Audit despite being requested (May 2017).

The Government may consider strengthening the functioning of the Internal Audit Wing and take appropriate measures on outstanding paragraphs for plugging the leakage of revenue and for ensuring compliance with the provisions of the Act/Rules.

6.3 Results of audit

Test check of the records of 25 units of the State Excise Department conducted during the years 2016-17, disclosed non/short recovery of Excise Duty and Licence Fee, Vend fee, interest on security deposit/delayed payment and loss of Excise Duty on account of excess wastages of liquor and other irregularities involving ₹ 18.52 crore in 7,084 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1	A paragraph on 'Procurement and sale of Hemp (<i>Bhang</i>)'	1	-
2	Non/short realisation of Excise Duty and Licence Fee and Vend Fee.	3,485	14.44
3	Loss of Excise Duty on account of excess wastages of Liquor	843	1.23
4	Non-recovery of interest on security deposits	879	0.49
5	Other irregularities		
	(i) Revenue	1,832	2.31
	(ii) Expenditure	44	0.05
Total		7,084	18.52

The Department accepted deficiencies in 227 cases involving ₹ 1.22 crore, of which 84 cases involving ₹ 0.45 crore had been pointed out in audit during 2016-17 and the rest in earlier years. The Department recovered ₹ 1.20 crore in 227 cases of which 84 cases involving ₹ 0.45 crore had been pointed out in audit during the year 2016-17 and the rest in earlier years.

The Department accepted and recovered the entire amount of ₹ 22.11 lakh pointed out by Audit after issue of a particular draft paragraph to the Government. This paragraph has not been discussed in the Report.

A paragraph on 'Procurement and sale of Hemp (*Bhang*)' and few illustrative cases involving ₹ 2.86 crore are discussed in the succeeding paragraphs.

6.4 Procurement and sale of Hemp (*Bhang*)

6.4.1 Introduction

The hemp (*bhang*) plant, otherwise known as Cannabis Sativa, is a flowering plant or herb that has been cultivated for centuries for a multitude of purposes. It provides three products, namely, fibre from the stems, oil from the seeds and narcotic from the leaves and flowers. Three types of narcotics are produced from the Indian hemp plant, namely *bhang* or *hashish* from the dried leaves and flowering shoots of hemp plants, *ganja* which is the dried unfertilised female inflorescences of special varieties grown in India and *charas* which is the crude resin collected by rubbing the tops of the plant with the hands or beating it with a cloth. Prolonged consumption of hemp is harmful and can effect physical and mental health. If consumed for long time, it causes loss of appetite and gastric derangement. Hemp drugs act chiefly on the cerebrum wherein they resemble the action of alcohol or opium.

The Narcotic Drugs and Psychotropic Substances (NDPS) Act, 1985 banned the production and sale of cannabis resin and flowers but permitted the use of the leaves (called *bhang*), allowing the States to regulate the production and consumption of *bhang*. Although NDPS Act, 1985 allows consumption of *bhang*, various States have made laws banning or restricting its use. In Rajasthan the production/cultivation of *bhang* plant is banned under Section 16 of the Rajasthan Excise Act, 1950 but its purchase, sale and consumption is allowed in the State. As a result, all hemp or hemp products must be imported or hemp products must be manufactured from imported hemp. The State has not framed any separate rules for regulating the consumption of *bhang* in the State.

Group-wise licences for retail sale of *bhang* (*bhang* leaves, *bhang* ghota, *majum bukani*, *gulkand* etc.) are issued by the EC. The licensees are allowed to import *bhang* directly from the licensed wholesalers of hemp producing States after obtaining a wholesale licence from the Department.

As per condition number 3 to 6 of the wholesale licence, the licensee can procure *bhang* from wholesale vendors of *bhang* situated in other States or within State under permit issued by the concerned DEO. *Bhang*, procured under wholesale licence, can be transferred/sold by the licensee to the shops of his own retail group, retail and wholesale licensees of other groups and pharmacies authorised for hemp made medicines in the State. A licensee can transfer/sell *bhang* from wholesale warehouse to retail shops under permit issued by DEOs after payment of permit fees prescribed as per rules.

6.4.2 Scope of audit

There were 29 licensee groups with 812 authorised retail shops of *bhang* in the State under the jurisdiction of 29 District Excise Officers (DEOs) at the end of the year 2015-16. Out of these, records for the year 2013-14 to 2015-16 of seven DEOs¹ along with the office of EC were test checked (February to

¹ Alwar, Jaisalmer, Jalore, Pali, Sirohi (top five units of which licence fees increased more than 100 per cent) Jodhpur and Udaipur (of which field study was conducted during regular audit).

