

## CHAPTER III

### State Excise

#### 3.1 Results of audit

Test check of records of the State Excise Department, conducted in audit during the year 2002-2003, disclosed non-recovery or short-recovery of duty, licence fee, etc. amounting to Rs.307.88 crore in 149 cases, under the following broad categories:

| (Rupees in crore) |   |                 |               |
|-------------------|---|-----------------|---------------|
| Sl. No.           | Category                                      | Number of cases | Amount        |
| 1                 | Error in computation                          | 7               | 20.27         |
| 2                 | Non-recovery/short-recovery of licence fee    | 12              | 0.30          |
| 3                 | Granting of excessive production loss/wastage | 3               | 1.34          |
| 4                 | Other irregularities                          | 127             | 285.97        |
|                   | <b>Total</b>                                  | <b>149</b>      | <b>307.88</b> |

During the course of the year 2002-2003, the Department accepted under-assessments of Rs.28.99 crore involved in 170 cases and recovered Rs.1.44 crore involved in 78 cases (including Rs.1.42 crore involved in 77 cases which had been pointed out in audit in earlier years).

A few illustrative cases involving Rs.245.56 crore are given in the following paragraphs. Of this, Rs.54.76 lakh had been recovered.

#### 3.2 Non-realisation of excise duty on re-distillation of sedimented liquors

As per Karnataka Excise (Regulation of Yield, Production and Wastage of Spirit, Beer, Wine or Liquors) Rules 1998, no loss is admissible for redistilling sedimented liquor.

In two\* districts, in respect of four distilleries, the Excise Commissioner accorded sanction between March 1997 and November 1998 for re-processing/ re-distillation of 290325.16 bulk litres (BL) of old and sedimented liquors for manufacture of current brands subject to recovery of excise duty on manufacturing and bottling losses allowed during initial distillation. The distillers carried out reprocessing/re-distillation but excise duty of Rs.9.58 lakh on manufacturing and bottling losses allowed earlier were not recovered resulting in non-realisation of revenue of Rs.9.58 lakh.

These cases were pointed out to the concerned Distillery Officers and the Excise Commissioner between January 1998 and June 2000 and reported to Government in May 2003; their replies have not been received (January 2004).

### **3.3 Incorrect allowance of withdrawal of medium grade alcohol**

Under the Karnataka Excise (Regulation of Yield, Production and Wastage of Spirit, Beer, Wine or Liquors) Rules 1998, the distillers are permitted to withdraw spirit with the strength of lower than 166° proof (known as medium grade alcohol) from the primary distillation process for manufacture of rectified spirit from molasses up to 7 per cent. There is no provision for such withdrawal in the secondary distillation process for manufacture of extra neutral spirit from rectified spirit.

In Bidar district, a distillery withdrew 69420 bulk litres (BL) of alcohol of proof strength of less than 166° from the process of secondary distillation during 2001-2002. The withdrawal was not authorised under the Rules. It could have been utilised to produce 133656 BL of Indian-made Liquors (IML) to earn revenue of Rs.2.57 crore (by way of excise duty, litre fee and additional excise duty at Rs.192.50 per BL). The incorrect allowance of withdrawal caused a loss of revenue of Rs.2.57 crore.

On this being pointed out, Government stated in September 2003 that rectified spirit which would include medium grade alcohol could also be used for non-potable purposes like for manufacture of denatured spirit, and lower strength alcohol was bound to occur in re-distillation of spirit. The reply furnished is not tenable as the rules did not permit such alcohol to be withdrawn during secondary distillation.

Further reply has not been received (January 2004).

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\* Bangalore (Urban) and Dharwad

### 3.4 Shortfall in production of beer

Mention was made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Revenue Receipts) – Government of Karnataka regarding shortfall in production of beer during the years 1997-98 to 1999-2000 involving monetary effect of Rs.27.67 lakh.

