

CHAPTER-VI : STATE EXCISE

6.1 Tax administration

The Secretary, Finance (Revenue) is the administrative head of the State Excise Department (Department) 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 | Units pending | Units added during the year | Total units | Units audited during the year | Units remained unaudited | Percentage of units remaining unaudited |
|---------|---------------|-----------------------------|-------------|-------------------------------|--------------------------|---|
| 2014-15 | 6 | 41 | 47 | 47 | - | - |
| 2015-16 | 0 | 41 | 41 | 37 | 4 | 10 |
| 2016-17 | 4 | 41 | 45 | 40 | 5 | 12 |
| 2017-18 | 5 | 44 | 49 | 12 | 37 ¹ | 76 |
| 2018-19 | 21 | 44 | 65 | 19 | 46 | 71 |

Source: Furnished by the concerned Department.

It would be seen from the above that 46 units selected for internal audit had remained unaudited during 2018-19.

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

| Year | 1995-96 to 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 ¹ | 2018-19 | Total |
|------------|--------------------|---------|---------|---------|----------------------|---------|-------|
| Paragraphs | 160 | 85 | 116 | 126 | 296 | - | 783 |

Source: Furnished by the concerned Department.

It was noticed that 783 paragraphs were outstanding at the end of 2018-19 of which 160 paragraphs were outstanding for more than five years. The huge pendency of paragraphs defeated the very purpose of internal audit.

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.

¹ Information provided by the Department is contradictory to the information given for the Audit Report for the year ended 31 March 2018. In this regard, clarification is sought, however, reply is awaited (May 2020).

6.3 Results of audit

There are 110 auditable units in the State Excise Department out of these Audit selected 34 units for audit during the year 2018-19. Scrutiny of the records of these units including those of retail licensees (8,082 licensees) disclosed 2,033 cases of non/short realisation of excise duty and license fee, special vend fee, interest on delayed payment and loss of excise duty on account of excess wastages of spirit/liquor/beer and other irregularities involving ₹ 23.39 crore (5,663 licensees approximate 70 per cent of the licensees audited). These cases are illustrative only, based on audit of the records of these selected units. Audit pointed out some of the similar omissions in earlier years, not only these irregularities persist but also remain undetected till next audit is conducted. The substantial proportion of errors, omissions and other related issues (approximate 36 per cent of sampled cases) noticed in audit indicated that the Government needed to improve the internal control system including strengthening of internal audit so that occurrences/recurrence of the lapses can be avoided. Irregularities noticed are broadly fall under the following categories:

| Sl. No. | Category | Number of cases | (₹ in crore) |
|--------------|---|-----------------|--------------|
| | | | Amount |
| 1 | Paragraph on 'Implementation of State Excise and Temperance Policy' | 1 | 10.33 |
| 2 | Non/short realisation of excise duty and licence fees. | 427 | 8.45 |
| 3 | Non/short realisation of special vends fees on IMFL/beer. | 392 | 4.39 |
| 4 | Loss of excise duty on account of excess wastage of spirit/liquor/beer. | 740 | 0.09 |
| 5 | Non-recovery of interest on delayed payment. | 30 | 0.06 |
| 6 | Other irregularities | | |
| | (i) Revenue | 436 | 0.05 |
| | (ii) Expenditure | 7 | 0.02 |
| Total | | 2033 | 23.39 |

The Department accepted deficiencies in 3,054 cases involving ₹ 10.97 crore, of which 1,613 cases involving ₹ 6.15 crore had been pointed out in audit during 2018-19 and the rest in earlier years. The Department recovered ₹ 4.57 crore in 1,913 cases of which 472 cases involving ₹ 0.61 crore had been pointed out in audit during the year 2018-19 and the rest in earlier years.

6.4 Implementation of State Excise and Temperance Policy

6.4.1 Introduction

The State Excise Department is the second largest revenue earning Department of the State Government. In order to lay down the principles for granting licences for operating liquor shops and prescribing the rates of excise duty and related matters, the State Government announces State Excise and Temperance Policy every year. Proper levy and collection of excise revenue is dependent on the efficient implementation of the Excise Policy. Paradoxically, consumption of alcohol is an important reason for untimely deaths, crimes and fatal accidents. Hence, to mitigate the effects of alcohol the State Government also takes certain steps known as temperance policy.

An excise policy called the new “Excise and Temperance Policy” (Policy) promulgated by the State Government with effect from 01 April 2005, as amended from time to time provides for levy of fee and excise duty on production, possession, transportation, sale and purchase of alcohol and to facilitate the entry of new liquor professionals. The policy also ensures availability of better quality liquor at reasonable price to the customers and envisages a progressive restriction on its consumption.

6.4.2 Trend of revenue

Consumption of liquor as well as excise revenue is increasing continuously in the State. From the year 2015-16 to 2017-18 sale of Country Liquor (CL), Indian Made Foreign Liquor (IMFL), Beer and total excise revenue of the State was as under:

| Year | Country Liquor | Indian Made Foreign Liquor | Quantity in lakh bulk litre (BL) | |
|---------|----------------|----------------------------|----------------------------------|-----------------------------|
| | | | Beer | Excise Revenue (₹ in crore) |
| 2015-16 | 2184.43 | 912.42 | 1938.66 | 6712.94 |
| 2016-17 | 2344.93 | 865.42 | 1953.40 | 7053.68 |
| 2017-18 | 2571.17 | 924.87 | 2230.22 | 7275.83 |

6.4.3 Audit objectives

The audit was carried out:

- to ascertain whether the extant provisions/system prescribed under the Excise and Temperance Policy, Act and Rules were adequate to safeguard excise revenue and promote temperance;
- to ascertain the level of compliance by the concerned authorities with the provisions and measures prescribed in Excise Policy and notifications/circulars issued thereunder; and
- to ascertain the adequacy and effectiveness of the internal control and enforcement mechanism in the Department.

6.4.4 Scope and methodology

The audit covered the records relating to the implementation of State Excise and Temperance Policy for the period 2015-16 to 2017-18. Audit selected

nine DEOs² out of 36 DEOs (25 per cent) through Simple Random Sampling (SRS) method by using IDEA software. Records of Excise Preventive Force (EPF) under the selected DEOs were also test checked in view of implementation of temperance measures. Besides, the office of the Excise Commissioner (EC) was also covered in the audit.

The audit methodology, scope and objectives of the audit were discussed with the Excise Commissioner in an Entry Conference held on 25 March 2019. An Exit Conference was held on 9 August 2019 with Excise Commissioner and other officers wherein the findings of the audit were discussed. The replies received during the Exit Conference and at other points of time have been appropriately considered in the relevant paragraphs.

6.4.5 Audit criteria

The criteria for audit were derived from the provisions of the following Excise & Temperance Policies, Acts, Rules and notifications/circulars issued thereunder:

- Excise and Temperance Policy for the years 2015-16 to 2017-18;
- The Rajasthan Excise Act, 1950;
- The Rajasthan Excise Rules, 1956;
- The Rajasthan Brewery Rules, 1972; and
- The Rajasthan Distilleries Rules, 1976.