May 2017) on the basis of revenue as well as increase in the licence fee from 2013-14 to 2015-16.

6.4.3 Revenue from Hemp

Revenue from *bhang* is derived mainly in the form of licence fee realised from wholesale and retail licensees and permit fee on the transportation of *bhang*. No excise duty is levied on the *bhang* separately. The revenue realised during 2013-14 to 2015-16 is shown below:

(₹ in crore)

Year	Total excise revenue collected	Revenue realised from <i>bhang</i>			Percentage of <i>bhang</i> revenue to total excise revenue
		Licence fee	Permit fee	Total	
2013-14	4,981.59	17.28	0.05	17.33	0.35
2014-15	5,585.77	19.01	0.09	19.10	0.34
2015-16	6,712.94	24.03	0.06	24.09	0.36

Source: Information furnished by the EC office.

Thus, the revenue from *bhang* was very low as compared to the total receipts of the State under Excise. However, *Bhang* is an intoxicating drug and its misuse (mixing with other highly intoxicating drugs) needs to be prevented. This topic was chosen for audit to ascertain whether procurement and sale of *bhang* was done in accordance with the provisions of the Act and if the internal control system in this regard was adequate.

6.4.4 Monitoring controls and maintenance of records

As per condition number 7 of the conditions of retail vend of *bhang* licence, licensees had to maintain inspection register and a daily account of receipt, sale and balance quantity of *bhang* in the prescribed register. The daily account has to be written at the time of closing of shop each day and report of the monthly receipt, sale and stock of *bhang* has to be furnished to the concerned Excise Inspector by 5th of the next month.

During test check of the records of selected units, the following deficiencies were noticed.

6.4.4.1 Non-maintenance of retail sale register/monthly report

Out of seven DEOs, the licensees of only three DEOs² maintained retail sale registers for the period 2014-15 and 2015-16. Entries made in the registers were, however, not verified by any excise authority. Scrutiny of these registers disclosed that inaccurate entries were made in the registers on various dates.

² Jalore, Jodhpur and Sirohi. The registers for the year 2013-14 was not made available to audit as such information in this regard could not be collected.

This resulted in incorrect stock position. A few instances are given below:

(Quantity of *bhang* in kilogram)

Sl. No	Name of licensee group	Name of retail shop	Date	Opening balance	Receipt of <i>bhang</i>	Sale of <i>bhang</i>	Actual closing balance (5+6-7)	Closing balance shown in register	Difference in closing balance (8-9)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Jalore	Jalore	21.7.2015	46.30	50.00	1.10	95.20	85.30	9.90
			8.1.2016	41.25	0.00	0.35	40.90	39.90	1.00
		Ahore	11.2.2016	32.50	0.00	1.50	31.00	30.00	1.00
			16.2.2016	27.55	50.00	1.00	76.55	66.45	10.10
2	Jodhpur	Gandhi Chowk	1.5.2015	83.00	0.00	0.50	82.50	87.50	(-) 5.00
			21.1.2016	101.00	0.00	2.00	99.00	98.00	1.00
		Jalori Gate	2.11.2015	36.00	0.00	2.00	34.00	35.00	(-) 1.00
			22.11.2015	10.00	0.00	2.00	8.00	9.00	(-) 1.00
3	Sirohi	Abu Road	2.12.2014	102.00	0.00	2.00	100.00	101.00	(-) 1.00
		Shiv Ganj	10.4.2015	593.00	0.00	5.00	588.00	543.00	45.00

Further, report of the monthly receipt, sale and stock of *bhang* at retail shops was not furnished to the concerned Excise Inspector in any of the selected DEOs. In absence of this, Excise Inspectors and DEOs could not check the actual procurement and sale of *bhang* at retail shops of the licensees.

After it was pointed out (August 2017), the Government replied (September 2017) that all DEOs had been directed (24 August 2017) to ensure maintenance of procurement and sale register at retail *bhang* shops and submission of monthly report regularly by the licensees.

6.4.4.2 Inspection of *bhang* shops

As per the paragraph 8.1 of the Excise Manual, the Excise Inspector is required to conduct inspections of all *bhang* shops as many times as possible but at least once in a month. Town and city shops should be inspected twice a month. DEOs are also required to conduct inspections of *bhang* shops as per paragraph 6.3 of the Excise Manual. Further, as per condition number 7 of the conditions of retail vend of *bhang* licence, the licensees have to maintain an inspection register. During test check of the records of selected units, it was noticed that no inspection register was maintained to indicate whether any inspection of the licensees was conducted by the excise authorities. There was nothing on record to show that inspections were conducted by them. When this lacuna was pointed out (August 2017), the Government replied (September 2017) that all DEOs had been directed (24 August 2017) to conduct inspection of retail *bhang* shops regularly by DEOs and Inspectors. They were also instructed to maintain inspection register at their own offices as well as at the shops of the licensees. Thus, the monitoring controls on the sale of *bhang* were weak and the system of inspections needed strengthening.

