

EXECUTIVE SUMMARY

Tax collection	<p>In 2010-11 the collection of taxes from state excise increased by 22.07 <i>per cent</i> over the previous year which was due to the increase in auction amount.</p>
Results of audit conducted by us in 2010-11	<p>In 2010-11 we test checked the records of 20 units relating to state excise receipts and found under assessment, loss of revenue, non-levy of penalty etc. involving ₹ 155.25 crore in 1451 cases.</p> <p>The Department accepted under assessment and other deficiencies of ₹ 99.4 crore in 9,079 cases, which were pointed out by us during the year 2010-11. An amount of ₹ 85 lakh was recovered in 731 cases during the year 2010-11.</p>
What we have highlighted in this Chapter	<p>In this Chapter we present illustrative cases of ₹ 38.74 crore selected from observations noticed during our test check of records relating to assessment and collection of state excise revenue in the office of the District Excise Officers (DEOs)/ Assistant Excise Commissioners (AECs), where we found that the provisions of the Acts/Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action.</p>
Our conclusion	<p>The Department needs to initiate immediate action to recover duty, penalty and annual fees not recovered/short recovered, more so in those cases where it has accepted our contention.</p>

CHAPTER - III STATE EXCISE

3.1 Tax administration

The State Excise Department is working under the Commercial Tax Department of the Government of Madhya Pradesh. The Excise Commissioner (EC) is the head of the Department and is assisted by Additional Excise Commissioner (Addl. EC), Deputy Excise Commissioners (DECs), Assistant Excise Commissioners (AECs) and District Excise Officers (DEOs), both at the headquarters at Gwalior and in the districts. In the districts, the Collector heads the excise administration and is empowered to settle shops for retail vending of liquor and other intoxicants and is responsible for realisation of excise revenue.

The working of distilleries, bottling plants (foreign liquor) and breweries is monitored by the DEOs with the assistance of the ADEOs.

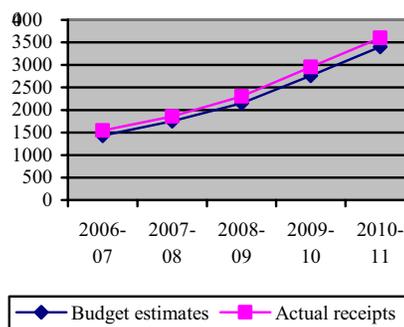
3.2 Trend of receipts

Actual receipts from State Excise during the years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and line graph:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual state excise receipts vis-a-vis total tax receipts
2006-07	1,30.00	1,54.68	(+)116.68	(+)8.16	10,43.13	14.7
2007-08	1,750.00	1,853.83	(+)103.83	(+)5.93	12,017.64	15.4
2008-09	2,150.00	2,301.95	(+)151.95	(+)7.07	13,613.50	16.91
2009-10	2,760.00	2,951.94	(+)191.94	(+)6.95	17,272.77	17.09
2010-11	3,00.00	3,603.4	(+)203.4	(+)5.98	21,49.33	16.82

The percentage contribution of State Excise receipts to the total tax revenue of the State had been increasing during the period 2006-07 to 2009-10 but showed a decreasing trend in 2010-11.



In 2010-11 the collection of taxes from state excise increased by 22.07 per cent over the previous year which was due to the increase in auction amount.

3.3 Cost of collection

The gross collection in respect of state excise, expenditure incurred on collection as furnished by the Department and the percentage of expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for the relevant previous year are mentioned below:

(₹ in crore)

Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the relevant year
2008-09	2,301.95	505.4	21.96	3.27
2009-10	2,951.94	818.34	27.72	3.66
2010-11	3,603.2	963.86	26.75	3.64

The percentage of expenditure on the collection of state excise is abnormally higher than the all India average percentage. We observed that in the Finance Accounts there is no separate head showing 'collection charges' as is available in case of other taxes like taxes on sales/trade, taxes on vehicles etc., and the cost of liquor paid to the manufacturers from the budget provisions for expenditure was also being booked under the head 2039-Stat e excise' along with other expenditures.