Audit Findings

The audit observations are based on our analysis of sample cases only and there is a possibility of more such cases occurring in the Department. Therefore, the State Government is expected to review all other cases having possibility of similar deficiencies/irregularities and required to take corrective action in cases where similar deficiencies/irregularities are found.

6.4.6 Recovery of license fee without grant of licences

Rule 72 of the RE Rules, 1956 provides that except as otherwise provided in these rules, all licences under the RE Act, 1950 shall be granted by the EC. Further, licence fees for wholesale vend of country liquor (CL) from bonded warehouses established at place of manufacture was prescribed under Rules 68(12-a) of the RE Rules, 1956.

It was noticed that a Government Company is a wholesale vendor of CL and it supplies CL to retail off licensees from bonded warehouses established at place of its 20 Reduction Centers situated in the State. Though, the Department was realising licence fees from these 20 reduction centres under Rule 68(12-a), licences in this regard were not granted to these centres by the Department. The Department did not adopt a mechanism to ensure that licences were issued to all eligible units and units were not operating without proper licence.

² DEOs; Alwar, Barmer, Behror (Distillery), Hanumangarh, Jaipur Urban, Jhalawar, Nagaur, Rajsamand and Sawai Madhopur.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that licences will be issued in future as suggested by Audit.

6.4.7 Norms for production of alcohol and beer from grains

The process of production of alcohol from grains involves conversion of starch present in grains into glucose (one gram of starch produces 1.11 gram of glucose) and glucose into ethanol. One molecule of glucose produces two molecules of ethanol and two molecules of carbon-di-oxide. This chemical reaction is known as the *Gay-Lussac equation*. According to the equation, 100 kilogram of glucose produces 51.14 kilogram of ethanol and 48.86 kilogram of carbon-di-oxide. Further, yield of alcohol depends on fermentation efficiency (FE) and distillation efficiency (DE) of the technology used in distilleries. In this regard following observations were noticed:

6.4.7.1 Norms for production of alcohol from grain

The State Government *vide* notification dated 01 June 2015 substituted Rule 12 of the Rajasthan Distilleries Rules which stipulates that every distiller shall be responsible for maintaining minimum fermentation, distillation efficiencies and minimum recovery of alcohol from the grain used for production of alcohol. The minimum fermentation, distillation efficiencies and recovery of alcohol from the grain base shall be as under:

| | |
|-----------------------------|---|
| Fermentation efficiency | 84 per cent of fermentable sugar present |
| Distillation efficiency | 97 per cent of alcohol present |
| Minimum recovery of alcohol | 40 bulk litre Extra Neutral Alcohol (ENA)/ Rectified Spirit (RS) (98 per cent V/V ³) per quintal of grain having 62 to 64 per cent starch |

During test check of the records regarding fixation of norms at EC office, it was noticed that according to norms prescribed by the State Government, minimum recovery of alcohol should be 40 BL per quintal. However, calculation on the basis of fermentation efficiency (84 per cent), distillation efficiency (97 per cent) and starch content (64 per cent) prescribed by the Department, would result in a norm of 37.50 BL⁴ per quintal of grain. Thus, the Department prescribed the norms without calculation of yield as per the percentages fixed.

It was also noticed that all the distillers were using batch fermentation process and atmospheric distillation/ multi pressure distillation technology. As per National Sugar Institute (NSI) Kanpur, efficiency range for fermentation and distillation technology employed by distillers is as below:

(Figures in per cent)

| Particular | Fermentation Efficiency | | Distillation Efficiency | |
|------------|-------------------------|-------------------------|--------------------------|-----------------------------|
| | Batch fermentation | Feed batch fermentation | Atmospheric distillation | Multi pressure distillation |
| Grain | 90 – 92 | 90 – 95 | 97 – 98 | 98.5 – 99 |

³ V/V = Volume by Volume.

⁴ 100 kilogram x 64 per cent = 64 kilogram of starch, glucose yield = 64 kilogram x 1.11 = 71.04 kilogram, ethanol yield as per Gay-Lussac equation from glucose = 71.04 kilogram x 51.14 per cent = 36.33 kilogram, alcohol produced after fermentation = 36.33 kilogram x 84 per cent = 30.52 kilogram, alcohol produced after distillation = 30.52 kilogram x 97 per cent = 29.60 kilogram, quantity of alcohol in BL = 29.60/0.78934 (the density of ethanol (100 per cent) is 0.78934 kilogram per litre at 20^o C) = 37.50 BL

If the Department wanted the minimum recovery of 40 BL per quintal it should have fixed the minimum fermentation efficiency at 90 per cent and distillation efficiency at 97 per cent. However, Audit observed that the distillers were on their own maintaining the prescribed norm of 40 BL and they reported (June 2018) to the Department about their fermentation efficiency being more than 90 per cent and distillation efficiency being more than 97 percent during 2017-18 as detailed below:

| Name of distilleries | Fermentation efficiency | Distillation efficiency | Average recovery maintained |
|--|-------------------------|-------------------------|-----------------------------|
| Globus Spirits Limited, Behror | 93 per cent | 98 per cent | 45 BL |
| Vintage Distillers Limited, Alwar | 94 per cent | 98 per cent | 42.75 BL |

If calculation is done on the basis of fermentation efficiency (93 per cent) and distillation efficiency (98 per cent), recovery of alcohol should be 42 BL per quintal of grain having 64 per cent starch.

Thus, norms prescribed by the Department are not scientific and should be rectified as per fermentation efficiency and distillation efficiency parameters adopted by the distillers. Failure of the Department to update its norm in tune with the improved production technologies adopted by distillers will encourage under reporting of production. Further, it would be in the interest of the revenue if the Government considers revising the norms of the production at regular intervals as the amount of excise duty depends on the quantity of alcohol produced and sold.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that norms for production of alcohol will be reviewed by the committee constituted for this purpose and action will be taken as per the recommendation of the committee.

6.4.7.2 Measurement of spirit

The legal unit of measurement of strength of spirit in the State is 'London Proof Litre' (LPL) or Proof. In terms of volume, such proof alcohol contains 57.06 per cent by volume of alcohol and 46.68 per cent⁵ by volume of water. When spirit has the physical characteristics of 'proof spirit', it is considered 100 per cent proof.

The strength of alcohol in spirit is also expressed in unit of percentage volume by volume (% V/V). When spirit contains 100 per cent alcohol, it means its strength is 100 % V/V or its alcohol content is 100 % V/V. Such absolute alcohol is equal to 175.25 proof⁶ or 75.25 per cent over proof (OP⁷).

It was noticed that as per the norm prescribed by the State Government, minimum recovery of alcohol was 40 BL at 98 % V/V. Measurement of spirit at 98 % V/V should be 171.75⁸ proof or 71.75 OP whereas Bureau of Indian

⁵ In terms of volume, proof alcohol contains 57.06 per cent by volume of alcohol and 46.68 per cent by volume of water which when mixed, gets contracted and gives the result of 100 proof by volume.

⁶ As 57.06 % V/V alcohol in spirit is equal to 100 per cent proof, hence 100% V/V is equal to 175.25 proof (100 x 100 / 57.06 = 175.25).

⁷ Volume of alcohol having strength more than 100 degree proof is called over proof or OP ((175.25 – 100 = 75.25).