6.4.4.3 Monitoring of the procured quantity of *bhang* and maintenance of stock register

The format of the stock register has not been prescribed by the Department. It was maintained by all test checked DEOs and contained information regarding the quantity of *bhang* mentioned in the permits issued online but did not

contain the information regarding the quantity of *bhang* actually received against each permit. Audit noticed variation in figures of quantity of *bhang* for which permits were issued and actually received as mentioned in the following paragraphs.

- **Bhang procured was less than the permits issued:** The RE Act, 1950 defines *bhang* as an intoxicating drug which is an excisable article. No excisable article can be imported, exported and transported without a permit issued by an excise authority. All types of excise permits for transportation of excisable articles were issued online.

The Rajasthan Excise (RE) Rules, 1956 did not lay down any separate provision regarding issuance of *bhang* permit. As per procedure followed by the Department, permits for procurement of *bhang* were issued in quadruplicate. Original copy of the permit was for the licensee, the second copy was forwarded to the concerned Excise Officer of the State or district of export, the third copy was sent to the Excise Inspector of the circle and the fourth copy was retained by the DEO for record. Computerised information regarding issuance of *bhang* permits was available at the Department.

The information furnished by DEOs regarding procurement of *bhang* by the 29 licensee groups during the period 2013-14 to 2015-16 was cross checked with the permits issued online by DEOs. Audit noticed that there was variance in quantity of *bhang* received and the permits issued by DEOs as mentioned in the following table:

(Quantity of *bhang* in kilogram)

Year	Procurement of <i>bhang</i> from other States by all licensee groups			Transportation of <i>bhang</i> within State by all licensee groups		
	Quantity for which permits issued by DEOs online	Actual quantity shown as received by DEOs	Difference (2-3)	Quantity for which permits issued by DEOs online	Actual quantity shown as received by DEOs	Difference (5-6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2013-14	46,000	39,500	6,500	31,198	17,215	13,983
2014-15	80,000	71,820	8,180	26,646	31,751	(-) 5,105
2015-16	59,500	44,955	14,545	17,250	22,810	(-) 5,560
Total	1,85,500	1,56,275	29,225	75,094	71,776	3,318

Source: Information furnished by the EC office.

The above table reveals that the licensees received *bhang* which was less by 29,225 kilograms from other States compared to the quantity shown in permits issued by the DEOs. Further, *bhang* transferred/sold within the State by licensee groups also varied between 5,105 and 13,983 kilogram when the information furnished by the DEOs was compared with that mentioned in issued permits.

- **Excess procurement of *bhang*:** Audit noticed that in one case of DEO, Udaipur, the licensee was permitted to import 4,000 kilogram *bhang* from Haridwar *vide* permit number BHN/UDR 000380 dated 25 June 2014 against which he imported 4,610 kilogram *bhang* as per weighment slip. This resulted in excess procurement of 610 kilogram *bhang*. The DEO did not detect the

excess procurement of *bhang* and showed 4,000 kilogram *bhang* in its stock register. The possibility that the licensees procured *bhang* illegally and from unauthorised sources cannot be ruled out.

There was no system in place to cross verify the departmental figures regarding quantity of *bhang* actually procured by the licensees.

The retail sale register and monthly report are bonafide records of retail shops reflecting legal transactions of *bhang*. In absence of these, Excise Inspectors and DEOs could not find out the quantity of procurement and sale of *bhang* at retail shops by the licensees. So the closing balance of *bhang* at the end of the licence period could not be assessed. It indicated that the Department restricted its role merely to granting of *bhang* licences and did not focus on controlling the operations of licensees.

After it was pointed out (August 2017), the Government replied (September 2017) that due to lack of verification of *bhang* procured by the licensees, inspection of shops and non-maintenance of proper records by the excise officials, such variance has occurred. Detail examination was being conducted in this regard. Further, explanation from DEO, Udaipur was being sought for excess procurement of *bhang* by the licensee in his jurisdiction.

6.4.5 Analysis of licence fees received from the *bhang* licensee groups and sale of *bhang* therefrom

6.4.5.1 Licences to the *bhang* licensee groups are allotted through open tender by fixing the minimum reserve price, also called licence fee of the groups. In case of renewal, a fixed percentage in licence fee is increased in accordance with the Excise Policy.