The Government may consider opening a separate sub-head for collection charges as is done for other taxes for effectively monitoring the functioning and the performance of the Department. This will also enable the State to compare the cost of collection position *vis-a-vis* the all India average percentage of expenditure on collection. Although this was pointed out earlier in para 3.3 of the Audit Report for the year ended 31 March 2010, no corrective measures were taken in this regard.

3.4 Working of internal audit wing

An audit cell has been established in the Excise Department which is headed by a Joint Director from MP Finance Service. Six officials from the Treasury and Accounts Directorate, MP have been posted on deputation basis. The work of internal audit is conducted by this cell.

A roster for internal audit is prepared every year. Internal audit is generally conducted in accordance with the roster. Out of 50 units planned for internal audit 4 units were inspected during the year 2010-11.

3.5 Results of audit

Test check of the records of 20 units relating to State Excise receipts revealed underassessment, loss of revenue, non-levy of penalty, etc. amounting to ₹ 155.25 crore in 1451 cases which can be categorised as given in the following table:

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
1.	Loss of revenue due to short production of alcohol	436	19.34
2.	Accumulation of arrears of licence fees/auction fees	37	5.10
3.	Non-levy of penalty due to breach of license conditions	59	0.13
4.	Non-levy of penalty/duty on excess wastages of spirit /liquor	197	48
5.	Loss of revenue due to acceptance of tenders at lower rates	2,581	0.4
6.	Other observations	6,41	125.84
	Total	14,151	155.25

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 99.4 crore in 9,079 cases, which were pointed out in audit during the year 2010-11. An amount of ₹ 85 lakh was realised in 731 cases during the year 2010-11.

A few illustrative audit observations involving ₹ 38.74 crore are mentioned in the following paragraphs.

3.6 Non-realisation of excise duty

3.6.1 On unacknowledged export/transport of foreign liquor/beer

The Madhya Pradesh Excise Act, 1915 and the Rules made thereunder provide that no intoxicant shall be exported/transported from any distillery, brewery, warehouse or any other place of storage unless the licensee deposits the prescribed duty leviable on the full quantity of the intoxicant to be transported/exported or furnishes a bank guarantee of an equal amount or executes a bond with adequate solvent sureties for the amount mentioned in form FL 23*. Besides, the licensee shall obtain a verification report from the officer-in-charge of the foreign liquor warehouse and furnish it to the authority, who issued the transport/export permit, within 90 days of the expiry of the period of the permit. In case of default the duty involved shall be recovered from the deposit made, bank guarantee furnished or the security bond executed.

We observed from export/transport permits register and excise verification certificate (EVC) received register in seven bottling units of foreign liquor¹, three breweries² and two central godowns of outside manufacturers³ of six districts⁴ between February and December 2010 that the licensees exported/transported 8,88,336.23 proof litres (PL) foreign liquor (spirit) and 6,3,232.16 bulk litres (BL) beer on 338 permits between April 2009 and July 2010, which involved duty⁵ of ₹ 247 crore. Though the verification reports of receipt of quantity of liquor so exported/transported were not received from the destination units within the

prescribed time limit, the Department did not initiate any action for adjustment of duty against the bank guarantee or bond even after a lapse of one to 12 months after the permissible period of 90 days. This resulted in non-realisation of revenue of ₹ 247 crore.

After we pointed out the cases, the Excise Commissioner (EC) stated (between February and April 2011) in respect of the cases of Chhatarpur and Gwalior districts that 54 verification reports had been received except for one verification report of Gwalior district. The remaining AECs/DEOs stated (between February 2010 and March 2011) that 39 verification reports had

¹ M/s Cox India Ltd., Nowgaon (Chhatarpur), Gwalior distillers Ltd, Rairu (Gwalior), M/s Redson distilleries Pvt. Ltd., Jabalpur, M/s United Spirit Ltd, Govindpura (Bhopal), M/s United Spirit Ltd, Sarvar, Bhopal, M/s Som distillery Ltd, Shehatganj Raisen and M/s Som distillery and brewery Ltd, Raisen.