⁸ (175.25/100) x 98 = 171.75 proof or (100/57.06) x 98 = 1.7525 x 98 = 171.75 proof.

Standards (BIS) 6613:2002 prescribes minimum strength 96 % V/V or 168.24⁰ proof for ENA used in alcohol drinks and BIS 323:1959 prescribes minimum strength 94.68 % V/V or 166⁰ proof for RS Grade I (potable). Similarly, ENA and RS produced in distilleries of the State are also 168.24⁰ proof and 166⁰ proof respectively which has been verified in the Government Laboratories.

Thus, measurement of spirit in 98% V/V prescribed in norm is not justified and the Department needs to amend either the measurement method to 96% V/V as per BIS specifications or bind the distillers to produce spirit at 98% V/V (171.75 proof) as per prescribed strength in the norm.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that proposal to amend the measurement method of spirit of 98% V/V to 96% V/V was received from the Department. Further progress is awaited (May 2020).

6.4.7.3 Norms for production of beer

The Department has prescribed two types of beers for manufacturing and trade in India *i.e.* Mild/Lager beer (having alcohol content below 5 *per cent*) and Strong/Super Strong beer (having alcohol content between 5 and 8 *per cent*). The process of preparation of beer is similar to that of alcohol with the difference that alcohol production requires fermentation and distillation while production of beer requires only fermentation.

The CAG's Audit Report for the year ending 31 March 2016 had recommended that the Department may prescribe norms for production of beer from grains. The Government *vide* notification dated 11 October 2017 inserted Rule 34 (A) in the Rajasthan Brewery Rules, 1972 which stipulates that every brewer shall be responsible for maintaining minimum yield of 650 liters of mild beer or 490 liters of strong beer for every 100 kilogram of malt and other raw material used. Further, the EC may impose penalty of ₹ 10 per litre in case of shortage in yield of beer unless it is proved by the brewer that failure was not deliberate and due precautions were taken by him to maintain the specified scale of yield for beer. Furthermore, if brewer repeatedly fails to maintain minimum scale of yield for beer as specified, the EC may, after giving an opportunity of being heard, cancel or suspend the license of such brewer.

Test check of records of six breweries under the jurisdiction of DEO Alwar and DEO (Production units), Behror, revealed that these units did not achieve the norms of minimum yield efficiency of beer. These units produced 541.21 lakh bulk liters (BL) beer from 116.97 lakh kilogram of raw material used in 1913 number of short yield brews⁹ out of total 2,432 brews produced during the period 2017-18 after the issue (October 2017) of notification. As per norms, minimum yield efficiency of beer should have been 574.19 lakh BL¹⁰ from the raw material used. Thus, the brewers failed to maintain the minimum yield efficiency of beer which resulted in short production of 32.98 lakh BL of beer. However, the Department failed to impose penalty of ₹ 3.30 crore on short production of beer. Four brewers repeatedly failed to

⁹ A quantity of beer prepared by steeping, boiling and fermenting malt and hops in a single process.

¹⁰ Mild beer 4.32 lakh BL from 0.67 lakh kilogram of raw material and Strong beer 569.87 lakh BL from 116.30 lakh kilogram of raw material, thus total 574.19 lakh BL beer from 116.97 lakh kilogram of raw material used.

maintain minimum scale of yield for beer as specified, however, the Department did not take any action against the brewers.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that an amount of ₹ 3.25 crore had been recovered and the concerned officers had been directed (August 2019) to recover the remaining amount. Further, all the offices had been directed to ensure the compliance of the provision for minimum yield of beer as per prescribed norms.

6.4.8 Provisions contrary to temperance policy

6.4.8.1 Determination of exclusive privilege amount without considering sale of country liquor

As per Excise Policies 2015-18, group wise licences of country liquor for the concerned year will be allocated under exclusive privilege system. According to the conditions of country liquor retail sale licence, the licensee will have to pay the annual exclusive privilege amount (EPA) fixed for the prescribed group/shop for the concerned year in 12 equal monthly installments. Rebate will be payable on the amount of monthly installment of EPA by excise duty paid on the country liquor.

Further, as per Excise Policies, EPA of CL groups during the period 2015-18 was fixed by increasing a certain percentage on EPA of previous year which intended to promote the sale and consumption of CL in the State. However, there was no corresponding increase in sale of CL, which indicates that EPA was determined without considering the actual sale of CL of previous year, as detailed below:

| Year of Excise Policy | Percentage increase in EPA from previous year | Sale ¹¹ of country liquor during the year (in lakh BL) | Percentage increase in sale of CL from previous year |
|-----------------------|---|---|--|
| 2015-16 | 14 | 2184.43 | 13.48 |
| 2016-17 | 18 | 2344.93 | 7.35 |
| 2017-18 | 12 | 2571.17 | 9.65 |

Source: Excise Policies and Administrative Reports of the Department.

It is seen from the above that EPA during 2016-17 and 2017-18 was increased by 18 per cent and 12 per cent respectively whereas increase in sale of CL during previous years was only 7.35 per cent and 9.65 per cent. Thus, determination of EPA was not commensurate with the increase in sale in the previous year. Further, there was no corresponding increase in sale of CL as per determined EPA during 2016-17 and 2017-18 and the Department did not analyse as to how the licensees, who failed to lift the determined quantity of CL, were paying EPA over their sale of CL. Audit also observed that the licensees were not lifting the minimum guarantee quota (MGQ) of the CL and thus had to pay the difference of excise duty for the shortfall in MGQ. The details are discussed under para 6.4.10.2 of this report.

The audit observation was pointed out to Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that a committee will be constituted at Departmental level to

¹¹ Rates of country liquor was not change during the period 2015 to 2018.

review the determination of EPA in accordance with the sale of CL during previous year. Decision on the recommendation of the committee will be taken keeping in view the revenue interest of the state.

6.4.8.2 Indirect promotion of the consumption of alcohol due to provision of additional amount on short lifted quantity of IMFL and Beer by retail-off licensees

As per Excise Policies 2015-18, licences of IMFL/Beer shops in municipal area would be allocated on the payment of yearly licence fees as may be specified by the EC with the prior approval of the State Government. Further, provision for sale of IMFL/Beer at CL groups outside the municipal area on the payment of composite fees was also prescribed in the policies.

Excise Policies stipulated that an additional amount was to be charged quarterly at the rate of ₹ 10 per BL separately on short lifted quantity of IMFL and Beer during 2016-17 and at the rate of ₹ 20 per BL on short lifted quantity of IMFL and ₹ 10 per BL on short lifted quantity of Beer during 2017-18 by retail off licensees¹² who did not increase the lifting of IMFL and Beer by upto minimum 10 per cent during each quarter of current year in comparison to the quantity lifted in the corresponding quarter of previous year. Calculation of such short lifted quantity was to be made shop-wise after each quarter. This provision is based on the assumption that consumption of liquor would necessarily increase by 10 per cent in each quarter.