Under the Karnataka Excise (Brewery) Rules 1967, 'beer' means any liquor prepared from malt or grain with or without the addition of sugar and hops and includes ale, black beer, porter, stout and spruce beer. Under the Karnataka Excise (Regulation of Yield, Production and Wastage of Spirit, Beer, Wine or Liquors) Rules 1998, minimum 6500 litres of beer is to be produced for every 1000 kg of malt used as the basic ingredient/raw material. The Rules provide for manufacturing and bottling losses of seven and six per cent respectively. These Rules empower the Excise Commissioner to levy a penalty equal to the amount of duty leviable on the quantity of short production. Presently, the levy of excise duty on beer is at a uniform rate of Rs.4 per bulk litre (BL) and is not related to its alcoholic strength.

In addition to malt which is the main ingredient for manufacture of beer, rice, maize and sugar are also used as malt adjuncts/substitutes. The Rules have not prescribed their malt equivalence or the volume of beer required to be produced when they are used. However, according to a Technical Excise Manual, written by Lt. Col. C.H.Bedford, a former Director of Central Excise Laboratory in India, which is commonly referred to in the Department, 116.36 kg of rice and 101.82 kg of sugar are each equal to 12.73 kg of malt.

In Bangalore (Urban) district, three breweries utilised 1547680 kg of malt, 276974 kg of rice and 363080 kg of sugar besides maize<sup>‡</sup> for production of beer during the years 1999-2000 and 2000-2001. On the basis of the norms/equivalents, 10551940.25 BL of beer were to be produced from malt, rice and sugar used. Instead, only 9996000 BL of beer were produced. After allowing manufacturing and bottling losses of 71024.367 BL, the net shortfall in production was 484915.889 BL. On actual manufacture of this quantity of beer, excise duty of Rs.19.40 lakh was leviable. In view of short production, equal amount of penalty could have been levied.

On this being pointed out in June 2003, Government stated in September 2003 that in respect of the shortfall of 137533 BL for the years 1999-2000 and 2000-2001 in a brewery with reference only to malt used, the penalty due of Rs.5.50 lakh had since been levied and recovered between November 2002 and March 2003. In respect of another brewery, Government stated that there was no shortfall considering only the malt used. Regarding additives, it stated that the norms did not prescribe minimum production standards and hence

<sup>‡</sup> Malt equivalence not readily available

there was no case for levy of penalty. It also stated that the additives only raised the strength of the beer and did not increase the volume and hence there would be no shortfall in production of beer. It further stated that so long as the alcoholic contents of beer were not specified in the Rules, it was open to the licensees to produce beer of any strength.

Absence of provision regarding production norms on use of malt substitutes and levy of excise duty on beer at uniform rate irrespective of its alcoholic strength or without reference to maximum retail price (in fixing which the licensee would have considered all inputs and higher profit margin for strong beer) deprived Government of additional revenue. Further reply has not been received (January 2004).

### **3.5 Delay in termination of leases leading to accumulation of arrears and non-forfeiture of security deposit**

Under the Karnataka Excise Licences (General Conditions) Rules 1967, if the monthly rentals are not paid, the right of retail vend of arrack has to be mandatorily cancelled after a period of 45 days from the end of the relevant month. Further, under the terms of offer of retail vending, within 15 days of confirmation of acceptance of a bid, the contractor is also required to furnish a security equal to 3 and 1/10 months rent. If he fails to do so, lease may be cancelled, at the discretion of the Government.