² M/s Jagpin breweries Ltd, Nowgaon (Chhatarpur), M/s Mount Everest Breweries Ltd., Indore and M/s Som distilleries and brewery Ltd., Raisen.

³ M/s United Breweries Ltd, Bhopal and M/s Millenium beer industries Ltd., Bhopal.

⁴ Bhopal, Chhatarpur, Gwalior, Indore, Jabalpur and Raisen.

⁵ Rate of duty - Spirit ₹180 and 300 per PL and Beer ₹ 30 per BL for the year 2009-10 & 2010-11.

* Form of bond to be executed on the removal of foreign liquor from the licensed premises of FL9/FL9A/FL10A/FL10B/B-3 license for export/transport in Bond.

been received and 24 verification reports would be submitted on their receipt. The replies are not acceptable as the duty was recoverable in all these cases as verification reports were found to have not been received within the prescribed period at the time of audit, for which the Department did not take any action.

We reported the matter to the EC and Government between December 2010 and May 2011; their replies except that of EC in respect of Chhatarpur and Gwalior districts have not been received (March 2012).

3.6.2 On unacknowledged export/transport of spirit

The MP Distillery Rules, 1995 provide that the removal of spirit from a distillery to another distillery or liquor warehouse or bottling unit or any other industrial unit within or outside the State of Madhya Pradesh shall be made without payment of duty subject to execution of a bond in form D-2* by the seller licensee with adequate solvent sureties for the payment as prescribed by Excise Commissioner (EC). The licensee shall obtain a verification report from the officer-in-charge of the destination unit and furnish it to the authority who issued the export/transport permit within 0 days of the expiry of period of permit. If the licensee fails to do so, the amount prescribed by the EC shall be recovered from the security bond executed. This shall be in addition to any other penalty which may be imposed under the rules.

During test check of the records of two distilleries⁶ between May 2009 and May 2010, we observed that the licensees exported/transported 1,19,620.1 proof litre (PL) extra neutral alcohol (ENA)/rectified spirit (RS) on 12 permits during the period between October 2008 and March 2010 involving excise duty of ₹ 2.07 crore without payment of duty or executing a bond in Form D-2 with adequate solvent sureties. The officer-in-charge (OIC) of the distilleries did not take any action to send the cases to the EC to fix the amount for execution of the bond. We further observed that though the verification reports from the destination units were not obtained and submitted to the permit issuing authority

within the prescribed period of 0 days, no amount could be recovered from the licensees due to non-execution of security bond. This resulted in non-realisation of revenue of ₹ 2.07 crore.

After we pointed out the cases, the EC stated (May 2011) that the verification reports had been received in respect of Gwalior district. DEO, Khargone stated (December 2010) that all the verification reports have been received. The replies are not acceptable as the Department failed to recover the duty on non-receipt of the verification reports within the prescribed time limit as per rule.

⁶ M/s Associated Alcohol and Brewery Ltd., Barwah, Khargone and M/s Gwalior Distillers Ltd. Rairu, Gwalior.

* Form of bond to be executed on the removal of spirit from the licensed premises of D-1 licence (licence for manufacture of spirit in a distillery) for export/import in bond.

We reported the matter to the EC and the Government between November 2010 and May 2011; their replies except that of EC in respect of Gwalior district have not been received (March 2012).

3.7 Non-recovery of excise duty/non-imposition of penalty

3.7.1 On inadmissible wastage in transport and export of foreign liquor/beer

The Madhya Pradesh Foreign Liquor Rules provide that the maximum wastage allowance for all exports of bottled foreign liquor/beer shall be 0.25 per cent irrespective of the distance. For all transports, it shall be 0.1 per cent if the selling and purchasing licensees belong to the same district and 0.25 per cent if they belong to different districts. If wastages/losses during the export or transport of bottled foreign liquor/beer exceed the permissible limit, the prescribed duty on such excess wastage shall be recovered from the licensee. Further, as per amendment made by the State Government vide notification dated 3 October 2008, on all deficiencies in excess of the limits allowed under the rules, the licensee shall be liable to pay penalty at a rate exceeding three times but not exceeding four times the maximum duty payable on foreign liquor at that time, as may be imposed by the EC or any officer authorised by him.