Scrutiny of the data collected from the EC office regarding lifting of IMFL and Beer during 2015-18 revealed that the increase in lifting of IMFL and Beer as per provision could not be achieved during 2016-17 and 2017-18 as detailed below:

| Year | Number of DEOs | Shortfall in lifting as compared with targeted quantity (BL in crore) | | Additional amount leviable as per provision (₹ in crore) | | |
|--------------|----------------|---|-------------|--|--------------|--------------|
| | | IMFL | Beer | IMFL | Beer | Total |
| 2016-17 | 34 | 1.31 | 1.79 | 13.14 | 17.97 | 31.11 |
| 2017-18 | 34 | 1.19 | 0.57 | 23.77 | 5.72 | 29.49 |
| Total | | 2.50 | 2.36 | 36.91 | 23.69 | 60.60 |

It is seen from the above that the Department was in a position to levy additional amount of ₹ 60.60 crore on the licensees who failed to lift the enhanced quantity of liquor. However, the Government did not analyse as to how the licensees were paying additional amount over their fixed margin on sale of liquor which was required to be sold to the consumers on fixed sale price.

Further, scrutiny of cases registered at five DEOs¹³ disclosed that 231 cases of selling liquor at higher rate than maximum retail price were registered during 2017-18. Involvement of licensees in purchase and sale of liquor illegally cannot be ruled out.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated

¹² Retail off means retail sale of liquor is sealed packed containers and not to be consumed in the premises of the retailer.

¹³ DEOs: Hanumangarh, Jaipur Urban, Jhalawar, Nagaur and Sawai Madhopur.

(October 2019) that the condition of ten *per cent* increase in lifting of IMFL/Beer in the quarter compared to the same quarter of last year was added to ensure revenue for the State and to check the sale of unauthorised liquor. It was further stated that a committee will be constituted at Departmental level to review the determination of additional amount on short lifted quantity of IMFL and Beer. Decision taken on the recommendation of the committee will be considered during formulation of next year's policy.

6.4.9 Implementation of Temperance policy

Temperance means to implement such policy and measures that discourage the use of liquor and limit the consumption of liquor by people to avoid its adverse effects. However, the Department could not ensure effective implementation of the policy as detailed below:

6.4.9.1 Public awareness campaign

According to para 12(1) of the policy 2015-16 and para 9(vii) of the policy 2017-19, 0.1 *per cent* of total receipt of excise revenue or minimum ₹ 10 crore annually was to be spent on broadcasting through television, newspaper, radio and other circulation mediums under public awareness campaign to educate the public about the bad effect of liquor and other intoxicating material.

During scrutiny of records at EC office, it was noticed that only ₹ 3.82 crore, ₹ 6.05 crore and ₹ 6.75 crore were spent on Public awakening campaigns during the year 2015-16, 2016-17 and 2017-18 respectively against allotment of ₹ 10.30 crore each year. Thus, the public awareness campaigns were not effectively organised.

Audit observed that during the last three years, consumption of liquor gradually increased from 4,830.45 lakh BL in 2014-15 to 5,726.26 lakh BL in 2017-18. It indicates that the Department could not create proper awareness through the temperance policy.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that expenditure on broadcasting under public awareness campaign were conducted as per media plan. Unutilised amount of budget allotment was re-appropriated for another budget head of the Department. Fact remained that the Department could have utilised the fund for public awareness campaign for better results.

6.4.9.2 Illegal transportation of liquor in Rajasthan

Para 8(ix) of the policy 2016-17 and para 9(ix) of the policy 2017-19 envisages that a system will be developed for effective control on illegal transportation of liquor from neighboring states through:

- Organisation of joint investigation with coordination of police;
- Provision of vehicles and other resources to investigation team for ensuring 24 hours monitoring;
- Constitution of a monitoring committee headed by Inspector General of Police Range at Zonal level for effective action in adjoining districts; and

- For control on smuggling of liquor efforts are to be made at the level of State Government by establishing harmony with the Government of concerned states.

Audit query on the above issues was not answered by the EC Office. Scrutiny of cases registered under EPF stations of selected units disclosed that 74 cases of illegal liquor of other States under three DEOs¹⁴ were registered during 2015-18 which showed that smuggling of liquor from other States was being done by evading the check posts, EPF Stations, excise circle offices, police stations *etc.* Audit could not find any evidence of a system being developed by the Department on the lines of the above mentioned points for effective control on illegal transportation of liquor from neighbouring States.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that joint raids were organised from time to time in coordination with Police Department and vehicles will be made available to investigation teams for ensuring 24 hours monitoring.

6.4.9.3 Government vehicles for Excise Preventive Force (EPF)

Para 13 of the Policy 2015-16 envisaged purchase of new vehicles to increase the movement of force for preventive activities and revenue realisation. Further, para 10(ii) of the policy 2016-17 provided that 25 government vehicles each will be purchased in place of contract vehicles during next two financial years.

Scrutiny of records at EC office revealed that ₹ 11.25 crore¹⁵ was to be provided for purchase of new vehicles during 2015-16 whereas only ₹ 89 lakh during 2015-16 and ₹ 105 lakh during 2017-18 were provided to the Department by the Government. The Department purchased 12 vehicles during 2015-16 and 17 vehicles during 2017-18 against the allotted budget. Budget for purchase of new vehicles was not provided during 2016-17. Non-availability of government vehicles with EPF is a crucial factor in poor performance of the Department in curbing smuggling of illicit liquor. Further, the planned programme of special raids using contract vehicles can easily be leaked as the drivers are private persons.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that government vehicles will be provided to EPF as per availability of budget allocation.

6.4.9.4 Inter State Check Posts

As per para 11 of the policy 2017-19, online CCTV cameras were to be installed at check posts established on the border of interstate for effective control and monitoring on transportation of illicit liquor and smuggling activities. Further, permanent buildings were to be constructed at important inter-state check posts and additional staff was to be deputed at very sensitive inter-state check posts for ensuring 24 hours monitoring.

¹⁴ DEOs Alwar, Barmer and Hanumangarh.

¹⁵ 50 per cent amount of ₹ 22.50 crore received from auction in 2014-15.

The Department informed that only seven permanent check posts¹⁶ under six districts were in operation in the State during 2015-17 of which five check posts¹⁷ were established at interstate border of Haryana, Madhya Pradesh and Gujarat. Further, CCTV cameras were not installed at any of the check posts though these are essential for tracking and tracing of suspect vehicles. Further more transparency and accountability of staff could also be ensured by CCTV.

As regards the buildings, only the Ratanpur check post in Dungarpur district was operated from a rented building whereas remaining check posts were being run in tents. Permanent buildings were not constructed at these check posts and additional staff was also not deputed. This indicates slackness of the Department in maintaining effective control and monitoring on transportation of illicit liquor and smuggling activities.