During test check of the records of selected units, it was noticed that the licence fee realised from five licensee groups during 2013-14 to 2015-16 increased significantly whereas sale of *bhang* shown by DEOs decreased during the same period.

Sl. No.	Name of licensee group	Licence fee of the licensee group (₹ in lakh)				Sale of <i>bhang</i> at retail shops of the licensee group (in kilogram)			
		2013-14	2015-16	Increase in licence fee (4-3)	Percentage of increase from 2013-14 to 2015-16	2013-14	2015-16	Decrease in sale of <i>bhang</i> (7-8)	Percentage of decrease from 2013-14 to 2015-16
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Alwar	19.85	47.51	27.66	139.35	214	115	99	46.26
2	Jaisalmer	8.57	23.63	15.06	175.73	2,250	1,800	450	20.00
3	Jalore	3.31	8.48	5.17	156.19	1,220	850	370	30.33
4	Jodhpur	57.45	91.01	33.56	58.42	4,350	1,920	2,430	55.86
5	Sirohi	8.94	22.80	13.86	155.03	1,060	800	260	24.53

Source: Information furnished by the EC office.

As seen from above, the licence fee increased by 58.42 to 175.73 *per cent* while sale of *bhang* decreased by 20.00 to 55.86 *per cent*. The per kilogram price of *bhang* that would have to be fixed to recover just the licence fee paid by the licensee group to the Department varied widely from district to district.

A few instances for the year 2015-16 are given below:

Sl. No.	Name of licensee group	Licence fee (₹ in lakh)	Sale of bhang at retail shops of the licensee group (in kilogram)	Per kilogram price of bhang to recover licence fee (in ₹)
1	Alwar	47.51	115	41,313
2	Bundi	291.33	2,195	13,272
3	Jaipur	336.08	2,810	11,960
4	Nagaur	8.00	2,190	365
5	Barmer	6.48	2,570	252

Source: Information furnished by the EC office.

There was huge variation in per kilogram price of *bhang* as compared to the licence fee of various groups. The Department had not fixed any norm for fixing the licence fee of the groups. It is unrealistic and possibly does not reflect the actual quantity sold by the licensees.

After it was pointed out (August 2017), the Government replied (September 2017) that the Department was considering rationalisation of the licence fee of *bhang* groups according to reserve amount and sale of *bhang* of the groups. In future, a committee will be constituted before issuance of next excise policy for rationalisation of reserve price of *bhang* groups as per their potential sale of *bhang*. Action will be taken as per the recommendation of the committee.

To further analyse the price and sale of *bhang* a Joint Inspection comprising departmental authorities and audit team was conducted for Alwar district group. The results of the Joint Inspections are mentioned in the following paragraphs:

- Licence for retail sale of bhang for Alwar district group was granted on 25 October 2017 through retendering at the rate of licence fee of ₹ 64.51 lakh for the period from 25 October 2017 to 31 March 2018. The earlier licensee who had got the licence in April 2017 for the whole year at the rate of ₹ 1.08 crore, failed to pay the monthly installment and his licence was cancelled in August 2017.
- The current licensee operated six shops in Alwar District (out of maximum 27 authorised shops by the Department) under the jurisdiction of DEO, Alwar. Joint Inspection of all the six operational retail bhang shops was conducted on 6 December 2017 and 7 December 2017 by officials of this office in presence of excise authorities.
- The licensee informed that the average purchase price of bhang from the wholesale licensee of the State was ₹ 250 per kilogram and from out of State was ₹ 100 per kilogram.
- Sale price of bhang leaves ranged between ₹ 1,000 per kilogram (at five shops) and ₹ 2,000 per kilogram (at one shop). Bhang Goli (*Majum bukani*) is prepared from Bhang leaves and was being sold at five retail shops. The salesmen at the shops informed that 100 to 125 Goli were made from one kilogram of Bhang leaves. Sale price of each Goli ranged between ₹ 10 (at three shops) and ₹ 15 (at two shops).
- Thus, based on this Joint Inspection exercise, one can say that the purchase price of bhang was ₹ 250 per kilogram and sale price of bhang ranged between ₹ 1,000 to ₹ 2,000 per kilogram in Alwar district.

- Thus, it can be seen that the sale price of Bhang varied from shop to shop in same district. It may be varying across the various licensees in the State also. Besides, the purchase price, sale price and licence fee of the Bhang mentioned above indicate that it is highly improbable for the licensee to recover the license fee paid by selling the *bhang* at the rates which were found during the Joint Inspection. The possibility of sale of *bhang* not accounted for cannot be ruled out.