We observed from EVCs of four foreign liquor warehouses⁷, four distilleries⁸, six breweries⁹ and one CSD¹⁰, in 10 districts¹¹ between May 2009 and February 2011 that in 3,160 cases during export/ transport of foreign liquor/ beer, 29,299.67 PL of spirit and 1,11,321.7 BL of beer was shown as wastage in excess of the admissible limit by the licensees during the period between May 2008 and January 2011 on which duty/ minimum penalty of ₹ 6.71 crore was recoverable from the licensees. However the Department did not impose/recover the

penalty. This resulted in non-realisation of revenue of ₹ 6.71 crore.

After we pointed out the cases, the EC stated (February 2011) in regard to Chhatarpur and Khargone district that the cases for imposition of penalty were sent to the Deputy Commissioner Excise (DC) of the concerned division and

⁷ Gwalior, Indore, Itarsi (Hoshangabad) and Jabalpur.

⁸ M/s United Spirit Ltd, (Sarvar), Bhopal, M/s Oasis Distillery Ltd., Dhar, M/s Gwalior Distiller's Ltd, (Rairu), Gwalior and Associated Alcohol and Brewery Ltd, Khodigram, Khargone.

⁹ M/s Lilasons Brewery Ltd, Bhopal, M/s Jagpin Breweries Ltd, (Nowgaon), Chhatarpur, M/s M P Beer Product Ltd, Indore, M/s Mount Everest Breweries Ltd, Indore, M/s Skol Breweries Ltd, (Banmore), Morena, and M/s Som Distillery and Breweries Ltd, Raisen.

¹⁰ Canteen Store Department, Jabalpur.

¹¹ Bhopal, Chhatarpur, Dhar, Gwalior, Hoshangabad, Indore, Jabalpur, Khargone, Morena and Raisen.

action for recovery would be taken accordingly. DEO Dhar stated (March 2011) that an amount of ₹ 3,465 had been recovered. AEC Jabalpur in regard to CSD and Raisen stated in December 2009 and September 2010 that the cases for imposition of penalty would be sent to the DC of the division and action would be taken as per his orders. The remaining Excise Officers stated (between April 2010 and February 2011) that the cases were sent to DC of the division for imposition of penalty and action for recovery would be taken after imposition of penalty. Further reports have not been received (March 2012).

We reported the matter to the EC and Government between December 2010 and May 2011; their replies except those of EC in regard to Chhatarpur and Khargone district have not been received (March 2012).

3.7.2 On inadmissible wastage of spirit/country liquor

The Madhya Pradesh Distillery Rules allow wastage of 0.1 to 0.2 *per cent* on account of leakage or evaporation of spirit/ENA transported or exported in tankers from a distillery/warehouse to another distillery/ warehouse according to their distance. Further, according to MP Country Spirit Rules, the maximum wastage allowance for transport of bottled country liquor from manufacturing warehouse to storage warehouse shall be 0.5 *per cent* irrespective of the distance. In case of all wastages beyond the permissible limit, the licensee shall be liable to pay penalty at a rate exceeding three times but not exceeding four times the duty payable on country liquor at that time.