**3.5.1** In 28 cases of 12 districts, the stipulations were not adhered to resulting in non-realisation of revenue of Rs.23.14 crore during 2001-2002, as detailed below:

**(Rupees in crore)**

| <b>Sl. No.</b>  | <b>Number of Districts/ Taluks</b> | <b>Nature of observation</b>  | <b>Amount of non-realisation</b> |
|---|------------------------------------|---|----------------------------------|
| 1   | 5 <sup>δ</sup> /10                 | Licensees defaulted in paying monthly rentals between August 2001 and June 2002. The leases were determined between October 2001 and May 2002, or not terminated at all. At the end of the lease period, arrears accumulated were Rs.13.26 crore. | 13.26                            |
| On these cases being pointed out, the Department replied in April 2003 that due to unhealthy competition in three taluks of Bangalore (Rural) district, bid |                                    |   |                                  |

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<sup>δ</sup> Bidar, Bijapur, Bagalkot, Bangalore (Rural), Chickmagalur

| (Rupees in crore)  |                             |  |                           |
|--|-----------------------------|--|---------------------------|
| Sl. No.  | Number of Districts/ Taluks | Nature of observation  | Amount of non-realisation |
| rates were high and hence they could not pay the rent. The reply is not tenable since the leases were accepted by the lessees and the Department had not rejected the offers at the initial stage. In respect of the other cases, replies have not been received (January 2004). |                             |  |                           |
| 2  | 7 <sup>e</sup> / 18         | The licensees had to furnish security of Rs.26.50 crore against which only Rs.20.42 crore were obtained. Further, the lessees defaulted in payment of monthly rentals and the arrears including interest had accumulated to Rs.9.88 crore. But the leases were not determined. | 9.88                      |
| The cases were pointed out to the Department between December 2002 and March 2003; their replies have not been received (January 2004).  |                             |  |                           |

These cases were reported to Government in May/June 2003; their replies have not been received (January 2004).

**3.5.2** As per the provisions of the Karnataka Excise Act, no Court shall grant any permanent or temporary injunction or make any interim order restraining any proceeding which is being or about to be taken for recovery of any excise dues.

During the course of audit, it was noticed that a licensee for Gulbarga taluk did not pay monthly rentals from October 2001 onwards. Besides, he had not paid full amount of security. The Department issued a notice to the contractor for payment of the dues in January 2002, i.e., after a delay of four months against which the contractor filed an injunction application in the Court. An interim order for maintenance of *status quo* was granted by the Court in February 2002. The fact that no such injunction could be granted by the Court was brought to its notice by the Department only in March 2002 on the basis of which the injunction was cancelled. Despite this, the lease was terminated only in May 2002, after a delay of two months. An amount of Rs.5.61 crore had become due from the contractor by that time, after adjusting all bank guarantees furnished by him. Thus, inaction on the part of the Department from time to time resulted in non-realisation of excise dues of Rs.5.61 crore.

The case was pointed out to the Department between November 2002 and January 2003 and reported to Government in June 2003; their replies have not been received (January 2004).

<sup>e</sup> Bangalore (Rural), Bellary, Chitradurga, Davangere, Dharwad, Raichur, Uttara Kannada

**3.5.3** The Deputy Commissioner is empowered to allow extension of time up to one month for payment of rentals after obtaining security for one month's rentals with interest, and further 15 days extension could be allowed by the Excise Commissioner. For default beyond this period, determination of lease is mandatory. In cases of cancellation of lease, the Rules provide for forfeiture of security deposit.

In three<sup>φ</sup> taluks of Bidar district, leases were terminated for non-payment of rentals in May 2002 by which time the lessees had accumulated arrears of Rs.5.66 crore. Security deposit of Rs.1.31 crore was not forfeited even though Department had the option to do so. Instead it was adjusted against his tax liability. Moreover, since the lessee had not sought extension of time, additional security of Rs.1.31 crore had also not been obtained.

On this case being pointed out, the Excise Commissioner stated in April 2003 that the deposit was not forfeited exercising the discretionary powers and considering that the contractors had furnished security to the full extent as required, and that the adjustment of the deposit was not opposed to the Rules. The reply is not tenable since the adjustment of security deposit led to accumulation of Government dues that remained unpaid and were not covered by any security.

The cases were referred to Government in June 2003; their reply has not been received (January 2004).