The facts mentioned above indicate that there was lack of control by the Department in both fixing the licence fee as well as the selling price of the *bhang* and the levy of licence fees lacked transparency. The Department needed to take steps for bringing out transparency in the system. It may prescribe norms and fix criteria for levy of the licence fee of the *bhang* licensee groups.

6.4.5.2 Non-operation of retail shops of *bhang*

As per condition number 5 of the conditions of retail vend of *bhang* licence, a licensee can operate the retail *bhang* shops anywhere in his licenced area upto the number of shops prescribed for his group. The location of retail shops was, however, sanctioned by the concerned DEOs.

The details of total number of retail shops authorised by the EC and shops operated by the licensees under the jurisdiction of all 29 licensee groups were as under:

Particulars	2013-14	2014-15	2015-16
Total retail shops authorised by the EC	764	805	812
Number of shops operated by licensee groups	333	375	371
Percentage of operational shops	44	47	46

Source: Information furnished by the EC office.

It would be seen from the above that less than 50 *per cent* shops were operated by the licensees during the three years. The Department did not analyse the reasons for non-operation of retail shops.

6.4.5.3 Out of the seven DEOs, audit noticed in three DEOs that all the retail shops permitted under respective groups were not in operation. No permit of *bhang* was issued by the concerned DEOs during the year 2015-16 for:

- two³ out of six sanctioned shops in Sirohi;
- one⁴ out of four sanctioned shops in Jalore and
- 13⁵ out of 21 sanctioned shops in Udaipur.

These shops remained idle throughout the year without any sale of *bhang*. The DEOs did not analyse the reasons for non-operation of these shops during the entire year.

The Department did not analyse the reasons for such wide variation of license fee and had not adopted any control mechanism to ensure transparency in fixing the licence fees of licensee groups in view of variation in licence fees paid by licensees and sale of *bhang* therefrom.

³ Rohida and Bharja.

⁴ Sayla.

⁵ Gogunda, Kotda, Kheroda, Dabok, Jhadol, Savina, Fathepura, Mallatalai, Thokar, Reti Stand, Hiran Magri Sector-4, Delhi Gate and Jagdish Chowk.

After it was pointed out (August 2017), the Government stated (September 2017) that:

- the Department has directed (24 August 2017) all DEOs not to renew the licences of those shops where sale of *bhang* was nil.
- all DEOs have been directed (24 August 2017) to furnish the proposal for assessing the number of retail *bhang* shops in their jurisdiction on the basis of operational shops and sale of *bhang* therefrom during last year

6.4.6 Conclusions and recommendations

The Department did not adopt any mechanism to assess the actual procurement of *bhang* by the licensees. The excise authorities, therefore, failed to exercise proper checks and control over procurement and sale of *bhang* by the licensees in absence of verification of receipt and dispatch quantity, inspection of warehouses and retail shops and proper record keeping by the Department.

The licence fees realised from five licensee groups during 2013-14 to 2015-16 increased significantly whereas sale of *bhang* decreased during the same period. The price to be fixed per kilogram of *bhang* to recover just the licence fee paid to the Department varied widely. The Department had not adopted any control mechanism to ensure transparency in fixing the licence fee of the groups in view of variation in licence fee paid by licensees and sale of *bhang* therefrom.

Further, less than 50 *per cent* shops were operated by the licensees during the last three years. The DEOs sanctioned the location of *bhang* shops without ensuring their operation. Excise authorities were not aware about monthly report and initial record required to be maintained at retail shops by the licensees and thus were not in a position to monitor and control the procurement, sale and the balance quantity at the end of the licence period.

It was also noticed that entries made in the retail sale registers were, not verified by any excise authorities. Inaccurate entries were made by the licensees in the registers on various dates which resulted in increase or decrease of stock position without actual receipt or sale. There was nothing on record to show that inspections of *bhang* shops were conducted by excise authorities.

It is recommended that the Department should put in place an effective system for proper check and control over procurement and sale of bhang by the licensees, inspection of warehouses and retail shops and proper record keeping by the Department. It should adopt a suitable control mechanism to ensure transparency in fixing the licence fees of the bhang licensee groups in view of variation in licence fee paid by licensees and sale of bhang in the State. The Department should ensure that retail sale registers are maintained at retail shops and verified/checked by excise authorities on regular basis to ensure genuineness of the entries made therein. The Department should maintain a computerised database indicating the quantity of procurement and sale of bhang by wholesale licensees along with the retail shops for better monitoring of permits issued and sale of bhang in the State.