6.4.10 Computerisation in the Department

The Excise Department introduced an IT System “*Integrated Excise Management System (IEMS)*” for the departmental officials to control the business of IMFL, Beer, CL and other excisable articles in the State through two Government owned companies viz Rajasthan State Beverages Corporation Limited (RSBCL) and Rajasthan State Ganganagar Sugar Mills Limited (RSGSML). This system is in operation at all DEO/AEO offices. Various modules were provided in IEMS for the assistance of officials. Salient deficiencies noticed in operation of IEMS are mentioned below:

Licensee Stock Management and Liquor Inventory Management Module

Licensee Stock Management Module is used for maintaining liquor inventory of the retail off and retail on licensees online. Various payment modes like online challan generation through cash/DD/Cheque, Internet Banking, NEFT and RTGS are available to licensees for deposit of funds for purchase of liquor. After deposit of funds, liquor purchased by licensees from RSBCL or RSGSM is automatically added to respective licensee’s inventory ledger. A unique ledger of each licensee is maintained under Liquor Inventory Management Module. The licensee’s ledger carries each transaction dealt with licensee *i.e.* receipts of amount, invoices issued, balance available in the ledger *etc.*

These modules lacked facility to red flag the defaulter retail off licensees of IMFL/Beer who failed to increase the lifting of IMFL and Beer upto minimum 10 *per cent* after each quarter of current year in comparison to the same quarterly lifting of previous year. Besides, the module could not calculate additional amount payable on such short lifted quantity of IMFL and Beer as per provisions of the policy. Similarly, the modules lacks functionality to red flag the defaulter CL licensees who failed to lift CL as per the prescribed minimum monthly guarantee quota. Besides, the module could not calculate remaining monthly guarantee amount payable in cash by the licensees on such short lifted quantity of CL. Further, there was no provision in the module to

¹⁶ Ateetmand (Ajmer district), Mahuakhurd & Shahjahanpur (Alwar), Atru (Baran), Ratanpur (Dungarpur), Syalodada Patan (Sikar) and Goned (Jaipur).

¹⁷ Mahuakhurd, Shahjahanpur, Syalodada Patan (Haryana border), Atru (Madhya Pradesh border), Ratanpur (Gujarat border).

integrate the monthly guarantee amount paid by the defaulter licensees in cash and to compute the interest leviable due to delayed deposit.

In light of the above, the Department could not realise additional amount leviable on IMFL/Beer and differential amount of excise duty leviable on CL timely from defaulter licensees on short lifted quantity of liquor. These functions if available in the module, could have prevented arrear of revenue as discussed in the succeeding paragraphs.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government replied (October 2019) that the IT branch had been directed to introduce the required provisions in the Excise Module. Further progress is awaited (May 2020).

6.4.10.1 Non-realisation of additional amount from retail-off licensees on short lifted quantity of IMFL and Beer

Para 3.10 and 4.6 of the policy 2016-17 and para 3.20(1) and 4.6(1) of the policy 2017-18 stipulated that an additional amount was to be charged quarterly at the rate of ₹ 10 per BL separately on short lifted quantity of IMFL and Beer during 2016-17 and at the rate of ₹ 20 per BL on short lifted quantity of IMFL and ₹ 10 per BL on short lifted quantity of Beer during 2017-18 by retail off licensees who did not increase the lifting of IMFL and Beer upto minimum 10 *per cent* during each quarter of current year in comparison to the quantity lifted in the corresponding quarter of the previous year. Calculation of such short lifted quantity was to be made shop-wise after each quarter.

Further, as per directions issued (27 June 2016 and 16 June 2017) by the EC, recovery of additional amount as per prescribed rate on short lifted quantity in each quarter was to be ensured at the level of concerned DEOs. In compliance of the EC's directions, DEOs had to calculate additional amount of each retail off licensee and intimate the concerned licensee within seven days of the quarter end and to realise the additional amount within seven days of the intimation letter of recovery.

During test check of relevant records of selected units, it was noticed that 120 licensees under the jurisdiction of three DEOs¹⁸ were unable to enhance lifting of IMFL and Beer by minimum 10 *per cent* during 2016-18 in comparison to the previous year. Therefore, additional amount of ₹ 16.58 lakh was leviable at the prescribed rate. The additional amount however, had not been realised by the concerned officers.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government replied (October 2019) that amount of ₹ 14.39 lakh had been recovered and required provision will be introduced in the Excise Module.

6.4.10.2 Shortfall in Monthly Guarantee of country liquor licensees

As per the conditions of country liquor retail sale licence, the licensee was to pay the annual EPA fixed for the prescribed group/shop for the concerned year in 12 equal monthly installments. The monthly installment is to be paid by the

¹⁸ DEOs: Barmer, Hanumangarh and Jaipur City.

last date of that month. If a licensee failed to lift the minimum monthly quota of CL, he was liable to pay the difference of excise duty in cash.

During scrutiny of the records of 15 DEOs¹⁹, it was noticed that during 2015-18, 228 out of 3,018 licensees, lifted country liquor of ₹ 10.07 crore against the quota of ₹ 16.12 crore fixed for the concerned months. The differential amount of excise duty amounting to ₹ 6.05 crore was not recovered from the concerned licensees.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government replied (October 2019) that ₹ 3.05 crore had been recovered. Further, stated that the required provision will be introduced in the Excise Module.

6.4.11 Provisions of Excise policy

6.4.11.1 Licences for selling country liquor and IMFL/Beer at retail shop

Rule 67-1 of RE Rules, 1956 provides that licence for exclusive privilege of selling country liquor by retail within any local area may be granted by inviting applications on condition of payment of such lump sum amount instead of, or in addition to excise duty as may be decided by the EC. Further, Rule 4 of the Rajasthan Foreign Liquor (Grant of Wholesale Trade and Retail Off Licences) Rules, 1982 provides that a retail licence shall be granted by inviting applications for retail off sale of IMFL/Beer in specified zone of a municipality or whole municipal area as the case may be on the payment of yearly licence fees as may be specified by the EC with the prior approval of the State Government.

Applications shall be received by the DEO concerned and successful applicant shall be required to deposit due security, licence fees and other required amount in State exchequer within the time prescribed for it. If the required security, licence fees and other required amount is not deposited within the time indicated, acceptance of the application may be revoked by the DEO concerned and the earnest money deposited with the application and any other amount deposited by the applicant shall in the event of such revocation, be forfeited to the Government. Audit noticed non-compliance of provisions prescribed for issue of CL and IMFL/Beer licences, as enumerated below:

- **Non-forfeiture of security deposit and advance EPA of CL groups**

Para 3.5 of the Policy 2017-18 provided that a licensee of CL groups had to deposit 18 *per cent* amount of prescribed annual amount of the group in the form of advance EPA before 01 April 2017. Further, Para 3.6 of the policy provided that 8 *per cent* amount in the form of security deposit would be deposited in cash. Accordingly, condition number 9 of application stipulated that after adjustment of one *per cent* earnest money, five *per cent* amount would be deposited within three days from the date of lottery and rest of the two *per cent* amount within 10 days or before commencement of shops, whichever was earlier, of the sanction of the selection shops. In case of default at any stage, the selection of shop would be cancelled and amount of earnest money, security deposit, advance EPA deposited at that stage would be

¹⁹ DEOs Alwar, Barmer, Hanumangarh, Jaipur City, Rajsamand, Sawai Madhopur of selected units and DEOs Ajmer, Bhilwara, Churu, Sikar, Jaipur Rural, Jalore, Jodhpur, Kota, and Sirohi of regular audit.

forfeited in favor of the Government and the shops would be resettled forthwith.