### **3.6 Non-levy/short levy of interest**

Under the Karnataka Excise Licences (General Conditions) Rules 1967, interest at 18 per cent per annum is leviable on the outstanding amount of monthly shop rentals from the eleventh day of the month as long as it remains unpaid.

In three<sup>Υ</sup> districts, in respect of 10 taluks, arrack shop rentals for the years 1998-1999, 2000-2001 and 2001-2002 amounting to Rs.9.09 crore were paid by the lessees after delays ranging from 1 to 113 days. As against the interest of Rs.16.36 lakh leviable for the delays in payment, interest of Rs.4.50 lakh only had been realised from one lessee of Chincholi in Gulbarga district. The balance amount of Rs.11.86 lakh had not been demanded.

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<sup>φ</sup> Basavakalyan, Bhalki, Humnabad

<sup>Υ</sup> Belgaum, Bijapur, Gulbarga

On these cases being pointed out, Government reported recovery of Rs.8.38 lakh in September 2003. Reports of recovery in respect of the balance of Rs.3.48 lakh have not been received (January 2004).

### **3.7 Incorrect adjustment of payments leading to avoidable accumulation of interest**

Under the Karnataka Excise Licences (General Conditions) Rules 1967, as amended from January 2002, when part payments are made towards arrears comprising both principal and interest, interest due till the date of such payment is to be first cleared and the balance, if any, only is to be adjusted against the principal outstanding.

In Uttara Kannada district, in respect of leases granted for retail vend of liquor in Sirsi and Haliyal taluks during the year 2001-2002 interest of Rs.6.88 lakh was outstanding against two contractors. Of this, Rs.5.42 lakh pertained to period from January 2002. In terms of the amendment, moneys received after January 2002 should have been first adjusted towards interest and the balance towards rent. This was not done resulting in avoidable accumulation of arrears of interest of Rs.5.42 lakh.

The case was pointed out to the Department between January and March 2003 and reported to Government in May 2003; their replies have not been received (January 2004).

### **3.8 Loss of revenue due to non-fixation of minimum sale quantity of arrack**

Mention was made in the Report of the Comptroller and Auditor General of India for the years ended 31 March 2001 and 31 March 2002 (Revenue Receipts) – Government of Karnataka regarding loss of revenue of Rs.117 crore during the years 1998-1999 and 1999-2000 and Rs.153 crore during the year 2000-2001 due to non-fixation of minimum sale quantity of arrack. However, no action had been taken by the Department to fix the minimum sale quantity of arrack with the result lessees continued to lift lesser quantity of arrack resulting in further loss of Rs.208.68 crore during the year 2001-2002, as detailed below.

Under the Karnataka Excise (Lease of the Right of Retail Vend of Liquors) Rules 1969, the sale of arrack is entrusted to the lessees on the basis of

monthly rentals offered in public auctions. The quantity of arrack required is supplied to them in sealed polythene sachets by two Government companies, Messrs. Mysugar Company Limited and Messrs. Mysore Sales International Limited, who are the sole authorised manufacturers/distributors for the State. Excise duty is collected by Government at the time of issue of permits to the lessees to lift the stocks from the distributors. The cost price payable to the manufacturers and the maximum selling price at which arrack could be sold by the lessees are also fixed by Government.

It was noticed that for the year 2001-2002, in respect of 173 taluks for which leases had been granted by the Excise Commissioner, the minimum quantity required to be lifted to meet the rentals of Rs.1009.15 crore payable by the lessees was 1914.91 lakh bulk litres (BL). Against this, the quantity actually lifted as seen from the records of the two authorised companies was only 871.50 lakh BL. On the shortfall of 1043.41 lakh BL, the excise duty realisable was Rs.208.68 crore, as detailed below:

| Year      | Total rentals for the year | Maximum selling price <i>minus</i> purchase price @ | Minimum quantity of arrack to meet rentals* | Actual quantity lifted | Shortfall | Rate of excise duty | Loss of excise duty |
|-----------|----------------------------|---|---|------------------------|-----------|---------------------|---------------------|
|           | (Rupees in crore)          | (Rupees per BL)                                     | (In lakh BL)                                |                        |           | (Rupees per BL)     | (Rupees in crore)   |
| 2001-2002 | 1,009.15                   | 85.00-32.30=52.70                                   | 1,914.91                                    | 871.50                 | 1,043.41  | 20.00               | 208.68              |

@ Comprises cost of arrack including blending and sacheting, works contract tax on sacheting and excise duty.