We observed from the records of EVCs in one distillery¹², two country liquor warehouses¹³ and three DEOs¹⁴ in five districts¹⁵ between September 2009 and June 2010 that in 117 cases during export/ transport of ENA¹⁶/ spirit/bottled country liquor, 4,524.5 PL of spirit was shown as wastage in excess of the admissible limit by the licensees during the period between March 2009 and March 2010, on which minimum penalty of ₹ 1.91 crore was recoverable from them. It was however, seen that the penalty was not imposed and recovered by the Department. This resulted in non-realisation of revenue of ₹ 1.91 crore

After we pointed out the cases, the EC intimated (March 2011) that the recovery of ₹ 38,000 has been made by DEO Chhatarpur. AEC Gwalior stated (February 2011) that penalty of ₹ 1.73 lakh was imposed on the distiller and a notice to deposit the amount was issued (July 2010) but he did not deposit the amount as it was stayed by the EC on his appeal. He further stated that action for recovery would be taken after disposal of the case by EC. The Excise Officers Dewas and Khargone

¹² M/s Associated Alcohol and Brewery Ltd. Barwah (Khargone).

¹³ Dabra (Gwalior) and Khargone.

¹⁴ Chhatarpur, Dewas and Tikamgarh.

¹⁵ Chhatarpur, Dewas, Gwalior, Khargone and Tikamgarh.

¹⁶ Extra Neutral Alcohol.

stated between April and June 2010 that the cases for imposition of penalty had been sent to higher authorities and recovery would be made after imposition of penalty. Further reports and replies in the remaining cases have not been received (March 2012).

We reported the matter to the EC and Government between December 2010 and May 2011; their replies except the reply of EC in case of Chhatarpur district have not been received (March 2012).

3.8 Non-levy of penalty on shortage of spirit/foreign liquor

The Madhya Pradesh Foreign Liquor Rules, 1996, allow wastage of spirit at the rate of 1.5 per cent for racking, storage, evaporation etc. during the process of distillation and bottling of foreign liquor in manufacturing unit of foreign liquor (FL 9* and FL 9A* licensee). On any shortage in excess of the permissible limit, the licensee shall be liable to pay penalty at a rate exceeding three times but not exceeding four times the maximum duty payable on foreign liquor at that time, as may be imposed by the Excise Commissioner or any officer authorised by him.

During test check of the records of M/s S. G. Distilleries, Jabalpur in December 2010, we observed that the excise authorities in the course of physical verification of stock held by the licensee on 9 December 2010, noticed shortage of 8,021.9 PL spirit and 2,79.14PL bottled foreign liquor. As such, minimum penalty of ₹ 2.06 crore was recoverable on 10,088.35¹⁷ PL of spirit found short over the admissible limit. It was however, seen that no action was taken by the Department to impose and recover the

penalty. This resulted in non-realisation of revenue of ₹ 2.06 crore.

We reported the matter to the Excise Commissioner and Government between March and May 2011; their reply has not been received (March 2012).

¹⁷ Balance as per books 27,512.87 PL, balance found on physical verification 17,011.83 PL, shortage 10,501.04 PL, admissible 42.69 PL so excess 10,088.35 PL.

* FL 9 Licence-manufacturing and bottling of foreign liquor by blending.

* Special bottling licences (FL 9A) may be granted to such licensee who has been franchised (authorised/conferred franchised) for bottling specified brand/brands of foreign liquor by the holder of a similar/appropriate licence in any part of the country outside Madhya Pradesh.

3.9 Short recovery of annual licence fee

The notification (for sale of liquor in liquor shops for the year 2009-10) dated 16 January 2009 issued by the Excise Commissioner, Gwalior provides that adjustment up to maximum 20 *per cent* in licence fee from country liquor to foreign liquor shop or *vice versa* in a group of shops may be allowed by AEC/DEO of the district by examining the demand and requirement of the concerned licensee after approval of the Dy. Commissioner of the division. The information of such adjustment should also be sent to the Excise Commissioner by AEC/DEO at the same time. Further, each shop within the group has its individual and independent identity.