6.5 Non-levy of licence fee for wholesale vend of country liquor from bonded warehouse established at the place of manufacture

As per Rule 68(12)(a) of the Rajasthan Excise Rules, 1956 inserted *vide* notification of April 2011, licence fee at the rate of ₹ 5 lakh per year is to be levied for wholesale vend of Country Liquor (CL) from bonded warehouse established at the place of manufacture. This Rule was made in addition to Rule 68(13) that authorised levy of annual licence fee at prescribed rates for the wholesale vend by manufacturers of liquor to wholesale vendors. Licences for wholesale vend of Indian Made Foreign Liquor (IMFL)/Beer and CL were required to be issued separately to the units under Rule 68(13) and 68(12) (a) respectively. As per the conditions of the licence, no other liquor could be stored in the warehouse except for which the licence was granted.

During test check of licence files of distilleries and bottling plants under the jurisdiction of concerned DEOs, it was noticed (between August 2016 and December 2016) that three distilleries and six bottling plants were manufacturing and vending CL and IMFL in wholesale, from the place of manufacture. The Department levied licence fee under Rule 68(13) for the wholesale vend of IMFL. The licence fee for wholesale vend of CL under Rule 68(12) (a) was not levied as per details given below:

Sl. No.	Name of distillery/bottling plant	Concerned DEOs	Period	Licence fee recoverable (₹ in lakh)
A	Distilleries			
1	Globus Spirits Limited, Behror	Behror	2015-16	5.00
2	Hindustan Spirits Limited, Paniyala	Behror	2015-16	5.00
3	Vintage Distillers Limited, Alwar	Alwar	2015-16	5.00
B	Bottling Plants			
1	Golden Bottling Limited, Bhiwadi	Behror	2015-16	5.00
2	Ojas Industries Private Limited, Neemrana	Behror	2015-16	5.00
3	Ajanta Chemicals India Limited, Alwar	Alwar	2015-16	5.00
4	Vijeta Beverages Private Limited, Bindayaka	Jaipur City	2015-16	5.00
5	National Industrial Corporation Limited, Jaitpura	Jaipur Rural	2014-16	10.00
6	Rajwada Breweries and Bottling Private Limited, Kishangarh, Ajmer	Ajmer	2015-16	5.00
Total				50.00

This resulted in non-levy of licence fee of ₹ 50 lakh.

The matter was pointed out to the Department and reported to the Government (between October 2016 and June 2017). The Government accepted the audit observation and intimated (May 2017) that the Rule 68(13) was amended and made clear in view of licence fee for wholesale vend of IMFL/beer from 1 April 2017. It was further intimated (September 2017) that recovery of

₹ 10.00 lakh from one unit had been made and recovery would be made from the remaining units.

6.6 Non-levy of excise duty on excess wastage of rectified spirit transported under bond

Rule 5 of the Rajasthan Stock Taking and Wastage of Liquor Rules, 1959 provides that an allowance would be made for the actual loss in transit due to leakage or evaporation of spirit transported in metal vessel under bond at the rate of 0.2 per cent to 0.4 per cent as per duration of journey. The loss has to be determined by deducting the quantity received at the place of destination from the quantity of spirit dispatched from the distillery. Both quantities were to be stated in terms of London Proof Litre⁶ (LPL) which were to be calculated on the strength of spirit dispatched and received.

During test check of the records of two units⁷ for the period 2014-16 under the jurisdiction of DEO Sriganganagar, it was found (November 2016) that 34.00 lakh LPL Rectified Spirit (RS) was shown as received at the units against dispatch of 34.15 lakh LPL RS from distilleries resulting in total wastage of 14,713.71 LPL RS during transit. The DEO verified transit wastage of only 5,930.11 LPL RS in the *Panchnamas* and accounts of the units. Thus, 8,783.60 LPL RS was not taken into accounts of the units. Excise duty of ₹ 10.25 lakh was, therefore, leviable at the rate of ₹ 116.67 per LPL prevailing at the time of consignment on this quantity. The DEO, however, did not demand the excise duty on such excess wastage.

The matter was pointed out to the Department and reported to the Government (between December 2016 and June 2017); the Government replied (September 2017) that the direction for recovery had been issued to the concerned DEO.

6.7 Non-levy of excise duty on excess alcohol used in production of Liquor

As per Rule 91 of the Rajasthan Distilleries Rules (the Rules), the distiller shall manufacture and bottle IMFL and CL, when authorised to do so of such varieties and such strength as may be prescribed and approved by the Excise Commissioner. The minimum strength⁸ for whisky, brandy and rum is 25 Under Proof⁹ (UP); gin is 35 UP; CL is 40/50 UP; rectified spirit is 60 Over Proof¹⁰ (OP) and denatured spirit is 50 OP.