\* Based on the gross profit (selling price – cost price) of Rs.52.70 per BL assuming that there was no selling and distribution expenses.

Thus, non-fixation of the minimum quantity of arrack to be lifted by the lessees in relation to the rentals offered caused loss of revenue of Rs.208.68 crore.

It was further noticed that while the rentals increased substantially year after year during the period 1998-99 to 2001-2002, the quantity of arrack lifted remained almost constant, there being even a slight fall in 2001-2002, as detailed below:

| Year       | Rentals offered (Rupees in crore) | Quantity of arrack lifted (In lakh BL) |
|------------|-----------------------------------|--|
| 1998-1999* | 582.94                            | 881.02                                 |
| 1999-2000* | 675.43                            | 885.61                                 |
| 2000-2001* | 875.18                            | 892.85                                 |
| 2001-2002  | 1,009.15                          | 871.50                                 |

\* covers also taluks where lifting exceeded the minimum quantity to meet rentals



On this being pointed out in June 2003, Government stated in September 2003 that the revenue loss worked out by Audit was to be regarded as hypothetical for the following reasons:

- there was no stipulation in the Act /Rules requiring the contractors to lift quantity corresponding to the rentals offered ;
- the monthly rent offered was for privilege parted with by Government and was payable irrespective of whether the contractor carried out arrack sales ;
- if minimum guarantee quota (MGQ) was fixed, the loss arising from failure of contractors might not be recoverable if they had not transacted business;
- the sale of arrack would depend on several factors such as consumption pattern of the area awarded to the lessee, demand and supply position, business hours, location of shops and quality of arrack;
- declaration of holidays for preservation of public peace on several occasions like elections, riots, diseases;
- excise duty could not be recovered on quantity not actually lifted on account of judicial pronouncements;
- if MGQ was fixed, the contractors would be tempted to lower rentals to minimise the quantity to be lifted.

The reply is not tenable since the contractors would be reasonably believed to have considered all the factors cited above while formulating their rental offers. The contention of audit is that in order to meet these rentals, lessees would have had to lift a minimum of 1914.91 lakh BL. However, the actual quantity lifted was far less than this minimum resulting in real loss of revenue to Government. This phenomenon of short lifting which encompasses almost the whole State may need to be looked at in detail by Government so as to protect its interests.

Further reply has not been received (January 2004).

### **3.9 Grant of the right of retail vending of liquor to ineligible persons leading to accumulation of arrears**

Under the Karnataka Excise (Lease of the Right of Retail Vend of Liquors) Rules 1969, a person is to be disqualified from submitting a tender, if he has not paid the arrears of any excise dues. Further, under the Rules *ibid*, at the

time of granting certificate of registration of Excise Contractor, without which also a person is to be disqualified, the Excise Commissioner is required to have regard to, the interest of revenue generally, the status, antecedents and previous experience as also the solvency of the applicant.

**3.9.1** In Chitradurga district, the granting of the leases of the right of retail vend of arrack in Chitradurga and Holalkere taluks during the year 2001-2002 was confirmed in June 2001 in favour of a contractor 'A' on monthly rentals of Rs.46.50 lakh and Rs.44.50 lakh respectively. Since he failed to furnish security to the required extent and also defaulted in payment of monthly rentals, the leases were terminated in November 2001. The leases in respect of these taluks for the balance period from 11 December 2001 to 30 June 2002 were decided afresh and confirmed in December 2001 in favour of another contractor 'B' on monthly rentals of Rs.37 lakh and Rs.31.50 lakh respectively. As against security for Rs.2.12 crore to be furnished, contractor 'B' had furnished security for Rs.0.68 crore only, the shortfall being Rs.1.44 crore. He had also defaulted in payment of rentals, the accumulated arrears being Rs.44.46 lakh up to October 2002 in respect of the two taluks.