During test check of the records of two District Excise Offices¹⁸, between August 2010 and February 2011, we observed that the licence fee of six foreign liquor shops¹⁹ of six different groups for the year 2009-10 was ₹ 3.86 crore. An adjustment of 20 *per cent* of licence fee of ₹ 1.11 crore during the period from May 2009 (second fortnight) to March 2010 from eight country liquor shops²⁰ within the groups was allowed by AEC/DEO with the approval of Dy. Commissioner of the division. As such, the licence fee of foreign liquor shops for the year 2009-10 worked out to ₹ 47 crore. It was

however, seen that licence fee of ₹ 40 crore only was deposited in case of foreign liquor shops leaving the balance of ₹ 87 lakh unrecovered. This resulted in short realisation of licence fee of ₹ 87 lakh.

After we pointed out the cases, the AEC Sagar stated (August 2010) that the issue of liquor was obtained by the licensees as per their requirement under the maximum limit of adjustment of 20 *per cent* and the prescribed licence fee was deposited for the group. Hence, there is no loss to the Government. DEO Hoshangabad stated (February 2011) that the adjustment of 20 *per cent* was not availed by the licensees and no amount of licence fee has remained unrecovered. Hence, there is no loss to the Government. The reply is not acceptable as once the orders for adjustment of licence fee from country liquor shop to foreign liquor shop or *vice versa* sought by the licensee have been passed, the licensee had to necessarily deposit the additional licence fee for the shop for which quantity has been sought to be enhanced notwithstanding the fact that the licensee ultimately does not lift the enhanced quantity of the liquor for which enhancement was sought or lifts the quantity to the extent of licence fee deposited for the liquor shop for which reduction was sought.

We reported the matter to the Excise Commissioner and the Government between January and May 2011; their replies have not been received (March 2012).

¹⁸ DEO Hoshangabad and AEC Sagar.

¹⁹ Gadakota, Devari, Mandibamora, Shahgarh of Sagar district, Pachmari and Sohagpur of Hoshangabad district.

²⁰ Gadakota, Devari, Mandibamora, Shahgarh, Pachmari, Silari chock, Etwara and Sohagpur.

3.10 Non-realisation of excise duty due to non-disposal of foreign liquor

The Madhya Pradesh Foreign Liquor Rules provide that on expiry, non-renewal and cancellation of licence or labels, the licensee shall place the entire stock of liquor under the control of the DEO. However, he can be permitted to dispose of such stock to any other licensee within 30 days of such expiry, non-renewal and cancellation of licence or labels, failing which the EC may ask any other eligible licensee of the state to purchase such stock or may issue orders for the disposal of the stock through destruction etc.

We observed in one foreign liquor bottling unit²¹ and two foreign liquor warehouses²² between May and June 2010 that no action was taken by the Department to dispose of the stock of 12,938.318 PL bottled foreign liquor lying undisposed off in the foreign liquor warehouses and stock of 27,515.97 PL lying undisposed in the bottling unit on expiry of the licences of manufacturing units/non-renewal of labels of liquor, after lapse of periods ranging from two to 50 months. The disposal could not be done in

most of the cases as orders were not released by the Excise Commissioner. This resulted in non-realisation of revenue of ₹ 79.03 lakh.

After we pointed out the cases the AEC, Bhopal and Gwalior stated in June 2010 and March 2011 respectively that the proposal for disposal of foreign liquor had been sent (between September 2010 and March 2011) to the EC and action would be taken on receipt of the orders. Further report has not been received (March 2012).

We reported the matter to the EC and the Government between January and May 2011; their replies have not been received (March 2012).

²¹ M/s Vinayak distillery Ltd., Gwalior (F.L. 9).
²² Bhopal and Gwalior.

3.11 Non-realisation of duty on irregular issue of liquor

The conditions of sale of liquor shops for the year 2009-10 issued by the Excise Commissioner under notification dated 16 January 2009 provide that the annual licence fee of liquor shops shall be paid by the licensee in 24 fortnightly installments on due dates as prescribed therein. It is further provided in the notification that the last installment must be deposited by 25th March 2010, failing which liquor will not be issued on the amount deposited. Further, departmental instructions (02 December 2008) provide that issue of liquor against the installment of annual licence fee deposited after due date is illegal and duty along with interest shall be recovered in such cases. However, the rate of interest was not mentioned in these instructions.