During scrutiny of the licence files of CL groups at DEO, Jaipur (Urban) it was noticed that during 2017-18 licences of 97 CL groups were issued by the DEO. However, 13 licensees deposited only ₹ 3.13 crore during the prescribed time limit *i.e.* upto 31 March 2017. Remaining amount of ₹ 1.89 crore was deposited after due date. For this default, the selection of these shops/groups was required to be cancelled and amount of earnest money, security deposit, advance EPA deposited at that stage should have been forfeited in favor of the Government. However, action as envisaged under the conditions of application was not initiated by the concerned officer.

As no relaxation was allowed under the provisions, the inaction of the concerned officer deprived the Government of ₹ 3.13 crore of security deposit and advance EPA which also was required to be forfeited.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government replied (October 2019) that direction had been issued to all Additional Excise Commissioner, Zones and DEOs for compliance of the provisions of the Policy. However, reply was silent about the non-forfeiture of the amount.

- **Non-forfeiture of licence fee of retail shops of IMFL/Beer**

As per the policy 2017-18, the annual licence fees at the rate of ₹ 25 lakh per shop was fixed for retail shops of IMFL/Beer situated in Jaipur and Jodhpur. Further, as per directions issued by the EC for licence of IMFL/Beer shops in respect of Excise Settlement 2017-18, on sanction of such licence, 40 *per cent* amount of annual licence fees would be deposited within three days from the date of lottery after adjustment of one *per cent* earnest money deposited with application. Rest of the 59 *per cent* amount would be deposited within 10 days or before commencement of shop, whichever was early.

During scrutiny of licence files at DEO Jaipur (Urban) it was noticed that during the year 2017-18 licences for 206 IMFL/Beer shops were issued by the concerned DEO. However, two licensees did not deposit the entire annual licence fees as required under the rule. Licence fees of ₹ 50 lakh for these shops was to be deposited by 31 March 2017 but the concerned licensees deposited only ₹ 27.25 lakh during the prescribed time limit. Remaining amount ₹ 22.75 lakh was not deposited.

Therefore, the selection of these shops should have been cancelled and amount of earnest money, licence fees deposited at that stage should have been forfeited in favor of the Government. However, no such action was initiated by the concerned officer as envisaged in the provisions. The undue favour to the licensees by the DEO deprived the Government of ₹ 27.25 lakh of licence fees which was required to be forfeited.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that direction had been issued (August 2019) to all Additional Excise Commissioner, Zones and DEOs for ensuring compliance of the provisions of the Policy. Further progress is awaited (May 2020).

The Government needs to take action against concerned officers so that occurrences/recurrence of such lapses can be avoided.

6.4.11.2 Composite fees for composite shops of peripheral area

According to the policies for the years 2015-18, applicants of CL groups were liable to pay the EPA and composite fees as per the category of shop for which they had applied. CL shops of rural area were classified in different categories. The shops of villages located within five kilometers radius from the municipal area were categorised 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 2016-17 and 2017-18 was to be fixed as equal to 6 per cent of annualised billing amount of Rajasthan State Beverage Corporation Limited (RSBCL) during previous year or annual license fee prescribed for IMFL shop situated in concerned municipal area, whichever was higher. The composite fee for category 'B' shops for the year 2016-17 and 2017-18 was to be fixed as equal to 6 per cent 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 ₹ 50,000, whichever was higher.

- **Short levy of composite fees**

During test check of records of selected units, it was noticed that six country liquor shops/groups under the jurisdiction of two DEOs²⁰ were categorised as shops of peripheral area during 2016-18 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 officers showed composite fees at a lesser amount than the composite fee payable for the shops of peripheral area. Thus, composite fee of ₹ 56.50 lakh was to be decided for six composite shops/groups of peripheral area but the concerned officers decided and recovered only ₹ 13.33 lakh from these licensees. This resulted in loss of revenue amounting to ₹ 43.17 lakh.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that direction has been issued to all Additional Excise Commissioner, Zones and DEOs for compliance of the provisions of the Policy. However, progress of recovery was not intimated (May 2020).

- **Short determination of composite fees**

Para 3.11.4 of the Policy 2017-18 stipulated that if rationalisation of composite fees of category 'A' shops was necessary, it could be done by the EC with prior approval of the State Government. The EC *vide* his order dated 15 February 2017 decreased two CL shops in total number of CL shops and ₹ 1.55 crore in total EPA determined during 2016-17 under the jurisdiction of DEO, Jaipur Urban in view of rationalisation of EPA for the settlement of CL

²⁰ DEOs Jaipur City and Sawai Madhopur.

groups during 2017-18. There was no direction about rationalisation of composite fees in the order.

During test check of settlement records of DEO Jaipur (Urban) for the year 2017-18, it was noticed that during rationalisation of EPA and number of shops, the DEO abolished four groups of peripheral area and one group of rural area. Area of these groups was merged into another four groups of peripheral area and one group of rural area but composite fees of three abolished groups of peripheral area was not included in the composite fees of newly restructured groups whereas in remaining two cases, composite fees of abolished groups was included in the composite fees of newly restructured groups. However, number of shops and EPA of the district were determined as per the order of the EC by way of restructuring groups/shops of CL.

Thus, composite fee of ₹ 137.50 lakh was to be decided for such three composite groups of peripheral area as per procedure adopted in another two groups but the concerned officer decided and recovered ₹ 100.00 lakh from these licensees at his level. Sanction of EC with prior approval of the State Government was not taken for such rationalisation of composite fees of the groups of peripheral area. This resulted in loss of revenue amounting to ₹ 37.50 lakh. On being pointed out, the Department stated (May 2019) that composite fees of these shops/groups were reduced on the recommendation of concerned Excise Inspectors as per instructions issued by the Head Office. The reply is not tenable as no such instructions were issued by the Head Office.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that concerned officer had been directed (August 2019) to ensure compliance for short determination of composite fees. Further progress is awaited (May 2020).

Internal Control Mechanism

6.4.12 Internal Audit

The internal audit conducted by the IA wing and number and amount of objection raised and settled during the year is shown below:

(₹ in crore)

| Year | Opening Balance | | Addition during the year | | Clearance during the year | | Closing balance | |
|---------|-----------------|-----------------|--------------------------|-----------------|---------------------------|-----------------|-----------------|-----------------|
| | Number of cases | Amount involved | Number of cases | Amount involved | Number of cases | Amount involved | Number of cases | Amount involved |
| 2015-16 | 627 | 10.22 | 255 | 5.40 | 337 | 1.97 | 545 | 13.65 |
| 2016-17 | 545 | 13.65 | 337 | 12.51 | 157 | 5.55 | 725 | 20.61 |
| 2017-18 | 725 | 20.61 | 256 | 11.58 | 273 | 3.29 | 708 | 28.90 |

Source: information provided by the Department.

It is seen from the above that during the period the cases under objections and amount increased which indicates that the compliance of the cases raised by the IA wing by the Department is very low.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that special camps were organised (July and August 2019) for settlement of outstanding paragraphs. As of now 560 paras were outstanding

which will be settled at the earliest. Further progress is awaited (May 2020).