Audit scrutiny further revealed that on the date of submission of tender on 05 December 2001, contractor 'B' in another case had already defaulted in payment of excise arrears of Rs.1.58 crore. As such, he should have been disqualified for the auction. Allowance of participation and acceptance of his tender in the said auction was incorrect and resulted in accumulation of arrears of Rs.44.46 lakh as of October 2002.

**3.9.2** In Hassan district, the granting of the lease of the right of retail vend of arrack in Channarayapatna taluk during the year 2001-2002 was confirmed in June 2001. Accordingly, he was to furnish bank guarantee for Rs.1.53 crore against which he furnished security for Rs.49.25 lakh leaving a balance of Rs.1.04 crore. He defaulted in payment of rentals from September 2001. After the Deputy Commissioner of Excise, Hassan reported that the contractor was 'benami' and chances of obtaining bank guarantee as also recovering rentals were very bleak, the lease was determined in November 2001 and the loss of revenue sustained was estimated as Rs.1.53 crore in January 2002. This remained to be recovered even as of January 2003.

This would show that the status and antecedents of the contractor were not properly verified before grant of registration which resulted in grant of licence to an ineligible contractor leading to non-realisation of Rs. 1.53 crore.

These cases were pointed out to the Department between January and March 2003 and reported to Government in June 2003; their replies have not been received (January 2004).

### **3.10 Injudicious release of bank guarantees leading to non-realisation of arrears**

Under the Karnataka Excise (Lease of the Right of Retail Vend of Liquors) Rules 1969, the person in whose favour the disposal of the right is confirmed is required to furnish security for an amount equal to three and one-tenth of monthly rent in prescribed forms including by way of irrevocable guarantee given by a Scheduled Bank.

In Shimoga district, a lessee who was awarded the lease for the year 2001-2002 furnished six bank guarantees for Rs.3.39 crore during July/August 2001. In June 2002, all these bank guarantees were invoked demanding from the bank their value citing rental dues including interest of Rs.3.28 crore for April to June 2002.

Audit scrutiny revealed in March 2003 that the total arrears had accumulated to Rs.4.47 crore which included even part rentals of Rs.1.08 crore for February 2002. The bank honoured three guarantees and forwarded demand drafts for Rs.1.87 crore during July-August 2002 towards rentals of April/May 2002. Subsequent to invoking of the bank guarantees, the lessee paid Rs.1.52 crore which were adjusted towards the rentals of May-June 2002. Though the rentals for February 2002 continued to be in arrears, the Deputy Commissioner of Excise (DCOE) released and discharged in August/ October 2002 the other three bank guarantees for Rs.1.53 crore rendering the rental arrears of Rs.1.08 crore outstanding without any security back up. The circumstances in which the DCOE discharged the bank of its liability without making further efforts to realise the sums guaranteed were not made known.

Therefore, the release of the bank guarantees, which were specifically obtained for securing contractual obligations, was injudicious. Though notices for payment of the arrears had been issued to the contractor in November 2002, failure in pursuing the realisation of the bank guarantees and absolving the bank of its liability deprived Government of the opportunity of realising the arrears of Rs.1.25 crore, including interest.

On this being pointed out, the Excise Commissioner reported in August 2003 that a sum of Rs.27 lakh had since been recovered. Further report has not been received (January 2004).

The cases were referred to Government in June 2003; their reply has not been received (January 2004).

### **3.11 Non-realisation of rental in interim arrangement made for sale of arrack**

Under the Karnataka Excise (Lease of the Right of Retail Vend of Liquors) Rules 1969, where a lessee fails to furnish the required security, the vend is liable to be cancelled at the discretion of Government. Pending fresh disposal of the right, the Deputy Commissioners are empowered to continue the licence of the previous licensee.