Rule 106 of the Rules *ibid* stipulates that in proving spirit at fixed strengths of 25⁰, 35⁰ and 40⁰/50⁰ UP, it will be sufficient for the officer-in-charge to satisfy himself that the strength is within 0.5⁰ over the reputed strength. The issue of

⁶ London Proof Litre: Unit for showing strength of spirit.

⁷ (1) M/s H.H. Bottling Plant, Sri Ganganagar, (2) Reduction Centre of M/s Rajasthan State Ganganagar Sugar Mills Limited, Sri Ganganagar.

⁸ The proof spirit contains 49.24 per cent by weight of alcohol and 50.76 per cent of water or 57.06 per cent of alcohol by measure of volume.

⁹ When the strength of spirit is weaker than proof spirit, it is called Under Proof. Thus spirit of 25° or 25 UP contains 75 volumes of proof spirit and 25 volumes of water.

¹⁰ Over proof spirit is that which is stronger than proof spirit and is described according to number of measure of proof spirit that 100 volumes would yield when suitably diluted with water. Thus spirit of 66° or 66 OP contains 166 volumes of proof spirit.

spirit below the fixed strength is not permitted. This was also clarified by the Department *vide* circular issued in January 2015.

During scrutiny of the records of two¹¹ production units under the jurisdiction of DEO, Jaipur Rural and four¹² production units under the jurisdiction of DEO, Distillery Udaipur for the period 2014-16, it was noticed (between September 2016 and January 2017) that the samples of liquor were being sent to the Government laboratories or Government approved laboratories for ascertaining the strength of liquor. Scrutiny of chemical analysis reports of IMFL and CL revealed that the strength of liquor was less than the prescribed limit of 25⁰ UP in respect of IMFL and 40/50⁰ UP in respect of CL taken in accounts *i.e.* the alcoholic content in liquor was more than the prescribed limit. This resulted in short depiction of 35,966.07 LPL alcohol in the accounts depriving the Government of excise revenue of ₹ 57.06 lakh. In addition to loss of excise duty, the despatch of below strength liquor was in violation of Rules. No action was, however, taken against the distillers/bottlers by the concerned DEOs.

After this was pointed out (between October 2016 and June 2017); the Government replied (September 2017) that ₹ 35.54 lakh had been recovered from two units. Two units had taken stay from High Court and in remaining two units, action for recovery had been initiated.

6.8 Loss of revenue due to short determination of composite fee for shops in peripheral area

As per the Rajasthan Excise and Temperance Policy (Policy) 2014-15, settlement of country liquor shops was made on exclusive privilege amount (EPA) by inviting applications. For inviting district wise applications, the number of proposed country liquor shops/groups in the district with its EPA, composite fee, earnest money and application fee was circulated by the concerned DEOs. This information was also made available on the Departments' website. Licences for shops were granted through lottery system to the applicants. The selected applicants were liable to pay the EPA and composite fee as per the category of shop for which they had applied. In the rural areas, each shop was known by the name of *Gram Panchayat*. Further, licences of the year 2014-15 were renewed for the year 2015-16 as per the provisions of the Policy 2015-16.

According to the Policy, country liquor shops of rural area were classified in different categories. The country liquor shops of villages located within five kilometers radius from the municipal area were decided as 'composite shops of peripheral area'. The villages of such peripheral area were further categorised as 'A' and 'B'. The villages, in which country liquor shops had been operated as composite shops from 2005-06 to the previous year of allotment of the shop or shops situated on State/National Highway or shops whose peripheries were adjoining the periphery of concerned municipality, were classified in category 'A' and the rest in category 'B'. Composite fee for shops of category 'A' for the year 2014-15 and 2015-16 was to be fixed as

¹¹ M/s Pernod Ricard India (P) Limited, Kaladera, Chomu and M/s National Industrial Corporation Limited, Jaitpura.

¹² M/s United Spirits Limited, M/s Shree Mahamaya Liquor Industries and Bottling Plant, M/s Solkit Distillery and Brewery Pvt. Limited and reduction centre of M/s Rajasthan State Ganganagar Sugar Mills Limited.

equal to 3.5 per cent and 5 per cent respectively of annualised billing amount of Rajasthan State Beverage Corporation Limited (RSBCL) during previous year or annual licence fee prescribed for IMFL shop situated in concerned municipal area, whichever was higher. The composite fee for category 'B' shops for the year 2014-15 and 2015-16 was to be fixed as equal to 3.5 per cent and 5 per cent respectively of annualised billing amount of RSBCL during previous year or 50 per cent of annual licence fee prescribed for IMFL shop of concerned municipal area or ₹ 40,000 and ₹ 50,000 respectively, whichever was higher.