During test check of records [Demand and Collection register of licence fee (G-2), challans and liquor issue register] of two District Excise Offices (DEO)²³ between July and November 2010 we observed that 10 licensees of liquor shops had deposited the prescribed fortnightly licence fee of ₹ 243 lakh after the due dates. Besides, 12 licensees of liquor shops had not deposited the last installment of annual licence fee of the year 2009-10 amounting to ₹ 26.07 lakh on or before 25 March 2010. There was delay ranging between one to six days from the prescribed date. As such, the issue of liquor was not admissible to these licensees as per rule. It

was however, seen that the Department issued the liquor against the amount deposited after the due date. This resulted in irregular issue of liquor involving duty of ₹ 50.30 lakh which was required to be recovered with interest. However, no action was taken by the Department.

We reported the matter to the EC and the Government between March and May 2011; their replies have not been received (March 2012).

²³ Chhindwara and Indore.

3.12 Irregular issue of country liquor

The conditions for sale of liquor through shops for the year 2009-10 under notification dated 16 January 2009 issued by the Excise Commissioner, provide that if the licensee of a retail liquor shop deposits the amount of annual licence fee by deducting the amount of security deposit and any other amount due, prior to the end of the financial year 2009-10 and he desires the adjustment of security deposit against the remaining licence fee, the AEC/DEO may allow such adjustment. The issue of liquor on the amount equal to the security deposit may be allowed as per provision, but the issue of liquor on the amount in excess of the prescribed fortnightly licence fee in any fortnight will not be allowed.

During test check of the records of two Assistant Excise Commissioner²⁴ Offices, (AEC) between July and November 2010 we observed that the licensees of seven liquor shops were allowed adjustment of security deposit of ₹ 78.02 lakh at the end of January 2010. Out of this on an amount of ₹ 76.4 lakh the issue of liquor was allowed to the licensees in Ist and IInd fortnights of March 2010 which was in excess by ₹ 35.50 lakh from the prescribed licence fee of ₹ 0.97 lakh of the fortnight. This resulted in irregular issue of liquor involving duty of ₹ 35.50 lakh.

We reported the matter to the Excise Commissioner and the Government between

January and May 2011; their replies have not been received (March 2012).

3.13 Incorrect allowance of wastage of spirit and foreign liquor

The Madhya Pradesh Foreign Liquor Rules provide an allowance on wastages in blending operations during manufacture of foreign liquor at the rate of one *per cent* of the quantity of spirit/Extra Neutral Alcohol (ENA) added to the blending vat*. In case of wastages beyond the permissible limit, the licensee shall be liable to pay penalty at the rate exceeding three times but not exceeding four times the maximum duty payable on foreign liquor at that time, as may be imposed by the EC or any officer authorised by him.

We observed from the records of one distillery²⁵ in December 2010 that 2.22 lakh PL of ENA was transferred from storage vats to blending vats for manufacturing foreign liquor in 88 cases between December 2009 and October 2010 and 886.4 PL was accounted as blending wastage in storage vats. As no blending activities were conducted in the storage vats, this wastage is not admissible. Besides, in 17 cases,

²⁴ Indore and Sagar.

* Foreign liquor manufacturing vat.

²⁵ M/s Redson Distillery (FL-9) Jabalpur.

26,573.15 PL of ENA was added to the blending vats for manufacturing foreign liquor and 299.7 PL was shown as blending wastage, thereby, excess wastage of 33.9 PL against the permissible limit of 265.8 PL was allowed. As such total wastages of 920.35 PL of ENA/foreign liquor was inadmissible on which minimum penalty of ₹ 18.72 lakh was leviable. However, it was seen that no penalty was imposed and recovered by the Department. This resulted in non-realisation of revenue of ₹ 18.72 lakh.

We reported the matter to the EC and the Government between March and May 2011; their replies have not been received (March 2012).