In Gadag district, the lease of right of retail vending of arrack in Mundargi taluk during the year 2001-2002 was confirmed in favour of a bidder in May 2001 on a monthly rental of Rs.14.50 lakh. He failed to furnish the required security, but was allowed to transact business subject to payment of rentals of Rs.48,333 on daily basis. Though he failed to make daily payments, the interim arrangement was continued till 13 September 2001 by which time he had accumulated arrears of Rs.23.83 lakh.

On this being pointed out, the Department reported in September 2003 that action had been initiated in April 2002 for recovery of dues as arrears of land revenue. Further report has not been received (January 2004).

The matter was reported to Government in June 2003; their reply has not been received (January 2004).

### **3.12 Inordinate delay in disposal of confiscated liquors**

Under the Karnataka Excise (Confiscated Articles Disposal) Rules 1967, confiscated potable liquor in sealed bottles is to be disposed of by public auction after fixing a reserve price of not less than 75 per cent of the ordinary local price of such liquor to the highest bidder who holds a licence to sell liquor under the Karnataka Excise Act 1965. In other cases, the disposal is to be made as ordered by the Excise Commissioner. The confiscated potable liquor not disposed of for value entails locking up and eventual loss of Government revenue.

**3.12.1** In three<sup>♦</sup> districts, 14971.780 bulk litres (BL) of liquors confiscated during 1995-1996 to 2001-2002 remained undisposed of as of March/October 2002. Thus, Rs.32.07 lakh, being the value of the liquors at the lowest price of Rs.214.20 per BL had not been realised by Government.

**3.12.2** In Udupi district, 3888 BL of Indian-made Liquor (IML) was seized in December 1999 as being unauthorisedly transported, at which time it was certified to be fit for human consumption, and was duly confiscated in February 2000. Though its disposal by auction was fixed for March 2000, the sale was not conducted for administrative reasons. In March 2001, when the next auction date was fixed, there was no response. In December 2001, the liquor was certified not to conform to standards. Thus, inordinate delay in disposal of potable liquor resulted in loss of revenue of Rs.8.33 lakh.

On these cases being pointed out in May 2003, Government/Department reported in August/September 2003 realisation of Rs.12.64 lakh by disposing of 5900.140 BL confiscated in Chickmagalur and Dakshina Kannada districts. In the case of Udupi district, Government stated that the liquor seized was established as duplicate and did not conform to the standards. The reply is not tenable as the Assistant Chemical Examiner at Mangalore had certified in January 2000 that the liquor was fit for human consumption. The inordinate delay in disposal of confiscated potable liquor rendered it as non-potable causing loss of revenue to Government. In respect of Chitradurga district, final reply has not been received (January 2004).

### **3.13 Non-recovery/short recovery of cost of establishment**

Under the Karnataka Excise (Manufacture and Bottling of Arrack) Rules 1987, the cost of establishment in respect of excise officers and staff employed in the premises of licensees for supervision and securing compliance with the provisions of the Karnataka Excise Act 1965 and the Rules is to be paid by the licensees in advance at the beginning of each quarter.

In Belgaum and Davanagere districts, as against the total amount of Rs.11.32 lakh due as cost of establishment for 56 months between August 1997 and June 2002 from two licensees, only Rs.6.30 lakh had been recovered. The balance amount payable worked out to Rs.5.02 lakh. Since the amounts due were payable in advance at the beginning of each quarter, allowing the licensees to carry on the business without clearing the dues was incorrect.

<sup>♦</sup> Chickmagalur, Chitradurga, Dakshina Kannada

On these cases being pointed out (in May 2003), Government reported in September 2003 recovery of Rs.1.24 lakh due in respect of one unit. Reply in respect of the other unit has not been received (January 2004).