6.4.13 Effectiveness of the Enforcement Wing of the Department

The prevention of offences against the Rajasthan Excise (RE) Act, 1950 and the Narcotic Drugs and Psychotropic Substances (NDPS) Act, 1985 and the rules made thereunder is an important task of the State Excise Department. For effective prevention and control on production and trade of illegal excisable articles in the State, a separate Excise Preventive Force (EPF) Cell was constituted in the Department. The main functions of EPF is patrolling or planning for raids, assembling groups of forces with police and inspectors of circle offices of the Department for joint raids to prevent illicit distillation, smuggling, sale and storage of illicit liquor, opium and other intoxicating substances.

6.4.13.1 Seizure of excisable articles

Scrutiny of Administrative Reports of the Department disclosed that following excisable articles were seized in excise raids conducted by EPF stations and circle offices of the excise Department:

| Sl. No. | Name of excisable articles | Unit in | Excisable articles seized during the year | | | |
|---------|----------------------------|----------|---|-----------|-----------|-----------|
| | | | 2015-16 | 2016-17 | 2017-18 | Total |
| 1 | Illicit liquors | Bottles | 58,520 | 75,937 | 5,15,298 | 6,49,755 |
| 2 | IMFL | Bottles | 5,44,915 | 4,92,887 | 3,04,629 | 13,42,431 |
| 3 | C.L. | Bottles | 88,055 | 93,997 | 89,236 | 2,71,288 |
| 4 | Beer | Bottles | 1,31,088 | 2,19,020 | 41,421 | 3,91,529 |
| 5 | Wash | litres | 23,08,703 | 26,20,056 | 19,94,682 | 69,23,441 |
| 6 | Spirit | litres | 1,23,705 | 57,355 | 29,424 | 2,10,484 |
| 7 | Lanced Poppy Heads (LPH) | Kilogram | 484 | 59 | 0.35 | 543.35 |
| 8 | Opium | Kilogram | 0 | 0 | 0.566 | 0.566 |
| 9 | Ganja | Kilogram | 0 | 0 | 0 | 0 |
| 10 | Charas | Kilogram | 0 | 0 | 0 | 0 |

Source: Administrative Reports of the Department.

The seizure of such high quantity of illicit liquor, wash and spirit by the Department indicates that magnitude of illegal liquor distillation in the State was alarming.

It was also noticed that the State Police Department seized 493.558 kilogram opium, 2,357.721 kilogram ganja, 107.939 kilogram charas and 43,740.317 kilogram LPH under NDPS Act during the year 2016 whereas the seizure of the Excise Department in this regard was negligible. Thus, performance of the Department in seizure of such intoxicating substances was not satisfactory and the Department needs to improve efficiency in this regard.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that preventive activities are mainly directed to check revenue loss from illegal liquor trade. However, reply was silent regarding action taken under NDPS Act.

6.4.13.2 Regular patrolling and case registration

As per Excise Manual, 1988, Patrolling Officer (PO) of each EPF station had to conduct minimum 15 tours per month in day and 15 tours per month at night along with his staff. Further, each PO of EPF had to detect 10 cases per month as per provisions contained in the Excise Manual.

The EC Rajasthan classified (26 November 2010) the cases registered in excise circles and EPF stations into ordinary report cases and special report cases. Cases related to the quantity of seized liquor (IMFL/CL/illicit) more than 50 litres and Beer more than 96 bottles, current operation of illicit liquor, mixing of liquor, poisonous liquor, factories manufacturing duplicate liquor and cases registered under NDPS Act are treated as special report cases.

During test check of the records and information furnished by the EPF stations of selected units, it was noticed that the EPF stations did not carry out regular patrolling and raids which is reflected in poor performance of EPF stations in detection and registration of cases. The bifurcation of cases registered in 28 EPF stations of seven selected Assistant Excise Officers (AEOs) offices during 2015-18 are mentioned below:

| Sl. No | Name of AEO offices (Number of EPF Stations) | Cases to be registered as per norms | No of cases registered | | | Shortfall in cases registered | | Percentage to the total number of registered cases | |
|--------|--|-------------------------------------|------------------------|-----------------------|----------------------|-------------------------------|----------|--|----------------------|
| | | | Total | Ordinary report cases | Special report cases | Number (3 - 4) | Per cent | Ordinary Report cases | Special report cases |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1 | Alwar (7) | 2,520 | 1,841 | 1,553 | 288 | 679 | 26.95 | 84.36 | 15.64 |
| 2 | Barmer (3) | 1,080 | 478 | 451 | 27 | 602 | 55.74 | 94.35 | 5.65 |
| 3 | Hanumangarh (3) | 1,080 | 806 | 705 | 101 | 274 | 25.37 | 87.47 | 12.53 |
| 4 | Jhalawar (4) | 1,440 | 421 | 397 | 24 | 1019 | 70.76 | 94.30 | 5.70 |
| 5 | Nagaur (5) | 1,800 | 971 | 880 | 91 | 829 | 46.06 | 90.63 | 9.37 |
| 6 | Rajsamand (3) | 1,080 | 592 | 522 | 70 | 488 | 45.19 | 88.18 | 11.82 |
| 7 | Sawai Madhopur (3) | 1,080 | 272 | 270 | 2 | 808 | 74.81 | 99.26 | 0.74 |

The POs of only three²¹ EPF stations, under AEO Alwar could achieve their targets of detection and registration of cases *i.e.* 120 cases per year during 2016-17 and 2017-18. Further, even a single case per month was not detected in *Eklera* EPF station of AEO Jhalawar during 2015-18.

It was also seen that performance of EPF stations regarding special report cases was dismal. In comparison to total registered cases during the period 2015-18, percentage of special report cases ranged between 0.74 and 15.64 *per cent*.

Position of detection and registration of special report cases in Jhalawar and Sawai Madhopur AEO offices was poor. POs of three EPF stations at Sawai Madhopur and four EPF stations at Jhalawar AEO office detected only two and 13 SR cases respectively during the three years. Most of the cases detected

²¹ Alwar East and Laxmangarh during 2016-17 & 2017-18 and Bhiwadi during 2017-18.

and registered at EPF stations were ordinary report cases involving low quantity of seizures.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that despite less number of cases registered at EPF stations, government revenue was continuously increasing which indicates the effective working of EPF on illegal activities. The reply is not tenable as EPF stations were not able to achieve their targets and there is a need to strengthen the EPF.

6.4.13.3 Coordination between Excise Department and Police Department

As per Excise Manual and Excise Policies, it is essential that the officers of the Police and Excise Department cooperate in detection and investigation of excise and opium offences.

During scrutiny of the information provided by the EC office, it was noticed that the Department does not have a proper system to share or exchange the information in this regard. As a result both the agencies worked independently for the same goal. It was noticed that excise offences registered by the Police Department in the State were much higher than those by the Excise Department which puts a question mark on the efficacy of the functioning of EPF stations and circle offices. The table below shows the number of cases registered against violation of the RE/NDPS Acts and Rules in the State during 2015 to 2017.

| Particulars | 2015 | 2016 | 2017 |
|--|--------|--------|--------|
| No. of cases registered by the State Police Department | 15,500 | 17,316 | 18,687 |
| No. of cases registered by the Excise Department | 12,967 | 14,107 | 13,519 |

Source: Annual Report of the State Police Department and Administrative Report of the Excise Department.