During test check of records of nine¹³ DEOs for the years 2014-15 and 2015-16, it was noticed (between May 2016 and February 2017) that 17 country liquor shops/groups were decided as shops of peripheral area by the Department. Scrutiny of licence fee files and relevant records disclosed that while issuing notices for inviting applications for allotment of shops, the concerned DEOs showed composite fee as either blank or a lesser amount than the composite fee payable for the shops of peripheral area. Further, a shop (Panchgaon, Dholpur) situated on State Highway was categorised as 'B' instead of category 'A'. Composite fee of ₹ 2.41 crore for 17 composite shops/groups of peripheral area was to be decided but the concerned DEOs decided and recovered ₹ 0.87 crore from these licensees. This resulted in loss of revenue amounting to ₹ 1.54 crore.

On being pointed out (between June 2016 and June 2017), the Government replied (July 2017) that in two cases of Dholpur recovery would be made, however, regarding other 15 cases it was informed that fee had been realised as per norms/rules. The reply is not tenable regarding 15 cases as the policy specified determination of composite fee according to categorisation of shops. Therefore, composite fee was to be decided in accordance with the categorisation of shops prior to applications being invited. However, in these cases composite fee was decided according to execution of the shops which was not according to the policy.

6.9 Short recovery of licence fee from Hotel Bars

As per the Rajasthan Excise (Grant of Hotel Bar/Club Bar licenses) Rules, 1973, for the purpose of hotel bar licences, hotels were broadly categorised in three categories *i.e.* luxury, heritage and others. Different rates of basic licence fee for hotel bar licence for a year or part thereof were prescribed for each category of hotels under Rule 3 *ibid*. Scrutiny of records of two DEOs¹⁴ disclosed short recovery of licence fee from hotel bars as discussed below:

Rule 2 (aa) of the rules *ibid*, inserted *vide* notification dated 31 January 2012, stipulates that 'Heritage Rajasthan Hotel' means any hotel recognised as Heritage Rajasthan Hotel by the State Government or by any other authority/committee authorised specifically for this purpose by the State Government. Heritage hotels are further classified into categories 'A', 'B' and 'C'. The basic licence fee for Heritage hotel category 'C' was prescribed as ₹ 3 lakh for the years 2011-12 to 2013-14 and ₹ 0.75 lakh for the years 2014-15 and 2015-16. In addition to the basic licence fee, minimum special vend fee of

¹³ DEOs: Ajmer, Alwar, Dhaulpur, Tonk, Shri Ganganagar, Udaipur. Jaipur city, Hanumangarh and Sirohi.

¹⁴ DEOs: Jodhpur and Pali.

₹ 0.25 lakh for the years 2011-12 to 2015-16 for Heritage hotels was also payable by the licensees.

During scrutiny of records of hotel bar licences under the jurisdiction of DEOs, Pali and Jodhpur, it was noticed (February and March 2017) that two hotel bars¹⁵ (DEO, Pali) were neither reclassified as Heritage hotels after 2011-12 by the Tourism Department, Government of India nor recognised as Heritage Rajasthan Hotel by the State Government. Similarly, one hotel bar¹⁶ (DEO, Jodhpur) was not reclassified as Heritage hotel after 2014-15. The Department, however, renewed the licences of two hotel bars (DEO, Pali) for the period 2012-13 to 2015-16 and one hotel bar (DEO, Jodhpur) for the period 2015-16 after taking licence fee of Heritage hotel category 'C' instead of licence fee recoverable under category of 'other hotels'. These licensees were liable to pay licence fee of ₹ 33 lakh (including minimum special vend fee) for the period mentioned above but the concerned DEOs raised and recovered licence fee of ₹ 18 lakh from these licensees. This resulted in loss of revenue amounting to ₹ 15 lakh.

The matter was pointed out to the Department and reported to the Government (between March 2017 and June 2017); the Government replied (July 2017) that notices for recovery from the Hotels under the Jurisdiction of DEO, Pali had been issued. In case of Hotel Fort Khejdala under DEO, Jodhpur, application for re-classification under heritage category was pending with Tourism Department from 2015-16. If the licensee would be unable to obtain the required permission, the difference amount of licence fee would be recovered as per rule.

¹⁵ Hotel Rawla Narlai and Hotel Maharani Bagh.

¹⁶ Hotel Fort Khejdala.