It is clear from above table that EPF stations and circle offices of the Department were not paying required attention towards detection and registration of cases whereas Police Department remained more active in this regard along with their broad sphere of work.

The audit observation was pointed out to the Department and reported to the Government (June 2019 and September 2019); the Government stated (October 2019) that incentive was given to Police Department for informers from time to time thus both Departments were doing preventive work in coordination.

6.4.14 Conclusion

Norms prescribed by the Department for production of alcohol from grain and measurement of spirit in % V/V were not based on scientific analysis. Provision to levy of additional amount on short lifted quantity of alcohol indirectly promotes the sale which is against the objectives of the temperance policy. Gradually increasing consumption of liquor, non-incurring of targeted expenditure on broadcasting under public awareness campaign and lack of effective system to control illegal trafficking of excisable articles adversely impacted the temperance policy.

There were instances of non-compliance to the excise policy such as non-forfeiture of security deposit and advance EPA of defaulter licensees,

shortfall in monthly guarantee, non-realisation of additional amount on short lifted quantity of IMFL and Beer, misclassification of composite fees for composite shops of peripheral area, short realisation of composite fees etc.

Further, the compliance to the cases raised by the IA wing was very low and performance of the Department about seizure of intoxicating substances was not satisfactory.

6.4.15 Recommendations

- *The Department may rectify the norms of alcohol as per fermentation efficiency and distillation efficiency adopted by distillers and it would be in the interest of the revenue if the Government considers revising the norms of the production at regular intervals.*
- *A suitable control mechanism may be considered to rationalise Exclusive Privilege Amount in accordance with the sale of country liquor (CL) without making it as source of revenue realisation.*
- *A separate module for recovery of shortfall of monthly guarantee from CL retail off licensees and additional amount on short lifted quantity of IMFL/Beer from retail off licensees may be developed in Integrated Excise Management System. This would be compatible to tag the details of recoveries with the short lifted quantity of CL and IMFL/Beer after each month or quarter as the case may be, so that recovery could be made automatically from the next fund deposited by the licensees for purchase of liquor and before next issue of liquor to them.*
- *The Department may take appropriate steps for monitoring action taken by the concerned authorities for speedy recoveries in cases raised by the Internal Audit wing.*
- *The Department may evolve a mechanism to share or exchange the information regarding culprits involved in illegal and illicit excisable articles and co-operation with Police Department for effective control of excise offences as envisaged in the Policy.*

6.5 Compliance audit observations

Audit observed during test-check of the record of DEOs cases of non-recovery of licence fee, Non/short realization of fee on short lifted quantity of IMFL and Beer, and short levy of composite fee for composite shops of peripheral area. A few cases involving ₹ 2.07 crore are discussed in the succeeding paragraphs. These cases are illustrative only as these are based on a test check of records.

| Sl. No. | Number of DEOs (Date of assessment) | Particulars of irregularities | Reply of Government/remarks |
|---------|---|--|---|
| 1 | Excise Commissioner Officer (EC), Udaipur (July 2018) | Non-recovery of licence fee for wholesale vend of Foreign Liquor Bottled-In-Origin (BIO) The EC had approved 449 BIO brands for 19 dealers (ranging between 1 and 115 brands for each dealer) for wholesale vend in the State during 2017-18. The Department, however, recovered licence fee according to the number of brands approved under Rule 68 (13-C) from only 17 dealers. The requisite licence fee was not recovered from the remaining two dealers. Scrutiny of Brand/Label approval procedure revealed that only | The Government replied (May 2019) that notices have been issued for recovery. However, one dealer obtained stay on recovery proceedings from Hon'ble High Court of Rajasthan. Further progress is awaited |

| | | | |
|---|---|---|--|
| | | registration in and approval fees was being collected at the time of application .However, there was no system to collect licence fee at the time of registration and approval of Brand/Label. This resulted in non-realisation of licence fee amounting to ₹ 12 lakh. | (May 2020). |
| 2 | Excise Commissioner Officer (EC), Udaipur (July 2018) | Non-realisation of licence fee for possession and use of excisable articles for industrial purposes 20 Country Liquor (CL) reduction centres of a Government Company and 20 other private Bottling Plants were in operation of bottling of CL and Indian Made Foreign Liquor (IMFL) in the State under the jurisdiction of concerned District Excise Officers (DEOs). Though, these 40 Bottling Plants were not producers of spirit itself but liquor was manufactured from spirits imported from other distilleries. Thus, these bottling plants were in possession of imported spirit and liquor for industrial purposes. Therefore, licence fee under Rule <i>ibid</i> was payable by these units which was not recovered by the Department. This resulted in non-realisation of licence fee amounting to ₹ 12.00 lakh ²² . | The State Government replied (June 2019) that the direction for recovery had been issued to the concerned offices. |
| 3 | Six DEOs ²³ (between June 2018 and September 2018) | Non/short realisation of additional amount from retail-off licensees on short lifted quantity of IMFL and Beer It was noticed that 249 licensees did not enhance lifting of IMFL and Beer upto minimum 10 <i>per cent</i> during 2017-18 as comparison to the previous year. Therefore, in compliance to the directions, <i>ibid</i> , the DEOs should have calculated the additional amount for each retail off licensee and intimated the concerned licensee and should have made efforts to realise this additional amount within seven days of the intimation letter of recovery. The concerned offices, however, failed to take action. This resulted in non-recovery of ₹ 94.17 lakh which was leviable . | The Government replied (September 2019) that ₹ 51.85 lakh had been recovered and progress would be intimated after recovery of the remaining amount. Further, progress is awaited (May 2020) |
| 4 | Five DEOs ²⁴ (between June 2018 and October 2018) | Short levy of composite fees for composite shops of peripheral area Twelve CL shops/groups were categorised as shops of peripheral area during 2014-18 by the concerned DEOs. Scrutiny of licence fee files and relevant records disclosed that while issuing notices for inviting applications for allotment of shops, the concerned DEOs incorrectly calculated a lower composite fees than the fee payable for the shops of peripheral area as per annualised billing amount of RSBCL. Thus, instead of composite fee of ₹ 1.51 crore to be decided for such 12 composite shops/groups of peripheral area, the concerned offices decided and recovered only ₹ 62.18 lakh from these licensees. This resulted in loss of revenue amounting to ₹ 88.82 lakh. | The Government replied (October 2019) that 3.90 lakh had been recovered and progress would be intimated after recovery of remaining amount. Further, progress is awaited (May 2020). |

²² DEO Ajmer (4), Alwar (3), Baran (1), Behror (5), Bharatpur (1), Bhilwara (1), Bikaner (1), Bundi, (1) Chittorgarh (1), Dholpur (1), Hanumangarh (1), Jaipurcity (2), Jaipur Rural (3), Jhunjhunu (2), Jodhpur (2), Kota (1), Pali (1), Sawaimadhopur (1), Sikar (2), Sirohi (1), Sriganganagar (2) and Udaipur(3)

²³ DEOs Ajmer, Bhilwara, Jaipur Rural, Jalore, Pratapgarh and Sikar.

²⁴ DEOs Ajmer, Barmer, Churu, Pratapgarh and Sikar.